

STATE OF WASHINGTON
OFFICE OF THE INSURANCE COMMISSIONER



FINANCIAL EXAMINATION
OF THE CHARITABLE GIFT ANNUITY BUSINESS
OF
TACOMA LUTHERAN HOME AND RETIREMENT COMMUNITY
TACOMA, WASHINGTON
DECEMBER 31, 2013

Order No. 14-164
Tacoma Lutheran Home and
Retirement Community
Exhibit A

SALUTATION

Seattle, Washington
June 10, 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

Tacoma Lutheran Home and Retirement Community
of
Tacoma, Washington

hereinafter referred to as "TLHRC" at its office, 1301 North Highlands Parkway, Tacoma, WA 98406. This report of examination is respectfully submitted showing the financial condition and related corporate matters of the CGA business of TLHRC as of December 31, 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 Tacoma Lutheran Home and Retirement Community of Tacoma, Washington. This report shows the financial condition of the CGA business and related corporate matters of Tacoma Lutheran Home and Retirement Community as of December 31, 2013.

Patrick H. McNaughton

Patrick H. McNaughton
Chief Examiner

9-4-14

Date

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SCOPE OF THE EXAMINATION

The examination covers the period January 1, 2009 through December 31, 2013. The scope of our examination focused only on the transactions and operations of the CGA business. TLHRC'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, TLHRC's December 31, 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 Tacoma office of TLHRC by financial examiners from the state of Washington.

The financial examiners reviewed TLHRC's CGA OIC Annual Reports as part of the statutory examination. This review was performed to determine if TLHRC completed the OIC Annual Reports in accordance with the OIC Annual Report Instructions and to verify that TLHRC'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 2013 OIC Annual Report by TLHRC did not conform to RCW 48.38.010(10)(a) and the OIC Annual Report Instructions. Balances reported included the accounts of TLHRC consolidated with its affiliate, Tacoma Lutheran Home Foundation (the Foundation). TLHRC 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 the Foundation.

Adjustments to the 2013 Annual Report resulted in a decrease in other investments of \$5,613,271; a decrease in other assets of \$177,709; a decrease in unrestricted net assets of \$3,103,621; a decrease in temporarily restricted net assets of \$1,682,786; a decrease in permanently restricted net assets of \$1,004,573; a decrease in total net assets of \$5,790,980; a decrease in total revenues of \$160,700; a decrease in total expenses of \$344,445; a decrease in other changes in net assets of \$1,990,550; and a decrease in net assets at beginning of year of \$3,984,175. (See Note 1 to the Financial Statements.)

TLHRC 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.

2. Annuity Contract Forms

TLHRC used annuity contract forms offered to residents of this state which were not in compliance with RCW 48.38.010(9). The annuity contract forms were issued under the wrong name, Tacoma Lutheran Retirement Community, instead of the correct legal name Tacoma Lutheran Home and Retirement Community.

TLHRC is instructed to comply with RCW 48.38.010(9) by re-filing the corrected CGA contract forms for OIC's approval.

COMMENTS AND RECOMMENDATIONS

1. Entity Name Change

The separate annuity reserve funds held by US Bank were registered under the wrong name, Tacoma Lutheran Retirement Community, instead of the correct legal name, Tacoma Lutheran Home and Retirement Community.

It is recommended that TLHRC coordinate with US Bank to change the name in the statement to Tacoma Lutheran Home and Retirement Community for the annuity custodial account.

ORGANIZATION PROFILE

History

TLHRC is a nonprofit corporation founded in 1938. TLHRC provides independent living, assisted living, and skilled nursing services.

Territory and Plan of Operation

On September 18, 1987, the OIC granted TLHRC a Certificate of Exemption No. 20 to conduct a CGA business in the state of Washington. There were 25 in-force annuity contracts as of December 31, 2013.

Total Net Assets

TLHRC total net assets as of December 31, 2013 were \$4,651,800. This amount included unrestricted net assets of \$4,651,800. The minimum unrestricted net assets requirement was satisfied pursuant to RCW 48.38.010(6).

Growth

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

Schedule 1 – Statement of Financial Position

Year	Assets	Liabilities	Total Net		Temporarily Restricted	Permanently Restricted
			Assets	Unrestricted		
*2013	\$22,604,071	\$17,952,271	\$4,651,800	\$4,651,800	\$0	\$0
2012	19,319,691	15,161,945	4,157,746	4,157,746	0	0
2011	20,006,905	15,876,281	4,130,624	4,130,624	0	0
2010	20,125,239	16,756,889	3,368,350	3,368,350	0	0
2009	19,659,176	16,512,357	3,146,819	3,146,819	0	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	\$22,031,549	\$21,198,992	\$20,462,224	\$19,931,713	\$18,498,692
Total expenses	<u>20,772,952</u>	<u>20,699,697</u>	<u>19,552,437</u>	<u>19,339,625</u>	<u>18,115,160</u>
Increase (decrease) in net assets	1,258,597	499,295	909,787	592,088	383,532
Other changes in net assets	(764,543)	(472,173)	(147,513)	(370,557)	(294,538)
Net assets at beginning of year	<u>4,157,746</u>	<u>4,130,624</u>	<u>3,368,350</u>	<u>3,146,819</u>	<u>3,057,825</u>
Net assets at end of year	<u>\$4,651,800</u>	<u>\$4,157,746</u>	<u>\$4,130,624</u>	<u>\$3,368,350</u>	<u>\$3,146,819</u>

*The 2013 balances include examination adjustments. (See Note 1 to the Financial Statements.)

AFFILIATED ORGANIZATIONS

TLHRC has two affiliated organizations: Tacoma Lutheran Home Foundation (the Foundation), a nonprofit corporation organized to enable TLHRC to expand its services to the elderly community; and the Tacoma Lutheran Home, LLC (the LLC), whose membership units are wholly-owned by TLHRC and the Foundation. The LLC was formed to receive any potential gifts of real estate intended to support the mission of TLHRC and the Foundation. The LLC did not hold any real estate during the five-year examination period.

MANAGEMENT AND CONTROL

Management

According to the Bylaws, the management of all the affairs of TLHRC is vested in a Board of Governors (BOG) consisting of not more than 15 individuals of which at least a majority must belong to member Lutheran congregations. The officers are elected by the BOG from its membership. Also, the BOG appoints a president as its direct executive representative in the management of the facilities of TLHRC.

Board of Governors

Governors as of December 31, 2013:

Reverend David Alger
Deborah Bassett
Helen Conroy
Lori Fobes
Larry Gaffney
Bruce Gustafson

Norm Komnick
Lyle Miller
Doug Nugent
Gordon Pease
Carol Plaehn
Reverend Richard Tietjen

Officers

Officers as of December 31, 2013:

Paul Opgrande, President
Gordon Pease, Chair
Reverend Richard Tietjen, Vice Chair
Doug Nugent, Treasurer
Carol Plaehn, Secretary

Tax Status

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

Conflict of Interest

According to TLHRC's Conflict of Interest Policy, each member of the BOG is required to disclose any conflict of interest by completing and submitting a conflict of interest statement annually to the BOG. Board members are expected to disclose any potential conflicts when issues arise during the year and excuse themselves from the discussions and voting on those issues. No exceptions were noted.

ORGANIZATION RECORDS

The BOG meets at least ten times a year to discuss any business to TLHRC. Minutes of the meetings of the BOG documented the approval of TLHRC's transactions and events. No exceptions were noted.

SEPARATE RESERVE FUND

TLHRC's separate reserve fund (SRF) 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 TLHRC, 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, TLHRC was in compliance with RCW 48.38.020(3)(c) which requires TLHRC 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 TLHRC between the examination date and the last day of our field work.

FOLLOW UP ON PREVIOUS EXAMINATION FINDINGS

Except for the reporting requirement finding, all previous report instructions and comments have been addressed and corrected. (See Instruction 1.)

ACCOUNTING RECORDS AND PROCEDURES

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

FINANCIAL STATEMENTS

The following financial statements show the unconsolidated financial condition of TLHRC as of December 31, 2013:

Statement of Financial Position

Statement of Activities and Changes in Net Assets

Tacoma Lutheran Home and Retirement Community
Statement of Financial Position
December 31, 2013

	<u>Balance Per Annual Report</u>	<u>Examination Adjustments</u>	<u>Balance Per Examination</u>	<u>Notes</u>
Assets				
Cash	\$6,622,571	\$0	\$6,622,571	
CGA Investments	684,036		684,036	
Other investments	7,062,359	(5,613,271)	1,449,088	1
Land, building and equipment	11,177,399		11,177,399	
Other assets	2,848,686	(177,709)	2,670,977	1
Total Assets	<u>\$28,395,051</u>	<u>(\$5,790,980)</u>	<u>\$22,604,071</u>	
Liabilities and Net Assets				
Current liabilities	\$1,571,362	\$0	\$1,571,362	
CGA liabilities	378,624		378,624	
Long-term debt	12,477,624		12,477,624	
Other liabilities	3,524,631		3,524,631	
Total Liabilities	<u>17,952,241</u>	<u>0</u>	<u>17,952,241</u>	
Net Assets				
Unrestricted	7,755,421	(3,103,621)	4,651,800	1
Temporarily restricted	1,682,786	(1,682,786)	0	1
Permanently restricted	1,004,573	(1,004,573)	0	1
Total Net Assets	<u>10,442,780</u>	<u>(5,790,980)</u>	<u>4,651,800</u>	1
Total Liabilities and Net Assets	<u>\$28,395,021</u>	<u>(\$5,790,980)</u>	<u>\$22,604,041</u>	

Tacoma Lutheran Home and Retirement Community
Statement of Activities and Changes in Net Assets
For the Year Ended December 31, 2013

	<u>Balance Per Annual Report</u>	<u>Examination Adjustments</u>	<u>Balance Per Examination</u>	<u>Notes</u>
Total revenues	\$22,192,249	(\$160,700)	\$22,031,549	1
Total expenses	21,117,397	(344,445)	20,772,952	1
Increase (decrease) in net assets	1,074,852	183,745	1,258,597	
Other changes in net assets	1,226,007	(1,990,550)	(764,543)	1
Net assets at beginning of year	8,141,921	(3,984,175)	4,157,746	1
Net assets at end of year	<u>\$10,442,780</u>	<u>(\$5,790,980)</u>	<u>\$4,651,800</u>	

NOTES TO THE FINANCIAL STATEMENTS

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

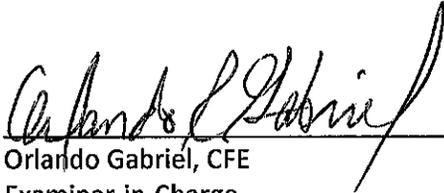
1. Assets, liabilities, revenues, expenses, and net assets of the affiliates were removed in order to present TLHRC's financial statements in accordance with the OIC Annual Report Instructions. Balances reported to the OIC included the accounts of TLHRC consolidated with its affiliate, the Foundation. The examination adjustments resulted in a decrease in other investments of \$5,613,271; a decrease in other assets of \$177,709; a decrease in unrestricted net assets of \$3,103,621; a decrease in temporarily restricted net assets of \$1,682,786; a decrease in permanently restricted net assets of \$1,004,573; a decrease in total net assets of \$5,790,980; a decrease in total revenues of \$160,700; a decrease in total expenses of \$344,445; a decrease in other changes in net assets of \$1,990,550; and a decrease in net assets at beginning of year of \$3,984,175. (See Instruction 1.)

ACKNOWLEDGMENT

Acknowledgment is hereby made of the cooperation extended to the examiners by the officers and employees of Tacoma Lutheran Home and Retirement Community during the course of this examination.

In addition to the undersigned, Michael V. Jordan, CPA, CFE, MHP, Assistant Chief Examiner and Susan Campbell, CPA, CFE, FLMI, ARA, Life and Disability 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,

A handwritten signature in black ink, appearing to read "Orlando Gabriel", is written over a horizontal line. The signature is cursive and extends above and below the line.

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

