

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



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

of

**UGM Foundation of Spokane
Spokane, Washington**

August 31, 2009

Order No. 11-17
UGM Foundation of Spokane
Exhibit A

SALUTATION

Seattle, Washington
February 2, 2011

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 foundation matters and financial records pertaining to the charitable gift annuity (CGA) business of

UGM Foundation of Spokane

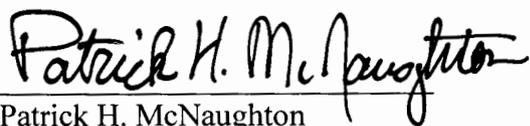
of

Spokane, Washington

hereinafter referred to as "UGMF" at its office, 1224 East Trent, Spokane, Washington 99202. This report of examination is respectfully submitted showing the financial condition and related foundation matters of the CGA business of UGMF as of August 31, 2009.

CHIEF EXAMINER'S AFFIDAVIT

I hereby certify I have read the attached Report of the Financial Examination of the Charitable Gift Annuity business of UGM Foundation of Spokane, Washington. This report shows the financial condition of the CGA business and related foundation matters of UGM Foundation of Spokane as of August 31, 2009.



Patrick H. McNaughton
Chief Examiner

2-2-2011

Date

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SCOPE OF THE EXAMINATION

This examination covers the period September 1, 2004 through August 31, 2009. The 2009 Annual Report reflected the balance sheet and statement of revenue and expenses of UGMF as of August 31, 2009. The OIC granted permission to UGMF to present its CGA Annual Report as of its fiscal year ended August 31, 2009. The examination of the 2009 Annual Report, therefore, covers the period ending August 31, 2009 for the balance sheet and statement of revenue and expenses sections, general interrogatories, charitable gift annuities reserve fund, and other applicable financial activities as deemed necessary. The scope of our examination focused only on the transactions and operations of the CGA business.

UGMF'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, UGMF'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 Spokane office of UGMF by examiners from the state of Washington.

INSTRUCTIONS

The examiners reviewed UGMF's CGA Annual Reports as part of the statutory examination. This review was performed to determine if UGMF completed the Annual Reports in accordance with the Annual Report Instructions published by the OIC and to verify that UGMF'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 Liabilities - Reserves

RCW 48.38.020 requires UGMF to establish and maintain a separate reserve fund adequate to meet the future payments under its charitable gift annuity contracts. UGMF maintained a separate annuity reserve of \$98,905 which did not agree to its consulting actuary's calculated reserve amount of \$100,144. UGMF did not include the surplus of ten percent to its consulting actuary's calculated reserve amount as required by RCW 48.38.020(3)(c). Pursuant to RCW 48.38.020(3)(c), the statutory aggregate reserves should be \$110,159. As a result, the reported annuity liabilities were understated by

\$11,254 on August 31, 2009. No examination adjustment was made due to immateriality.

UGMF is instructed to report the statutory reserve calculated by its consulting actuary pursuant to RCW 48.38.010(10)(c), plus an additional ten percent as required by RCW 48.38.020(1) and (3)(c).

2. Annuity Contracts

RCW 48.38.030(1) and (5) requires UGMF to include in the annuity contract the value of the property to be transferred and the reasonable value as of the date of the agreement of the benefit created. The annuity contracts issued did not include the value of the property transferred. Errors in the reasonable value of benefits were found in of all the annuity contracts as well. UGMF erroneously reported the adjusted expected return or total anticipated annuity payment instead of the present value of the annuity created as of the date of the agreement.

Pursuant to RCW 48.38.030(1) and (5), UGMF is instructed to properly record in the annuity contract the value of the property to be transferred and the reasonable value of the benefit created.

COMMENTS AND RECOMMENDATIONS

None

ORGANIZATION PROFILE

History: UGMF is a nonprofit organization formed for the purpose of administering capital gifts for construction, remodeling, and maintenance of the Union Gospel Mission Association of Spokane (the Association) and to assist in long-range financial and operational planning for the Association through planned giving programs.

Territory and Plan of Operation: On February 23, 2000, the OIC granted UGMF Certificate of Exemption No. 135 to conduct a CGA business in the state of Washington. There were eleven in-force annuity contracts as of August 31, 2009.

Total Net Assets: UGMF's total net assets as of August 31, 2009 were \$5,157,024. This amount included an unrestricted net asset of \$4,930,301. The minimum unrestricted net assets requirement was satisfied pursuant to RCW 48.38.010(6).

Growth: The growth of UGMF for the past five years is reflected in the following schedules. All information was compiled from UGMF's audited financial statements as of the fiscal year ending August 31:

Schedule 1 – Statement of Financial Position

Fiscal Year	Assets	Liabilities	Total Net Assets	Total Net Assets Allocated Into:		
				Unrestricted	Temporarily Restricted	Permanently Restricted
2009	\$5,255,929	\$98,905	\$5,157,024	\$4,930,301	\$21,609	\$205,114
2008	5,787,645	110,283	5,677,362	5,450,639	21,609	205,114
2007	5,771,961	85,086	5,686,875	5,460,152	21,609	205,114
2006	4,914,847	72,370	4,842,477	4,602,363	35,000	205,114
2005	3,724,266	373,575	3,350,691	3,195,691	0	155,000

Schedule 2 – Statement of Activities and Changes in Net Assets

Total revenues		(\$434,324)	\$48,071	\$945,598	\$1,517,823	\$872,788
Total expenses		79,214	37,647	35,694	26,037	24,944
Increase (decrease) in net assets		(513,538)	10,424	909,904	1,491,786	847,844
Transfer to the Association from UGMF		(6,800)	(19,937)	(65,506)		(948,902)
Net assets at beginning of year		5,677,362	5,686,875	4,842,477	3,350,691	3,451,749
Net assets at end of year		\$5,157,024	\$5,677,362	\$5,686,875	\$4,842,477	\$3,350,691

Number of charitable gift annuity contracts at end of year

	11	10	9	8	10
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*The negative total revenues were the net result after the unrealized loss on investments in 2009.

AFFILIATED ORGANIZATIONS

Union Gospel Mission of Spokane (the Association) is a nonprofit organization incorporated under the laws of the state of Washington. The Association is comprised of the following programs: The Union Gospel Men Mission, Anna Ogden Hall, Youth Outreach Ministries, Women’s Crisis Center, the Classy Rack Stores and UGM Motors.

MANAGEMENT AND CONTROL

Management: UGMF’s affairs are managed by its Board of Directors (BOD) of no less than nine or more than fifteen members.

Board of Directors: The BOD as of August 31, 2009:

Bob Dunning	Edwin Hill	Vern Scoggin
Raymond Eberle	Tom Johnson	Charlie Wolfe
Eric Green, Chairman	Ed Schlect	Steve Yoshihara

Officers: The officers as of August 31, 2009:

Eric Green, President
Raymond Eberle, Vice President
Bob Dunning, Secretary
Vern Scoggin, Treasurer

Tax Status: UGMF is a tax-exempt charitable organization under Section 501(c)(3) of the Internal Revenue Code.

Conflict of Interest: All members of the BOD sign a conflict of interest statement acknowledging that they have read UGMF's policy and have agreed to comply with the policy. No exceptions were noted.

ORGANIZATION RECORDS

The BOD meets nine times a year to discuss any business which is pertinent to UGMF. BOD meeting minutes documented the approval of UGMF's transactions and events. No exceptions were noted.

STATEMENT OF ACTUARIAL OPINION

A consulting actuary with Randall & Hurley, Inc., reviewed the adequacy of the annuity reserves and issued a Statement of Actuarial Opinion (SAO) which stated that she is a member of the American Academy of Actuaries. The SAO indicated that UGMF's annuity contract reserves as computed under RCW 48.38.020(3)(a) and (b) should be \$100,144 for eleven contracts as of August 31, 2009. This amount, plus an additional ten percent as required by RCW 48.38.020(3)(c), was not properly reported as annuity liabilities in UGMF's financial statements. (See Instruction No. 1.)

ANNUITY ASSETS CUSTODIAL FUNCTION

The separate reserve fund assets were held legally and physically segregated from the other assets of UGMF as required by RCW 48.38.020(2). The market values of the annuity investments as of August 31, 2009 were \$131,946 and consisted of cash

equivalents and mutual funds. The annuity investments were properly reported in the financial statements at market value.

SUBSEQUENT EVENTS

There were no material events which impacted UGMF 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 information summarizes the financial statements of UGMF:

Statement of Financial Position

Statement of Activities and Changes in Net Assets

UGM Foundation of Spokane
STATEMENT OF FINANCIAL POSITION
August 31, 2009

	<u>Balance per Annual Report</u>	<u>Examination Adjustments</u>	<u>Balance Per Examination</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$148,359	\$0	\$148,359
Investments	4,965,624		4,965,624
CGA investments	131,946		131,946
Other assets	10,000		10,000
Total Assets	<u>\$5,255,929</u>	<u>\$0</u>	<u>\$5,255,929</u>
<u>LIABILITIES</u>			
CGA liabilities	\$98,905	\$0	\$98,905
Other liabilities	0		0
Total Liabilities	<u>98,905</u>	<u>0</u>	<u>98,905</u>
<u>NET ASSETS</u>			
Unrestricted	4,930,301		4,930,301
Temporarily restricted	21,609		21,609
Permanently restricted	205,114		205,114
Total Net Assets	<u>5,157,024</u>	<u>0</u>	<u>5,157,024</u>
Total Liabilities and Net Assets	<u>\$5,255,929</u>	<u>\$0</u>	<u>\$5,255,929</u>

UGM Foundation of Spokane
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
August 31, 2009

	<u>Balance Per Annual Report</u>	<u>Examination Adjustments</u>	<u>Balance Per Examination</u>
Total revenues	(\$434,324)	\$0	(\$434,324)
Total expenses	79,214		79,214
Increase (decrease) in net assets	(513,538)	0	(513,538)
Transfer to the Association from UGMF	(6,800)		(6,800)
Net assets at beginning of year	5,677,362		5,677,362
Net assets at end of year	<u>\$5,157,024</u>	<u>\$0</u>	<u>\$5,157,024</u>

ACKNOWLEDGMENT

Acknowledgment is hereby made of the cooperation extended to the examiners by the officers and employees of UGMF 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, Life and Disability Field Supervising Examiner, both 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

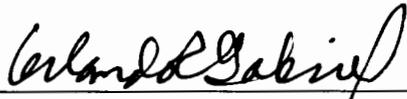
State of Washington

AFFIDAVIT

STATE OF WASHINGTON }
 } ss
COUNTY OF KING }

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 UGMF'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 2nd day of February, 2011.



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

