STATE OF WASHINGTON
OFFICE OF THE INSURANCE COMMISSIONER

FINANCIAL EXAMINATION
OF THE CHARITABLE GIFT ANNUITY BUSINESS
OF
WESLEY HOMES FOUNDATION
DES MOINES, WASHINGTON

December 31, 2012

Order No. 13-285
Wesley Homes Foundation
Exhibit A
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  

Wesley Homes Foundation  
of  
Des Moines, Washington  

hereinafter referred to as “WHF” at its office, 815 South 216th Street, Des Moines, WA 98198. This report of examination is respectfully submitted showing the condition of the CGA business of WHF as of December 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 Wesley Homes Foundation of Des Moines, Washington. This report shows the financial condition of the CGA business and related corporate matters as of December 31, 2012.

Patrick H. McNaughton
Chief Examiner

10-1-13
Date
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SCOPE OF THE EXAMINATION

This examination covers the period January 1, 2008 through December 31, 2012. The scope of our examination focused only on the transactions and operations of the CGA business. WHF’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, WHF’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 Des Moines office of WHF by examiners from the state of Washington.

The examiners reviewed WHF’s CGA Annual Reports as part of the statutory examination. This review was performed to determine if WHF completed the Annual Reports in accordance with the Annual Report Instructions published by the OIC and to verify that WHF’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
WHF was established in 1996. It was organized for charitable and educational purposes to facilitate the solicitation, recognition, and management of charitable gifts in support of the parent company, Wesley Homes (WH).

Territory and Plan of Operation
On June 3, 2005, the OIC granted WHF Certificate of Exemption No. 271 to conduct a CGA business in the state of Washington.

Total Net Assets
WHF’s total net assets as of December 31, 2012 were $8,489,416. This amount included unrestricted net assets of $3,671,454. The minimum unrestricted net assets requirement was satisfied pursuant to RCW 48.38.010(6).
Growth
The growth of WHF for the past five years is reflected in the following schedules:

Schedule 1 - Statements of Financial Position

<table>
<thead>
<tr>
<th>Year</th>
<th>Assets</th>
<th>Liabilities</th>
<th>Total Net Assets</th>
<th>Total Net Assets Allocation:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Unrestricted</td>
</tr>
<tr>
<td>2012</td>
<td>$9,745,172</td>
<td>$1,255,756</td>
<td>$8,489,416</td>
<td>$3,668,390</td>
</tr>
<tr>
<td>2011</td>
<td>8,619,387</td>
<td>1,182,350</td>
<td>7,437,037</td>
<td>3,239,798</td>
</tr>
<tr>
<td>2010</td>
<td>8,710,115</td>
<td>1,349,035</td>
<td>7,361,080</td>
<td>3,373,448</td>
</tr>
<tr>
<td>2009</td>
<td>7,253,309</td>
<td>1,446,027</td>
<td>5,807,282</td>
<td>3,144,285</td>
</tr>
<tr>
<td>2008</td>
<td>6,093,849</td>
<td>1,445,744</td>
<td>4,648,105</td>
<td>2,561,033</td>
</tr>
</tbody>
</table>

Schedule 2 - Statement of Activities and Changes in Net Assets

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total revenues</td>
<td>$1,500,510</td>
<td>$726,921</td>
<td>$1,510,340</td>
<td>$598,698</td>
<td>$1,138,217</td>
</tr>
<tr>
<td>Total expenses</td>
<td>932,377</td>
<td>355,882</td>
<td>631,533</td>
<td>354,271</td>
<td>153,661</td>
</tr>
<tr>
<td>Increase (decrease) in net assets</td>
<td>568,133</td>
<td>371,039</td>
<td>878,807</td>
<td>244,427</td>
<td>984,556</td>
</tr>
<tr>
<td>Other changes in net assets</td>
<td>484,246</td>
<td>(295,082)</td>
<td>674,991</td>
<td>914,755</td>
<td>(1,583,561)</td>
</tr>
<tr>
<td>Net assets at beginning of year</td>
<td>7,437,037</td>
<td>7,361,080</td>
<td>5,807,282</td>
<td>4,648,100</td>
<td>5,247,105</td>
</tr>
<tr>
<td>Net assets at end of year</td>
<td>$8,489,416</td>
<td>$7,437,037</td>
<td>$7,361,080</td>
<td>$5,807,282</td>
<td>$4,648,100</td>
</tr>
</tbody>
</table>

Number of gift annuity contracts at end of year

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>113</td>
<td>111</td>
<td>113</td>
<td>110</td>
<td>108</td>
</tr>
</tbody>
</table>

AFFILIATED ORGANIZATIONS

WHF is controlled by its parent company, WH. During 2005, WH reorganized the corporate structure of the organization and all of the assets, liabilities, and operations were transferred into a new legal entity, Wesley Homes Des Moines, LLC which became a subsidiary of WH. Wesley Homes Des Moines, LLC is organized to operate a continuing care retirement community located in Des Moines, Washington. Wesley Homes Lea Hill, LLC is organized to operate a retirement community in Auburn, Washington. Wesley Homes Community Health Services is organized to provide health services to WH's residents and clients in surrounding communities. Wesley Homes at Home, LLC is organized to provide health services under Medicare to WH’s residents and clients in surrounding communities.

MANAGEMENT AND CONTROL

Management
According to the restated Articles of Incorporation and Bylaws (May 6, 2006), the management of all the affairs of WHF is vested in a Board of Directors (BOD) consisting of no less than nine and no more than fifteen directors. The BOD is elected by the Board of Trustees of WH. The restated Bylaws state that the
officers of the corporation shall be a president, vice president, secretary, and treasurer who are elected by the BOD at each annual meeting. All officers of the corporation are members of WHF's BOD.

**Board of Directors (BOD)**
The following individuals were BOD members as of December 31, 2012:

Chuck Booth  
Suzanne Burke  
Jim Davies  
Llewellyn Ernst  
Kathryn Garnett  
Terese Grady Moon  
Fred Hanna  
Dick Jobst  
Rex Lund  
Valerie Offenbecher  
Dale Ranstrom  
George Reynolds

**Officers**
The following individuals were officers as of December 31, 2012:

Fred Hanna, President  
Terese Grady Moon, Vice President  
Kathryn Garnett, Secretary

The position of treasurer was vacant as of December 31, 2012.

**Tax Status**
WHF is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code.

**Conflict of Interest**
WHF's conflict of interest policy requires each member of the BOD to disclose any conflict of interest by completing and submitting a conflict of interest questionnaire to the BOD. No exceptions were noted.

**ORGANIZATION RECORDS**
The BOD meets at least five times a year to discuss any business which is pertinent to WHF. BOD meeting minutes documented the approval of WHF's transactions and events. No exceptions were noted.

**STATEMENT OF ACTUARIAL OPINION**
A consulting actuary from 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 and meets its qualification standards to render the actuarial opinion. The SAO indicated that WHF's annuity contract reserves as computed under RCW 48.38.020(3)(a) and (b) should be $1,137,703 for 113 in-force annuity contracts as of December 31, 2012.

**ANNuity ASSETs Custodial Function**

The separate reserve fund assets were physically segregated from the other assets of WHF. Total annuity assets as of December 31, 2012 included investments of $1,513,726 and a checking account of $48,072. The annuity investments consisted of cash equivalent, fixed income, and equity funds. Investments were recorded at market value.

**SUBsequent Events**

There were no additional material events which impacted WHF's CGA business 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 the annual reports and financial statements.

**FInancial StAtements**

The following financial statements show the financial condition of WHF as of December 31, 2012:

Statement of Financial Position
Statement of Activities and Changes in Net Assets
Wesley Homes Foundation  
Statement of Financial Position  
December 31, 2012

<table>
<thead>
<tr>
<th></th>
<th>Balance Per Annual Report</th>
<th>Examination Adjustments</th>
<th>Balance Per Examination</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$86,980</td>
<td>$0</td>
<td>$86,980</td>
<td></td>
</tr>
<tr>
<td>Related Party Receivable (Payable)</td>
<td>(373,447)</td>
<td></td>
<td>(373,447)</td>
<td></td>
</tr>
<tr>
<td>Trustee Held Funds and Restricted Investments CGA</td>
<td>1,559,798</td>
<td>($7,803)</td>
<td>1,551,995</td>
<td>1</td>
</tr>
<tr>
<td>Other investments</td>
<td>6,669,137</td>
<td>7,803</td>
<td>6,676,940</td>
<td>1</td>
</tr>
<tr>
<td>Pledges Receivables</td>
<td>934,187</td>
<td></td>
<td>934,187</td>
<td></td>
</tr>
<tr>
<td>Intercompany Loans</td>
<td>820,000</td>
<td></td>
<td>820,000</td>
<td></td>
</tr>
<tr>
<td>Other Current Assets</td>
<td>48,517</td>
<td></td>
<td>48,517</td>
<td></td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td><strong>$9,745,172</strong></td>
<td></td>
<td><strong>$9,745,172</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Liabilities and Net Assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts Payable</td>
<td>$94,758</td>
<td></td>
<td>$94,758</td>
<td></td>
</tr>
<tr>
<td>Accrued Salaries and Related Benefits</td>
<td>23,295</td>
<td></td>
<td>23,295</td>
<td></td>
</tr>
<tr>
<td>CGA Liability</td>
<td>1,137,703</td>
<td></td>
<td>1,137,703</td>
<td></td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td><strong>1,255,756</strong></td>
<td></td>
<td><strong>1,255,756</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Net Assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unrestricted</td>
<td>3,671,454</td>
<td></td>
<td>3,671,454</td>
<td></td>
</tr>
<tr>
<td>Temporarily restricted</td>
<td>2,590,095</td>
<td></td>
<td>2,590,095</td>
<td></td>
</tr>
<tr>
<td>Permanently restricted</td>
<td>2,227,867</td>
<td></td>
<td>2,227,867</td>
<td></td>
</tr>
<tr>
<td><strong>Total Net Assets</strong></td>
<td><strong>8,489,416</strong></td>
<td></td>
<td><strong>8,489,416</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Total Liabilities and Net Assets</strong></td>
<td><strong>$9,745,172</strong></td>
<td></td>
<td><strong>$9,745,172</strong></td>
<td></td>
</tr>
</tbody>
</table>
# Wesley Homes Foundation

**Statement of Activities and Changes in Net Assets**

**For the Year Ended December 31, 2012**

<table>
<thead>
<tr>
<th></th>
<th>Balance Per Annual Report</th>
<th>Examination Adjustments</th>
<th>Balance Per Examination</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total revenues:</strong></td>
<td>$2,170,206</td>
<td>$0</td>
<td>$2,170,206</td>
</tr>
<tr>
<td><strong>Total expenses:</strong></td>
<td>1,118,206</td>
<td></td>
<td>1,118,206</td>
</tr>
<tr>
<td>Increase (decrease) in net assets</td>
<td>1,052,000</td>
<td>0</td>
<td>1,052,000</td>
</tr>
<tr>
<td>Other changes in net assets</td>
<td>379</td>
<td></td>
<td>379</td>
</tr>
<tr>
<td>Net assets at beginning of year</td>
<td>7,437,037</td>
<td></td>
<td>7,437,037</td>
</tr>
<tr>
<td>Net assets at end of year</td>
<td>8,489,416</td>
<td>$0</td>
<td>8,489,416</td>
</tr>
</tbody>
</table>
NOTES TO THE FINANCIAL STATEMENTS

Adjustments to WHF’s financial statements are as follows:

1. To reflect closing accruals, deferrals, and other financial statement adjustments made by WHF after the 2012 OIC Annual Report filing, based on the audited 2012 Wesley Homes and Subsidiaries Consolidated Financial Statements.
ACKNOWLEDGMENT

Acknowledgment is hereby made of the cooperation extended to the examiners by the officers and employees of WHF 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, ARA, 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,

______________________________

Constantine Arustamian

Constantine Arustamian, CFE, CIE, CPA, CPCU, ARC, ARM, ARE, AIS, AIAC, API
Examiner-in-Charge
State of Washington
AFFIDAVIT

STATE OF WASHINGTON)
COUNTY OF KING)

) ss

Constantine Arustamian, 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 the Charitable Gift Annuity business of Wesley Homes Foundation 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).

Constantine Arustamian, CFE, CIE, CPA, CPCU, ARC, ARM, ARE, AIS, AIADF, API
Examiner-in-Charge
State of Washington

Subscribed and sworn to before me on this 1st day of October, 2013.

Notary Public in and for the State of Washington