STATE OF WASHINGTON
OFFICE OF THE INSURANCE COMMISSIONER

FINANCIAL EXAMINATION

of the Charitable Gift Annuity Business

of

Fourth Memorial Church
Spokane, Washington

DECEMBER 31, 2004

Order No. G 07-9
Fourth Memorial Church
Exhibit A

CHIEF EXAMINER'S AFFIDAVIT

I hereby certify I have read the attached Report of the Financial Examination of the Charitable Gift Annuity Business (CGAB) of Fourth Memorial Church of Spokane, Washington. This report shows the financial condition of the CGAB and related corporate matters of Fourth Memorial Church as of December 31, 2004.

Patrick H. McNaughton

Patrick H. McNaughton
Chief Examiner

2-5-2007
Date

SALUTATION

Seattle, Washington
February 5, 2007

The Honorable Mike Kreidler, Commissioner
Washington State Office of the Insurance Commissioner (OIC)
Insurance Building, Capitol Campus
302-14th Avenue SW
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 (CGAB), an examination was made of the corporate affairs and financial records pertaining to the CGAB of the

Fourth Memorial Church

of

Spokane, Washington

hereinafter referred to as "FMC" at its office, 2000 N. Standard, Spokane, Washington 99207.

This report of examination is respectfully submitted showing the condition of the CGAB of FMC as of December 31, 2004.

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SCOPE OF THE EXAMINATION

This examination covers the period January 1, 2000 through December 31, 2004. The financial statements are presented for the entire FMC. However, the scope of our examination focused only on the transactions and operations of the CGAB. The FMC'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 the CGAB reporting. The results of the examination are commented upon in the various sections of this report.

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 FMC by examiners from the state of Washington.

INSTRUCTIONS

The examiners reviewed FMC's Annual Reports as part of the statutory examination. This review was performed to determine if FMC completed its Annual Reports in accordance with the Annual Report Instructions published by the OIC and to verify that FMC'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. Reporting Requirements

As of December 31, 2004, the total statutory annuity reserve per the actuarial statement was $80,061; the annuities reserve per the Annual Report was incorrectly reported as $122,558. Consequently, the reported annuities payable was overstated by $42,497 and the total unrestricted net asset was understated by $42,497. An examination adjustment was made to correct both the liabilities and the net assets. (See Examination Adjustment #1)

FMC is instructed, pursuant to Chapter 48.38 RCW, to develop and implement a system for accounting and reporting of its financial data to ensure compliance with the principles or practices prescribed or permitted by the OIC.

2. Annuity Agreements

FMC was not able to produce one of the in-force annuity contracts for review. The contract was issued in December 1994. Because the contract was not available for examination, the contents of the contract could not be verified. FMC was not in compliance with RCW 48.03.030(1) and RCW 48.38.010(7)(d).

RCW 48.03.030(1) states that, "Every person being examined, its officers, employees, and representatives, shall produce and make freely accessible to the commissioner the accounts, records, documents, and files in his possession or control relating to the subject of the examination and shall otherwise facilitate the examination."

FMC is instructed to have in its possession all original annuity contracts issued to annuitants to evidence compliance with RCW 48.03.030 and RCW 48.38.010.

3. Audited Statements

FMC's financial statements for the five year period under examination have not been audited by an independent certified public accountant (CPA). FMC never submitted its audited statement which is one of the reports required to be filed with the OIC in accordance with the annual reporting requirements of RCW 48.38.010(10)(a).

FMC is instructed to have its financial statements audited by an independent certified public accountant and to file those audited statements in compliance with the OIC Annual Report Instructions pursuant to RCW 48.38.010(10), or to request from the OIC an exemption from the requirement to have a CPA audit performed.

4. Officers

In accordance with the Bylaws, FMC may have two officers, a senior pastor who is appointed by the Board of Elders (BOE) and an associate pastor who is chosen by the senior pastor and approved by the BOE. However, FMC is subject to, and in violation of, the Washington nonprofit corporation act, Chapter 24.03 RCW. RCW 24.03.125 requires that: "The officers of a corporation shall consist of a president, one or more vice president, a secretary, and a treasurer . . ." FMC does not have all the officers required by the act.

Pursuant to RCW 24.03.125, FMC is instructed to appoint a president, a vice president, a secretary, and a treasurer and, if necessary, to appropriately revise any corporate documents covering such matters.

COMMENTS AND RECOMMENDATIONS

Conflict of Interest Policy

FMC has no conflict of interest policy. FMC's Bylaws do not include a code of conduct or regulations for conflicts of interest.

It is recommended that FMC develop and implement a conflict of interest policy which requires all BOE, officers and key employees to sign an annual conflict of interest questionnaire which is reviewed annually by the BOE.

ORGANIZATION PROFILE

History: FMC is a nondenominational fellowship formerly known as Fourth Presbyterian Church. In January 1903, it was officially incorporated as a nonprofit corporation.

Territory and Plan of Operation: On July 27, 1994, the OIC granted FMC a Certificate of Exemption to conduct a CGAB in the state of Washington. There were 2 in-force annuity contracts as of December 31, 2004. Both of the annuity contracts were issued to residents of the state of Washington. (See INSTRUCTION No.2)

Total Net Assets: FMC's total net assets as of December 31, 2004 were $7,322,524. This amount included an unrestricted net asset of $7,244,879. The minimum unrestricted net asset requirement pursuant to RCW 48.38.010(6) was satisfied as of December 31, 2004.

Growth: The growth of FMC for the past five years is reflected in the following schedules. All information was compiled from FMC's financial statements for the years ended December 31.

Schedule 1 – Statement of Financial Position

Year	Assets	Liabilities	Total Net Assets	Total Net Assets Allocated Into: Unrestricted	Temporarily Restricted	Permanently Restricted
2004	$7,423,729	$101,205	$7,322,524	$7,244,879	$75,500	$2,145
2003	7,154,771	164,303	6,990,468	6,913,323	75,000	2,145
2002	7,002,757	151,489	6,851,268	6,774,290	75,000	1,978
2001	6,838,108	47,247	6,790,861	6,713,883	75,000	1,978
2000	6,999,407	419,515	6,579,892	6,503,300	75,000	1,592

Schedule 2 – Statement of Activities and Changes in Net Assets

	2004	2003	2002	2001	2000
Revenues and gains	$1,435,368	$1,147,714	$1,070,312	$1,042,444	$940,242
Expenses	1,145,809	997,841	1,024,499	851,884	806,506
Net income (loss)	**$289,559**	**$149,873**	**$45,813**	**$190,560**	**$133,736**
Number of gift annuity contracts at end of year	2	2	2	1	1

AFFILIATED ORGANIZATIONS

FMC does not have any affiliates.

MANAGEMENT AND CONTROL

Management: FMC is managed by the Board of Elders. Pursuant to the Bylaws, the members of FMC may be called together for the transaction of any legitimate business, either by a majority vote of the BOE or upon a written request to do so, signed by a quorum of FMC members in good standing. FMC may transact any business with a quorum of 50 such members.

Board of Elders: Members of the BOE are:

Wade Altmeyer
Bruce Bailey
Evan Bell
Curtis Carey
Bill Carrier
Phil Chinn
Frank Hamilton
Steve Hauschild
Paul Hyndman
Mark MacFarlene
Don Nowlin
Ron Thomsen
John Tusant

Officers: In accordance with the Bylaws, upon the unanimous recommendation of the BOE, the regular members choose FMC's senior pastor for an indefinite period. With board approval, an associate pastor may be chosen by the senior pastor. (See INSTRUCTION No. 4)

Tax Status: FMC is a Washington non profit corporation and is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code.

Conflict of Interest: FMC has no Conflict of Interest Policy. (See COMMENTS AND RECOMMENDATIONS)

CORPORATE RECORDS

The BOE met at least eight times in 2004 to discuss pertinent business. Minutes of the meetings of the elders documented the approval of FMC'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 and meets its qualification standards. Her SAO states that FMC's annuity contract reserves as computed under RCW 48.38.020(3)(a) and (b) of the Washington Insurance Code should be $72,873. This amount, plus the 10% surplus required by RCW 48.38.020(3)(c), was not correctly reported in FMC financial statements. (See INSTRUCTION No. 1)

ANNUITY ASSETS CUSTODIAL FUNCTION

The assets of the separate reserve fund were held and physically segregated from the other assets of FMC. Total annuity investment was $122,012 as of December 31, 2004, and consisted of cash equivalents, stocks, and mutual funds. Investments were recorded at fair value.

SUBSEQUENT EVENTS

There were no material events which impacted FMC's CGAB between the examination date and the last day of our field work.

ACCOUNTING RECORDS AND PROCEDURES

The records and source documentation support the data and amounts presented in the annual reports and financial statements. (See INSTRUCTION No. 1)

FINANCIAL STATEMENTS

According to the FMC's management, the following financial statements show the financial condition of FMC as of December 31, 2004, although the accounting system did not support the breakdown of the net assets as unrestricted or restricted. (See INSTRUCTION No. 1)

Statement of Financial Position

	Balance Per Annual Report	Exam Adj. Ref.	Examination Adjustments	Adjusted Balance
ASSETS				
Cash and cash equivalents	$490,049			$490,049
Annuity assets	122,012			122,012
Other assets	6,811,668			6,811,668
Total Assets	**$7,423,729**		**$0**	**$7,423,729**
LIABILITIES				
Current liabilities	$21,144			$21,144
Annuity reserves	122,558	A 1	(42,497)	80,061
Total Liabilities	143,702		(42,497)	101,205
NET ASSETS				
Unrestricted	7,202,382	A 1	42,497	7,244,879
Temporarily restricted	75,500			75,500
Permanently restricted	2,145			2,145
Total Net Assets	7,280,027		42,497	7,322,524
Total Liabilities and Net Assets	**$7,423,729**		**$0**	**$7,423,729**

Statement of Financial Activity and Changes in Net Assets

	Balance Per Annual Report	Exam Adj. Ref	Examination Adjustments	Adjusted Balance
Total revenues	$1,435,368		$0	$1,435,368
Total expenses	1,145,809			1,145,809
Increase (decrease) in net assets	289,559		0	289,559
Net assets at beginning of year	6,990,468			6,990,468
Changes in net assets		A 1	42,497	42,497
Net assets at end of year	**$7,280,027**		**$42,497**	**$7,322,524**

A 1 – To adjust the annuity reserves and to recognize the changes in net assets. (See INTRUCTION No. 1)

ACKNOWLEDGMENT

Acknowledgment is hereby made of the cooperation extended to the examiners by the officers and employees of FMC during the course of this examination.

In addition to the undersigned, Michael V. Jordan, CPA, CFE, MHP, Assistant Chief Examiner; John Gaynard, 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

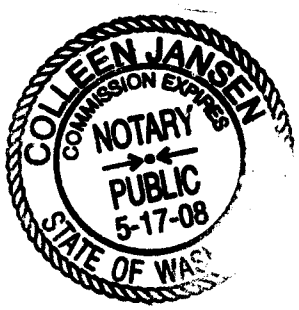
AFFIDAVIT

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 FMC's CGAB 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 5th day of February 5, 2007.

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