STATE OF WASHINGTON
OFFICE OF THE INSURANCE COMMISSIONER

FINANCIAL EXAMINATION

of the Charitable Gift Annuity Business

of

Spokane United Methodist Homes
Spokane, Washington

DECEMBER 31, 2005

Order No. G 07-28
Spokane United Methodist Homes
Exhibit A

SALUTATION

Seattle, Washington
March 30, 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, an examination was made of the corporate affairs and financial records pertaining to the Charitable Gift Annuity (CGA) business of

Spokane United Methodist Homes

of

Spokane, Washington

hereinafter referred to as "SUMH" at its office, 2903 East 25th Avenue, Spokane, Washington 99223.

This report of examination is respectfully submitted showing the condition of the CGA business of SUMH as of December 31, 2005.

CHIEF EXAMINER'S AFFIDAVIT

I hereby certify I have read the attached Report of the Financial Examination of the Charitable Gift Annuity business of Spokane United Methodist Homes of Spokane, Washington. This report shows the financial condition of the Charitable Gift Annuity business and related corporate matters of Spokane United Methodist Homes as of December 31, 2005.

Patrick H. McNaughton

Patrick H. McNaughton
Chief Examiner

3-30-2007

Date

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SCOPE OF THE EXAMINATION

This examination covers the period January 4, 2002 through December 31, 2005, the period during which SUMH has held a Certificate of Exemption from the OIC. The financial statements are presented on a consolidated basis for SUMH and its affiliates. However, the scope of our examination focused only on the transactions and operations of the CGA business. SUMH'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, SUMH'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 SUMH by examiners from the state of Washington.

INSTRUCTIONS

The examiners reviewed SUMH's Annual Reports as part of the statutory examination. This review was performed to determine if the organization completed the Annual Reports in accordance with the Annual Report Instructions published by the OIC and to verify that the organization'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. Unrestricted Net Assets

The unrestricted net asset amount shown in the 2005 Annual Report was $443,304 which was less than the required minimum amount of $500,000. The 2003 OIC Annual Report also showed an unrestricted net asset amount of $443,946.

RCW 48.38.010 states that, "The commissioner may grant a certificate of exemption to any insurer, or educational, religious, charitable, or scientific institution conducting a charitable gift annuity business: (6) Which has and maintains minimum unrestricted net assets of five hundred thousand dollars." Therefore, SUMH did not comply with RCW 48.38.010(6), because it did not maintain the required minimum unrestricted net assets as of December 31, 2005 and 2003.

SUMH is instructed to comply with RCW 48.38.010(6) by maintaining the required $500,000 of unrestricted net assets. (See SUBSEQUENT EVENTS)

COMMENTS AND RECOMMENDATIONS

Documentation of Closed Annuity Contract

SUMH did not maintain full documentation, such as a copy of the death certificate, to sufficiently support the transfer to Rockwood Residents' Foundation (See Affiliated Companies) of the remaining annuity funds of deceased annuitants.

It is recommended that SUMH obtain and retain full and adequate documentation of an annuitant's death. This includes a copy of the death certificate and any other relevant, important data gathered by or furnished to SUMH. All documentation should be kept in the annuitant's file.

ORGANIZATION PROFILE

History: SUMH, a continuing care retirement community, was incorporated as a nonprofit corporation under the laws of the state of Washington on June 26, 1957. SUMH's two divisions, Rockwood South and Rockwood of Hawthorne, provide and maintain residences and health centers for elderly people through the administration of funds received for that purpose.

Territory and Plan of Operation: On January 4, 2002, the OIC granted SUMH a Certificate of Exemption No. 173 to conduct CGA business in the state of Washington. There were eighteen in-force annuity contracts as of December 31, 2005. All of the 18 annuity contracts were issued to residents of the state of Washington.

Total Net Assets: SUMH's total net assets as of December 31, 2005 were $443,304, consisting of unrestricted net assets only. The minimum unrestricted net asset requirement pursuant to RCW 48.38.010(6) was not satisfied as of December 31, 2005. (See INSTRUCTION No. 1)

Growth: The growth of SUMH for the past four years is reflected in the following schedules. All information was compiled from SUMH's audited financial statements as of fiscal years ending May 31. (Please note that this information is provided based on the company's fiscal year-end which is different than the examination as-of date as reflected in the Examination Report Financial Statements.)

Schedule 1 – Statement of Financial Position

Fiscal Year	Assets	Liabilities	Total Net Assets	Total Net Assets Allocated Into: Unrestricted	Temporarily Restricted	Permanently Restricted
2005	$76,601,892	$76,464,258	$137,634	$137,634	$0	$0
2004	75,109,795	74,737,292	372,503	372,503	0	0
2003	71,868,500	72,134,005	(265,505)	(265,505)	0	0
2002	69,731,960	69,357,599	374,361	374,361	0	0

Schedule 2 – Statement of Activities and Changes in Net Assets

	2005	2004	2003	2002
Revenues and gains	$15,080,463	$14,612,949	$13,302,174	$12,197,038
Expenses	15,315,332	13,974,941	13,942,040	12,854,275
Increase (decrease) in net assets	(234,869)	638,008	(639,866)	(657,237)
Net assets at beginning of year	372,503	(265,505)	374,361	1,031,598
Net assets at end of year	**$137,634**	**$372,503**	**$(265,505)**	**$374,361**
Number of gift annuity contracts at end of year	18	17	17	8

AFFILIATED ORGANIZATIONS

SUMH affiliates consist of: Rockwood Service Company, a for-profit subsidiary corporation formed to operate business activities and business entities that do not qualify for nonprofit status; and Rockwood Residents' Foundation, a nonprofit corporation organized and operated exclusively to benefit and to perform the functions of SUMH.

MANAGEMENT AND CONTROL

Management: According to the restated Articles of Incorporation and Bylaws (September 23, 1998), the management of all the affairs of SUMH is vested in a Board of Trustees (BOT) consisting of fifteen members, one-third of whom are elected each year by the members of SUMH for a term of three years.

Board of Trustees: The BOT as of fiscal year 2005-2006 are:

Mina Gokee
John Hasstedt
Arthur K. Hayashi
David Hayward
Anna Jenkins
Dr. Hugh Johnston
Dennis Kifer
Mary Ann McCurdy
Ben Nielsen
Rev. Joey Olson, Ex-Officio
Greg Plummer
Timothy Swartout
Ann Raymond Tuling
Margaret Williams
Steve Yoshihara

Officers: The Corporate Bylaws of SUMH state that the senior officers of the corporation are the president, vice president-finance, vice president-operations, treasurer, and secretary. The president is the chief executive officer (CEO) of the corporation. The officers as of fiscal year 2005-2006 are:

Alan Curryer, President and CEO
Jim Maxwell, Vice President, Finance
Jaak Juhkentall, Vice President, Operations and Secretary

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

Conflict of Interest: The BOT, officers and employees of SUMH have the obligation to disclose conflicts of interest. The president/CEO is required to disclose any conflicts of interest by signing a conflict of interest statement annually; each trustee is required to sign a conflict of interest statement only at the time he or she is elected to the Board. The CEO discloses to the BOT the identity of each person having a conflict of interest and the nature of that conflict as written and submitted to the CEO or Board Chair. From a review of selected samples of the conflict of interest statements, it appeared the trustees and staff performed due diligence in disclosing any potential conflict of interest.

CORPORATE RECORDS

The BOT meets at least ten times a year to discuss any business which is pertinent to SUMH. Minutes of the meetings of trustees documented the approval of SUMH'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 SUMH's annuity contract reserves as computed under RCW 48.38.020(3)(a) and (b) of the Washington Insurance Code should be $144,996. This amount, plus the 10% surplus required by RCW 48.38.020(3)(c), was properly reported as CGA business liabilities in SUMH financial statements.

ANNUITY ASSETS CUSTODIAL FUNCTION

The separate reserve fund assets were held legally and physically segregated from the other assets of SUMH as required by RCW 48.38.020(2). Total annuity investments as

of December 31, 2005 were $316,863, and consisted of a savings account and mutual funds.

SUBSEQUENT EVENTS

An Order Suspending Certificate of Exemption No. 173 was signed and entered on April 17, 2006 by the OIC. The order of suspension is based upon SUMH's failure to maintain unrestricted net assets of at least $500,000 which is a violation of RCW 48.38.010(6). (See INSTRUCTION No. 1)

Except for the above order of suspension, there were no other material events which impacted SUMH's CGA business 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 financial information summarizes the financial statements of SUMH as of December 31, 2005:

Balance Sheet

	Balance Per Annual Report	Adj.	Examination Adjustments	Adjusted Balance
ASSETS				
Cash and cash equivalents	$912,759		$0	$912,759
Investments	4,486,421			4,486,421
Receivables and other current assets	1,688,632			1,688,632
Board designated and restricted assets	11,064,426			11,064,426
CGA assets	316,863			316,863
Property, buildings & equipment (net)	54,337,253			54,337,253
Other assets	1,508,600			1,508,600
Total Assets	**$74,314,954**		**$0**	**$74,314,954**
LIABILITIES				
Current liabilities	$2,113,164		$0	$2,113,164
CGA reserves	159,495			159,495
Long-term debt and other liabilities	33,458,838			33,458,838
Deferred income	38,140,153			38,140,153
Total Liabilities	73,871,650		0	73,871,650
NET ASSETS				
Unrestricted	443,304			443,304
Temporarily restricted	0			0
Permanently restricted	0			0
Total Net Assets	443,304		0	443,304
Total Liabilities and Net Assets	**$74,314,954**		**$0**	**$74,314,954**

Statement of Financial Activity and Changes in Net Assets

	Balance Per Annual Report	Adj.	Examination Adjustments	Adjusted Balance
Total revenues	$15,330,207		$0	$15,330,207
Total expenses	15,548,946			15,548,946
Increase (decrease) in net assets	(218,739)		0	(218,739)
Net assets at beginning of year	662,043			662,043
Changes in net assets per examination	0			0
Net assets at end of year	**$443,304**		**$0**	**$443,304**

ACKNOWLEDGMENT

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

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

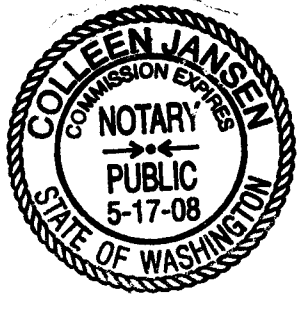
AFFIDAVIT

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 SUMH'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 30th day of March, 2007.

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