

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



FINANCIAL EXAMINATION
of the Charitable Gift Annuity Business

of

**Gonzaga University
Spokane, Washington**

DECEMBER 31, 2005

Order No. G07-190
Gonzaga University
Exhibit A

SALUTATION

Seattle, Washington
June 18, 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 (CGA) Business, an examination was made of the corporate affairs and financial records pertaining to the CGA business of

Gonzaga University

of

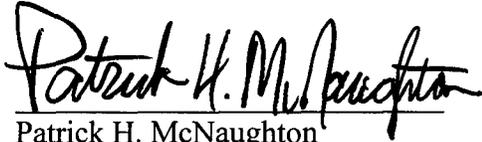
Spokane, Washington

hereinafter referred to as "GU" at its office, East 502 Boone Avenue, Spokane, Washington, 99258.

This report of examination is respectfully submitted showing the condition of the CGA business of GU 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 Gonzaga University of Spokane, Washington. This report shows the financial condition of the Charitable Gift Annuity (CGA) business and related corporate matters of Gonzaga University as of December 31, 2005.



Patrick H. McNaughton
Chief Examiner

June 18, 2007
Date

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SCOPE OF THE EXAMINATION

This examination covers the period January 1, 2001 through December 31, 2005. The 2005 Annual Report reflected the balance sheet and statement of revenue and expenses of GU as of May 31, 2005. The OIC granted permission to GU to present its CGA business Annual Report as of its fiscal year ended May 31, 2005. The examination of the 2005 Annual Report, therefore, covers the period ending May 31, 2005 for the balance sheet and statement of revenue and expenses sections, and the period ending December 31, 2005 for the general interrogatories and charitable gift annuities reserve fund. The financial statements are presented on a consolidated basis for GU and its affiliates. However, the scope of our examination focused only on the transactions and operations of the CGA business. GU'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, GU'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 GU by examiners from the state of Washington.

INSTRUCTIONS

The examiners reviewed GU's CGA business Annual Reports as part of the statutory examination. This review was performed to determine if GU 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. Valuation of Annuity Liabilities

Periodic adjustments to the annuity liabilities were not properly made to reflect actuarial gains or losses resulting from changes in the annual value of the reserve liabilities pursuant to RCW 48.38.020(3). As a result, the reported annuity liabilities were understated by \$235,882 as of May 31, 2005. (See STATEMENT OF ACTUARIAL OPINION and FINANCIAL STATEMENTS)

GU is instructed to recognize the actuary's opinion relating to annuity reserves and other actuarial items pursuant to RCW 48.38.010(10)(c). Also, GU is instructed to make periodic adjustments between the annuity liabilities and the net assets to

reflect the actuary's calculation of the aggregate reserves in accordance with RCW 48.38.020(3).

COMMENTS AND RECOMMENDATIONS

There were no comments or recommendations made in this examination report.

ORGANIZATION PROFILE

History: GU, founded in 1887 and incorporated in 1894, is an institution of higher education. The primary schools within GU include the schools of arts and sciences, business, engineering, education, professional studies and law.

Territory and Plan of Operation: On March 16, 1991, the OIC granted GU a Certificate of Exemption Number 32 to conduct a CGA business in the state of Washington. There were twenty-one annuity contracts as of December 31, 2005: fifteen were issued to residents of the state of Washington, one was issued to a resident of North Carolina, two were issued to a resident of Texas, two were issued to residents of Idaho, and one was issued to a resident of California.

Total Net Assets: GU's total adjusted net assets as of May 31, 2005 were \$218,795,000. This amount included an unrestricted net asset of \$91,225,000. The minimum unrestricted net assets requirement was satisfied pursuant to RCW 48.38.010(6).

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

Schedule 1 – Statement of Financial Position

(Dollars in Thousands)

<u>Fiscal Year</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Total Net Assets</u>	<u>Total Net Assets Allocated Into:</u>		
				<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
* 2005	\$346,924	\$128,129	\$218,795	\$91,225	\$75,517	\$52,053
2004	316,229	111,510	204,719	71,846	83,375	49,498
2003	274,909	94,238	180,671	62,178	70,926	47,567
2002	228,406	70,520	157,886	53,600	61,024	43,262
2001	232,318	66,730	165,588	53,631	70,810	41,147

Schedule 2 – Statement of Activities and Changes in Net Assets(Dollars in Thousands)

	* 2005	2004	2003	2002	2001
Revenues and gains	\$130,561	\$136,277	\$126,264	\$87,653	\$91,811
Expenses	116,249	112,229	103,479	95,356	83,452
Increase (decrease) in net assets	\$14,312	\$24,048	22,785	\$(7,703)	\$8,359
Changes in net assets per examination	(236)				
Net assets at beginning of year	204,719	180,671	157,886	165,589	157,230
Net assets at end of year	\$218,795	\$204,719	\$180,671	\$157,886	\$165,589
Number of gift annuity contracts at end of year	21	21	20	18	17

* The 2005 balances included examination adjustments. (See FINANCIAL STATEMENTS)

AFFILIATED ORGANIZATIONS

Gonzaga Immobiliare (GI) is an affiliate of GU. GI is an Italian corporation formed to purchase and remodel a classroom/administration building used in GU's Florence program. GU's consolidated financial statements include the accounts of GI. Significant accounts and transactions between these entities are eliminated upon consolidation.

MANAGEMENT AND CONTROL

Management: GU is governed by a Board of Trustees (BOT). The BOT has 29 members. Three of the trustees are elected to four-year terms by the members of GU. The members of GU are nine Jesuits assigned by a Provincial Superior of the Society of Jesus (SJ) to the Jesuit Community at GU. The remaining trustees are elected to four-year terms by majority vote of the Board.

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

Timothy Barnard	Philip G. McCarthy
Fred A. Brown	Scott L. Morris
Walter J. Conn	Angelo R. Mozilo
Geraldine Craves	Donald P. Nelles
J. Donald Curran	Michael A. Patterson
Elizabeth Hanson	Gerald A. Schwalbach
Donald H. Herak	Robert J. Spitzer, S.J.
James R. Jundt	Peter F. Stanton
Joseph W. Koterski, S.J.	John M. Stone
David Leigh, S.J.	Edward Taylor
Rita Illig Liebelt	Thomas B. Tilford
John J. Luger	J. Kevin Waters, S.J.
Harry F. Magnuson	Patrick J. West
Shannon McCambridge	Alvin Wolff, Jr.
Jack McCann	

Officers: In accordance with the Bylaws, the officers of GU are the president, vice presidents, secretary, treasurer, and corporation counsel. The BOT elects the president who is also the chief executive officer (CEO). The president appoints the other officers subject to the approval of the BOT. Robert J. Spitzer, S.J. is the elected president and CEO.

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

Conflict of Interest: GU policy requires each BOT member and each officer to sign a communication of conflict of interest policy at the beginning of his/her term. The signed communication is reviewed by the Corporation Counsel to determine if potential or actual conflicts of interest exist, and reports his findings to the Audit Committee of the BOT. No exceptions were noted.

CORPORATE RECORDS

The BOT normally meets five times a year to discuss any business which is pertinent to GU. Minutes of the meetings of trustees documented the approval of GU'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 GU's annuity contract reserves as computed under RCW 48.38.020(3)(a) and (b) of the Washington Insurance Code should be \$534,215 as of December 31, 2005. This amount, plus the 10% surplus required by RCW 48.38.020(3)(c), was not properly reported as annuity liabilities in GU financial statements. As of December 31, 2005, the annuity liabilities were understated by \$277,642. (Please note that the statutory reserve liability information is provided based on calendar year-end, the reporting period required by the OIC, which is different than GU's fiscal year-end as reflected in the Examination Report Financial Statements.)

ANNUITY ASSETS CUSTODIAL FUNCTION

The separate reserve fund assets were held legally and physically segregated from the other assets of GU as required by RCW 48.38.020(2). The fair value of the annuity investments as of December 31, 2005 was \$981,553. The annuity investments, consisted of cash, money market fund, stocks and bonds, were properly reported in the financial statements at fair value.

SUBSEQUENT EVENTS

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

ACCOUNTING RECORDS AND PROCEDURES

Except as noted in this report, 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 GU as of May 31, 2005:

Balance Sheet

(Dollars in Thousands)

	Balance Per Annual Report	Adj.	Examination Adjustments	Adjusted Balance
<u>ASSETS</u>				
Cash and cash equivalents	\$508		\$0	\$508
Investments	126,998			126,998
CGA Business investments	866			866
Receivables, net	42,462			42,462
Property & equipment (net)	150,068			150,068
Other assets	26,022			26,022
Total Assets	<u>\$346,924</u>		<u>\$0</u>	<u>\$346,924</u>
<u>LIABILITIES</u>				
CGA Business liabilities	\$280	A1	236	\$516
Other liabilities	127,613			127,613
Total Liabilities	<u>127,893</u>		<u>236</u>	<u>128,129</u>
<u>NET ASSETS</u>				
Unrestricted	91,225			91,225
Temporarily restricted	75,569	A1	(52)	75,517
Permanently restricted	52,237	A1	(184)	52,053
Total Net Assets	<u>219,031</u>		<u>(236)</u>	<u>218,795</u>
Total Liabilities and Net Assets	<u>\$346,924</u>		<u>\$0</u>	<u>\$346,924</u>

Statement of Financial Activity and Changes in Net Assets
(Dollars in Thousands)

	Balance Per			
	<u>Annual</u>			
	<u>Report</u>	<u>Adj.</u>	<u>Examination</u>	<u>Adjusted</u>
			<u>Adjustments</u>	<u>Balance</u>
Total revenues	\$130,561		\$0	\$130,561
Total expenses	116,249			116,249
Increase (decrease) in net assets	<u>\$14,312</u>		<u>\$0</u>	<u>\$14,312</u>
Changes in net assets per examination, additional annuity expenses		A1	(236)	(236)
Net assets at beginning of year	<u>204,719</u>		<u>0</u>	<u>204,719</u>
Net assets at end of year	<u>\$219,031</u>		<u>\$(236)</u>	<u>\$218,795</u>

Examination Adjustments:

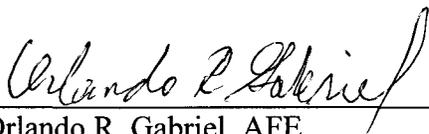
A1 – Adjustments made between the liability, the expenses, and the net assets resulting from changes in actuarial assumptions and actuarial methods used in determining annuity reserves. (See INSTRUCTION No.1)

ACKNOWLEDGMENT

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

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

