

Order No. 09-103
Pacific Lutheran University
Exhibit A

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



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

of

**Pacific Lutheran University
Tacoma, Washington**

MAY 31, 2007

SALUTATION

Seattle, Washington
September 10, 2009

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

Pacific Lutheran University

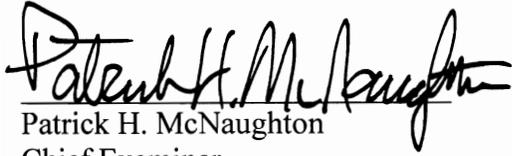
of

Tacoma, Washington

hereinafter referred to as "PLU" at its office at 12180 Park Avenue South, Tacoma, Washington 98447. This report of examination is respectfully submitted showing the condition of the CGA business of PLU as of May 31, 2007.

CHIEF EXAMINER'S AFFIDAVIT

I hereby certify I have read the attached Report of the Financial Examination of the Charitable Gift Annuity business of Pacific Lutheran University, Tacoma, Washington. This report shows the financial condition of the CGA business and related corporate matters of Pacific Lutheran University as of May 31, 2007.


Patrick H. McNaughton
Chief Examiner

9-15-09
Date

TABLE OF CONTENTS

SCOPE OF EXAMINATION.....	1
INSTRUCTIONS.....	1
COMMENTS AND RECOMMENDATIONS.....	2
ORGANIZATION PROFILE	3
History	3
Territory and Plan of Operation.....	3
Net Assets.....	3
Growth.....	3
AFFILIATED ORGANIZATIONS	4
MANAGEMENT AND CONTROL	4
Management	4
Board of Regents	4
Officers.....	4
Tax Status.....	4
Conflict of Interest.....	5
ORGANIZATION RECORDS	5
STATEMENT OF ACTUARIAL OPINION	5
ANNUITY ASSETS CUSTODIAL FUNCTION.....	5
SUBSEQUENT EVENTS	5
ACCOUNTING RECORDS AND PROCEDURES.....	5
FINANCIAL STATEMENTS	5
ACKNOWLEDGMENT	7
AFFIDAVIT.....	8

SCOPE OF THE EXAMINATION

This examination covers the period January 1, 2003 through December 31, 2007. The 2007 Annual Report reflected the balance sheet and statement of revenue and expenses of PLU as of May 31, 2007. The OIC granted permission to PLU to present its CGA Annual Report as of its fiscal year-end May 31, 2007. The examination of the 2007 Annual Report, therefore, covers the period ending May 31, 2007 for the balance sheet and statement of revenue and expenses sections, and the period ending December 31, 2007 for the general interrogatories and charitable gift annuities reserve fund, and other applicable financial activities as deemed necessary.

PLU'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 CGA reporting. The results of the examination are commented upon in the various sections of this report. In addition, PLU'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 Tacoma office of PLU by examiners from the state of Washington.

INSTRUCTIONS

The examiners reviewed PLU's CGA Annual Reports as part of the statutory examination. This review was performed to determine if PLU completed the Annual Reports in accordance with the Annual Report Instructions published by the OIC and to verify that PLU'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 PLU to establish and maintain a separate reserve fund adequate to meet the future payments under its charitable gift annuity contracts. PLU maintained a separate reserve of \$2,632,957 at December 31, 2007 which did not agree to the actuary's calculated reserve amount of \$2,633,445. The amount of the separate reserve is also required to include a surplus of ten percent (10%) per RCW 48.38.020(3)(c). Pursuant to RCW 48.38.020(3)(c), the statutory aggregate reserves should be \$2,896,790. As a result, the reported annuities payable were understated by \$263,833 on December 31, 2007. No examination adjustment was necessary due to immateriality.

PLU is instructed to report the statutory reserve calculated by the actuary pursuant to RCW 48.38.010(10)(c) and an additional 10% surplus required by RCW 48.38.020(1) and (3).

2. Annual Report

PLU was not in compliance with the OIC Annual Report Instructions as required by RCW 48.38.

- a. PLU reported to the OIC that all of its 83 annuity contracts were issued to Washington residents. After a review of the CGA files, it was determined that only 51 annuity contracts were issued to Washington residents.
- b. The December 31, 2007 reserve fund balance reported to the OIC, in the amount of \$3,987,562, was incorrect because the amount reported was at cost value rather than at market value. The total market value of the annuity investments according to the custodial statement was \$4,122,154.

Pursuant to RCW 48.38.010(10)(a), PLU is instructed to report to the OIC the correct number of Washington annuity contracts and the correct reserve fund balance in compliance with the OIC Annual Report Instructions.

3. CGA Contracts

Information recorded in some annuity contracts was incorrect as compared to the supporting documentation. Errors in the amount or value of the property transferred and the reasonable value of the benefits created as of the date of the agreement were found in the contracts.

Pursuant to RCW 48.38.030, PLU is instructed to review its issued CGA contracts to verify that the terms specified in the contracts are accurately stated.

COMMENTS AND RECOMMENDATIONS

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

ORGANIZATION PROFILE

History: PLU was founded in 1890 by a group of Norwegians from the Puget Sound region. It is a comprehensive university with an enrollment of about 3,600 students.

Territory and Plan of Operation: On May 7, 1984, OIC granted PLU Certificate of Exemption No. 14 to conduct a CGA business in the state of Washington.

Total Net Assets: PLU's total net assets as of May 31, 2007 were \$141,138,966. This amount included unrestricted net assets of \$70,803,424. The minimum unrestricted net asset requirement was satisfied pursuant to RCW 48.38.010(6).

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

Schedule 1 – Statement of Financial Position

Fiscal Year	Assets	Liabilities	Net Assets	Total Net Assets Allocated Into:		
				Unrestricted	Temporarily Restricted	Permanently Restricted
2007	\$232,994,983	\$91,856,017	\$141,138,966	\$70,803,424	\$11,213,168	\$59,122,374
2006	187,048,436	58,592,745	128,455,691	66,069,138	6,200,159	56,186,394
2005	181,952,268	58,256,877	123,695,391	45,063,833	24,931,987	53,699,571
2004	168,215,611	57,661,459	110,554,152	41,854,164	19,213,117	49,486,871
2003	152,344,820	57,513,348	94,831,472	39,496,183	11,266,671	44,068,618

Schedule 2 – Statement of Activities and Changes in Net Assets

	2007	2006	2005	2004	2003
Revenues and support	\$100,351,304	\$88,804,421	\$89,237,506	\$85,894,794	\$69,535,813
Expenses	87,668,029	82,749,121	76,096,267	70,172,114	68,299,478
Increase (decrease) in net assets	12,683,275	6,055,300	13,141,239	15,722,680	1,236,335
Net assets at beginning of year	128,455,691	123,695,391	110,554,152	94,831,472	93,595,137
Prior-period adjustment		(1,295,000)			
Net assets at end of year	\$141,138,966	\$128,455,691	\$123,695,391	\$110,554,152	\$94,831,472
Number of gift annuity contracts at end of year	83	88	90	85	85

AFFILIATED ORGANIZATIONS

PLU does not have any affiliates.

MANAGEMENT AND CONTROL

Management: According to the Articles of Incorporation, the affairs of PLU are managed by the governing Board of Regents (BOR). Members are selected based on several criteria. They must be a member in good standing of a Lutheran church or other Christian church. They are selected for their interest and ability to carry out the purposes of PLU.

The BOR as of May 31, 2007:

Neal Arntson	Anne Long
Linda Barbo	Michelle Y. Long
Dale Benson	Donald Morken
Gayle Berg	Rev. Dr. Larry Neeb
Bruce Bjerke	Kim Nesselquist
Robert Gomulkiewicz	Knot Olson
Roberta Goodnow	Bishop Richard Omland
David Greenwood	Lisa Ottoson
Richard Hildahl	Karen Phillips
Bishop Robert Hofstad	Carol Quigg
James Hushagen	Jeffrey Rippey
Kathleen Jacobson	Rev. Kathleen D. McCallum Sachse
Darcy Johnson	Donna Schlitt
Katherine Johnson	Eileen Tellefson
Estelle Kelley	Tom Eric Vraalsen
Rev. Michael Keys	Bishop Martin Wells
Dr. Mark Knudson	Rev. Andrew Yee
Dr. Joh Kvinsland	

The officers as of May 31, 2007:

Loren J. Anderson, Ph.D.	President
Patricia O'Connell Killen, Ph.D.	Acting Provost and Dean of Graduate Studies
Sheri Tonn, Ph.D.	Vice President for Finance and Operations
Laura F. Majovski, Ph.D.	Vice President for Admission and Student Life
Greg Brewis	Acting Vice President for Development and University Relations

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

Conflict of Interest: BOR members are required to submit a conflict of interest questionnaire annually. PLU's policy statement indicates that should an actual or potential conflict of interest arise, it will be reviewed and voted upon by the BOR. No exceptions were noted.

ORGANIZATION RECORDS

The BOR met three times in 2007 to discuss any business which is pertinent to PLU. BOR meeting minutes documented the approval of PLU's transactions and events. No exceptions were noted.

STATEMENT OF ACTUARIAL OPINION

A consulting actuary with 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. The SAO indicated that PLU's annuity contract reserves as computed under RCW 48.38.020(3)(a) and (b) should be \$2,633,445 as of December 31, 2007. This amount, plus the 10% surplus required by RCW 48.38.020(3)(c), was not properly reported as annuities payable in PLU'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 PLU as required by RCW 48.38.020(2). The market value of the annuity investments as of December 31, 2007 was \$4,122,154 and consisted of cash, bonds, and equity funds. The annuity investments were properly reported in the financial statements at market value.

SUBSEQUENT EVENTS

There were no material events which impacted PLU's CGA operations 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 PLU:

PACIFIC LUTHERAN UNIVERSITY
STATEMENT OF FINANCIAL POSITION
MAY 31, 2007

	<u>Balance per Annual Report</u>	<u>Examination Adjustments</u>	<u>Balance Per Examination</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$11,154,462	\$0	\$11,154,462
Investments	9,094,663		\$9,094,663
CGA Investments	4,691,073		4,691,073
Other assets	208,054,785		208,054,785
Total Assets	<u>\$232,994,983</u>	<u>\$0</u>	<u>\$232,994,983</u>
<u>LIABILITIES</u>			
Accounts Payable & Accrued Expenses	\$4,210,403	\$0	\$4,210,403
CGA reserves	2,237,677		2,237,677
Other liabilities	85,407,937		85,407,937
Total Liabilities	<u>91,856,017</u>	<u>0</u>	<u>91,856,017</u>
<u>NET ASSETS</u>			
Unrestricted	70,803,424		70,803,424
Temporarily restricted	11,213,168		11,213,168
Permanently restricted	59,122,374		59,122,374
Total Net Assets	<u>141,138,966</u>	<u>0</u>	<u>141,138,966</u>
Total Liabilities and Net Assets	<u>\$232,994,983</u>	<u>\$0</u>	<u>\$232,994,983</u>

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
For Fiscal Year Ended May 31, 2007

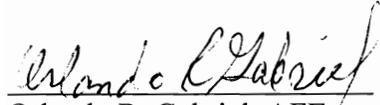
	<u>Balance Per Annual Report</u>	<u>Examination Adjustments</u>	<u>Balance Per Examination</u>
Total revenues	\$100,351,304	\$0	\$100,351,304
Total expenses	(87,668,029)		(87,668,029)
Increase (decrease) in net assets	12,683,275	0	12,683,275
Net assets at beginning of year	128,455,691		128,455,691
Net assets at end of year	<u>\$141,138,966</u>	<u>\$0</u>	<u>\$141,138,966</u>

ACKNOWLEDGMENT

Acknowledgment is hereby made of the cooperation extended to the examiners by the officers and employees of PLU 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, Life and Disability Field Supervising Examiner; and Kathy Hicks, CPA, Financial 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 }
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COUNTY OF KING } **ss**
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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 PLU'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 10th day of September, 2009.



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

