

STATE OF WASHINGTON
OFFICE OF THE INSURANCE COMMISSIONER



FINANCIAL EXAMINATION
OF THE CHARITABLE GIFT ANNUITY BUSINESS
OF
UNIVERSITY OF PUGET SOUND
TACOMA, WASHINGTON

June 30, 2011

Order No. 12-142
University of Puget Sound
Exhibit A

SALUTATION

Seattle, Washington
May 17, 2012

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:

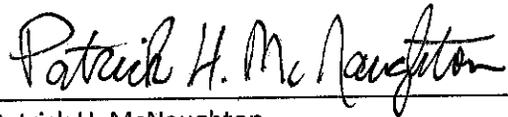
In accordance with your instructions and in compliance with the statutory requirements of Chapter 48.38 RCW, Charitable Gift Annuity Business, an examination was made of the corporate matters and financial records pertaining to the charitable gift annuity (CGA) business of

University of Puget Sound
of
Tacoma, Washington

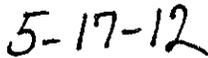
hereinafter referred to as "the University" at its office, 1500 North Warner, Tacoma, Washington 98416. This report of examination is respectfully submitted showing the financial condition and related corporate matters of the CGA business of the University as of June 30, 2011.

CHIEF EXAMINER'S AFFIDAVIT

I hereby certify I have read the attached Report of the Financial Examination of the Charitable Gift Annuity Business of the University of Puget Sound of Tacoma, Washington. This report shows the financial condition of the CGA business and related corporate matters of the University of Puget Sound as of June 30, 2011.



Patrick H. McNaughton
Chief Examiner



Date

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SCOPE OF THE EXAMINATION

The examination covers the period July 1, 2006 through June 30, 2011. The scope of our examination focused only on the transactions and operations of the CGA business. The University'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, the University's certified public accountant's (CPA's) audit of the June 30, 2011 consolidated financial statements was reviewed and utilized 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 the University by examiners from the state of Washington.

The examiners reviewed the University's CGA Annual Reports as part of the statutory examination. This review was performed to determine if the University completed the Annual Reports in accordance with the Annual Report Instructions published by the OIC and to verify that the University's accounts and records were prepared and maintained in accordance with RCW 48.38.010(10)(a).

INSTRUCTIONS

1. Reporting Requirements

The filing of the OIC Annual Reports by the University did not conform to RCW 48.38.010(10)(a) and the OIC Annual Report Instructions during the five-year examination period. Balances reported included the accounts of the University consolidated with its affiliates, CVI GVF Holdings 13 Ltd. and Rainier Heights Holdings, LLC. The University is the holder of the certificate of exemption. The OIC Annual Report Instructions require that the annual report must be submitted only for the organization holding the certificate of exemption to issue annuities. Examination adjustments were made to remove account balances belonging to the University's affiliates.

Adjustments to the 2011 Annual Report resulted in a decrease in investments of \$9.2 million; a decrease in other assets of \$389 thousand; a decrease in temporarily restricted net assets of \$378 thousand; a decrease in permanently restricted net assets of \$9.2 million; a decrease in revenues of \$1.5 million; an increase in expenses of \$31 thousand; and a decrease in other changes in net assets of \$8 million. (See Note 1 to the Financial Statements.)

The University is instructed to comply with RCW 48.38.010(10)(a) and the OIC Annual Report Instructions by only including the certificate of exemption holder in the annual report submitted to the OIC.

COMMENTS AND RECOMMENDATIONS

Annuity Contracts

The University used different methods for the calculation of the reasonable value of benefits reported on annuity contracts. We noted that the reasonable value of the benefits on two of the 38 in-force contracts was calculated using the expected return to the donors while the present value of the annuity contract payment was used for the rest of the 36 in-force CGA contracts.

It is recommended that the University use consistent methodology to calculate the reasonable value of benefits for CGA contracts.

ORGANIZATION PROFILE

History

The University is an independent, predominantly residential, undergraduate liberal arts college with selected graduate programs. The University was established in 1888 by what is now the United Methodist Church. Today, the University is governed by a wholly independent Board of Trustees.

Territory and Plan of Operation

The University was granted a Certificate of Exemption No. 13 to conduct a CGA business in the state of Washington by the OIC on August 9, 1983. The University had 38 in-force annuity contracts as of June 30, 2011 of which 33 were issued in the state of Washington.

Total Net Assets

The University's total net assets as of June 30, 2011 were \$390.9 million. This amount included unrestricted net assets of \$208.4 million. The minimum unrestricted net assets requirement was satisfied pursuant to RCW 48.38.010(6).

Growth

The growth of the University for the past five years is reflected in the following schedules. The June 30, 2011 balances were adjusted for examination findings. All information for the other four fiscal years ended June 30, 2010, were compiled from the University's audited consolidated financial statements.

Schedule 1 – Statement of Financial Position (In Thousands)

Year	Assets	Liabilities	Total Net Assets	Total Net Assets Allocated Into:		
				Unrestricted	Temporarily Restricted	Permanently Restricted
*2011	\$500,279	\$109,313	\$390,966	\$208,376	\$90,186	\$92,404
2010	474,708	111,728	362,980	192,845	71,373	98,762
2009	445,790	111,589	334,201	182,194	58,052	93,955
2008	495,267	107,984	387,283	271,356	27,214	88,713
2007	492,253	108,511	383,742	286,447	19,929	77,366

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

	<u>*2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Total revenues	\$139,117	\$129,629	\$46,913	\$97,938	\$133,009
Total expenses	<u>103,105</u>	<u>100,850</u>	<u>99,995</u>	<u>94,397</u>	<u>87,405</u>
Increase (decrease) in net assets	36,012	28,779	(53,082)	3,541	45,604
Other changes in net assets	(8,026)				
Net assets at beginning of year	<u>362,980</u>	<u>334,201</u>	<u>387,283</u>	<u>383,742</u>	<u>338,138</u>
Net assets at end of year	<u>\$390,966</u>	<u>\$362,980</u>	<u>\$334,201</u>	<u>\$387,283</u>	<u>\$383,742</u>

Number of gift annuity contracts at end of year	38	40	43	42	41
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*The 2011 balances include examination adjustments. (See Notes 1 and 2 to the Financial Statements.)

AFFILIATED ORGANIZATIONS

The University has two wholly-owned subsidiaries, CVI GVF Holdings 13 Ltd. and Rainier Heights Holdings, LLC. CVI GVF Holdings 13 Ltd. is a foreign corporation for tax purposes. Its only asset is an endowment investment in a limited partnership. Rainier Heights Holdings LLC accepts, manages, and liquidates real estate held by the University.

MANAGEMENT AND CONTROL

Management

The business, operations, and affairs of the University are managed and controlled by its Board of Trustees (BOT) of no less than 15 or more than 39 voting members. The President, who is a member of the BOT, is the chief executive officer of the University. The President exercises the executive powers pertaining to the Office of President, subject, however, to the control of the BOT and its Executive Committee.

Board of Trustees

The following individuals were trustees as of June 30, 2011:

Richard M. Brooks, Chair	Janeen Solie McAninch
Robert C. Pohlada, Vice Chair	William D. McCormick
George E. Matelich, Treasurer	Kenneth C. McGill
Ronald R. Thomas, President	William C. Nelson
Carl G. Behnke	Jill T. Nishi
William M. Canfield	Deanna W. Oppenheimer, Immediate Past Chair
Mitzi W. Carletti	Wade H. Perrow
Marvin H. Caruthers	John C. Pierce
Michael J. Corliss	Allan D. Sapp
Hollis S. Dillon	Robert T. Shishido
Kathleen A. Duncan	Gillian Neukom Toledo

Randolph C. Foster
Frederick W. Grimm
Matthew M. Kelleher
Thomas E. Leavitt
Gwendolyn H. Lillis
Eric Lindgren

Barbara S. Walker
Guy N. Watanabe
William T. Weyerhaeuser
John A. Whalley
Kenneth W. Willman

Officers

The following individuals were officers as of June 30, 2011:

Ronald R. Thomas, President
George E. Matelich, Treasurer
Mary Elizabeth Collins, Executive Assistant to the President and Secretary of the Corporation
Kristine M. Bartanen, Academic Vice President & Dean of the University
David R. Beers, Vice President for University Relations
Katherine W. Davis, Associate Vice President for Treasury
Janet S. Hallman, Associate Vice President for Accounting and Budget Services and Controller
George H. Mills, Jr., Vice President for Enrollment
Sherry B. Mondou, Vice President for Finance and Administration
J. Michael Segawa, Vice President for Student Affairs and Dean of Students

Tax Status

The University is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code.

Conflict of Interest

The University has a conflict of interest policy which is included and defined in its Corporate Bylaws. Any possible conflict of interest on the part of any trustee should be disclosed to the other trustees and made a matter of record through an annual procedure established by the BOT. Based on our review of the submitted disclosure statements, no exceptions were noted.

ORGANIZATION RECORDS

The BOT is required to meet annually but currently meets at least three times a year to discuss any pertinent business to the University. The schedule of regular meetings is determined yearly and is subject to change. BOT meeting minutes documented the approval of the University's transactions and events.

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. The SAO indicated that the University's annuity contract reserves as computed under RCW 48.38.020(3)(a) and (b) should be approximately \$504,496 for 38 in-force annuity contracts as of June 30, 2011. This amount was properly reported in the University's 2011 Annual Report.

ANNUITY ASSETS CUSTODIAL FUNCTION

The separate reserve fund assets were held legally and physically segregated from the other assets of the University as required by RCW 48.38.020(2)(a). The market values of the annuity investments as of June 30, 2011 were approximately \$882,481 and consisted of money market and mutual funds. The annuity investments were properly reported at market value in the University's financial statements.

SUBSEQUENT EVENTS

There were no additional material events which impacted the University 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 unconsolidated financial condition of the University of Puget Sound as of June 30, 2011:

Statement of Financial Position

Statement of Activities and Changes in Net Assets

University of Puget Sound
Statement of Financial Position
June 30, 2011
(In Thousands)

Cash and cash equivalents	\$13,468	\$11,045	\$24,513	2
Investments	279,840	(18,602)	261,238	1, 2
CGA investments	884		884	
Assets held under split interest agreements	5,449	57	5,506	2
Other assets	208,246	(108)	208,138	1, 2
Total Assets	<u>\$507,887</u>	<u>(\$7,608)</u>	<u>\$500,279</u>	
 Liabilities and Net Assets				
Accounts payable	\$17,482	\$218	\$17,700	1, 2
Liabilities under split interest	1,877	226	2,103	2
CGA liabilities	473		473	
Other liabilities	90,993	(1,956)	89,037	1, 2
Total Liabilities	<u>110,825</u>	<u>(1,512)</u>	<u>109,313</u>	
 Net Assets				
Unrestricted	200,083	8,293	208,376	2
Temporarily restricted	79,885	10,301	90,186	1, 2
Permanently restricted	117,094	(24,690)	92,404	1, 2
Total Net Assets	<u>397,062</u>	<u>(6,096)</u>	<u>390,966</u>	
Total Liabilities and Net Assets	<u>\$507,887</u>	<u>(\$7,608)</u>	<u>\$500,279</u>	

University of Puget Sound
Statement of Activities and Changes in Net Assets
For the Year Ended June 30, 2011
(In Thousands)

	Balance Per Annual Report	Examination Adjustments	Balance Per Examination	Notes
Total revenues:	\$181,710	(\$42,593)	\$139,117	1, 2
Total expenses:	147,628	(44,523)	103,105	1, 2
Increase (decrease) in net assets	34,082	1,930	36,012	
Other changes in net assets		(8,026)	(8,026)	1
Net assets at beginning of year	362,980		362,980	
Net assets at end of year	\$397,062	(\$6,096)	\$390,966	

NOTES TO THE FINANCIAL STATEMENTS

Examination adjustments to the University's financial statements are as follows:

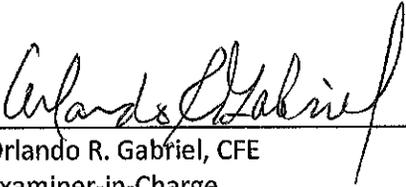
- Assets, liabilities, revenues, expenses, and net assets of the affiliates were removed in order to present the University's financial statements in accordance with the OIC Annual Report Instructions. Balances reported to the OIC included the accounts of the University consolidated with its affiliates, CVI GVF Holdings 13 Ltd. and Rainier Heights Holdings, LLC. The examination adjustments resulted in a decrease in investments of \$9.2 million; a decrease in other assets of \$389 thousand; a decrease in temporarily restricted net assets of \$378 thousand; a decrease in permanently restricted net assets of \$9.2 million; a decrease in revenues of \$1.5 million; an increase in expenses of \$31 thousand; and a decrease in other changes in net assets of \$8 million. (See Instruction 1.)
- To reflect generally accepted accounting principles adjustments from the unaudited estimated financial information that was permitted to be reported to the OIC prior to completion of the audited financial statements. The examination adjustments resulted in an increase in cash and cash equivalents of \$11 million; a decrease in investments of \$9.5 million; an increase in assets held under split interest agreements of \$57 thousand; an increase in other assets of \$281 thousand; an increase in accounts payable of \$219 thousand; an increase in liabilities under split interest agreements of \$226 thousand; a decrease in other liabilities of \$2 million; an increase in unrestricted net assets of \$8.3 million; an increase in temporarily restricted net assets of \$10.7 million; a decrease in permanently restricted net assets of \$15.5 million; a decrease in revenues of \$41.1 million; and a decrease in expenses of \$44.5 million.

ACKNOWLEDGMENT

Acknowledgment is hereby made of the cooperation extended to the examiners by the officers and employees of the University of Puget Sound 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 Cynthia Clark, CPA, Financial Examiner; all from the Washington State Office of the Insurance Commissioner, participated in the examination and in the preparation of this report.

Respectfully submitted,

A handwritten signature in cursive script, reading "Orlando R. Gabriel", is written over a horizontal line.

Orlando R. Gabriel, CFE
Examiner-in-Charge
State of Washington

