

STATE OF WASHINGTON  
OFFICE OF THE INSURANCE COMMISSIONER



FINANCIAL EXAMINATION  
OF THE CHARITABLE GIFT ANNUITY BUSINESS  
OF  
WASHINGTON STATE UNIVERSITY FOUNDATION  
PULLMAN, WASHINGTON

JUNE 30, 2011

Order No. 12-192  
Washington State University Foundation  
Exhibit A

**SALUTATION**

Seattle, Washington  
June 21, 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

**Washington State University Foundation**  
of  
Pullman, Washington

hereinafter referred to as "WSUF" at its office at 255 East Main Street, Suite 301, Pullman, Washington 99163. This report of examination is respectfully submitted showing the financial condition and related corporate matters of the CGA business of WSUF 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 Washington State University Foundation of Pullman, Washington. This report shows the financial condition of the CGA business and related corporate matters of the Washington State University Foundation as of June 30, 2011.



Patrick H. McNaughton  
Chief Examiner

6-21-2012

Date

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## SCOPE OF THE EXAMINATION

The examination covers the period July 1, 2007 through June 30, 2011. The scope of our examination focused only on the transactions and operations of the CGA business. WSUF'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, WSUF's certified public accountant's (CPA's) work papers were 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 Pullman office of WSUF by examiners from the state of Washington.

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

## INSTRUCTIONS

NONE

## COMMENTS AND RECOMMENDATIONS

### **1. Adequate Documentation for Closed Annuity Contracts**

WSUF did not obtain full documentation to sufficiently support the transfer of the remaining annuity fund of some deceased annuitants.

**It is recommended that WSUF obtain and retain full and adequate documentation of an annuitant's death. This includes a certified copy of the death certificate, and any other relevant data gathered by or furnished to WSUF.**

## ORGANIZATION PROFILE

### **History**

WSUF is a Washington nonprofit charitable organization established in 1979 to raise and manage private support for the benefit of Washington State University (WSU). WSUF is authorized to promote, accept, and maximize private support for programs, initiatives, and properties of WSU and its regional campuses. It also manages and invests the assets entrusted to it by WSU and its alumni, friends, and donors.

### Territory and Plan of Operation

On July 17, 1998, the OIC granted WSUF Certificate of Exemption No. 119 to conduct a CGA business in the state of Washington. There were 99 in-force annuity contracts as of June 30, 2011; 80 in the state of Washington.

### Total Net Assets

WSUF's total net assets as of June 30, 2011 were \$320,980,675. This amount included unrestricted net assets of \$1,573,422. The minimum unrestricted net assets requirement was satisfied pursuant to RCW 48.38.010(6).

### Growth

The growth of WSUF for the past five years is reflected in the following schedules.

### Schedule 1 – Statement of Financial Position

Year	Assets	Liabilities	Total Net Assets	Total Net Assets Allocated Into:		
				Unrestricted	Temporarily Restricted	Permanently Restricted
2011	\$357,547,472	\$36,566,797	\$320,980,675	\$1,573,422	\$35,827,104	\$283,580,149
2010	306,414,005	33,978,796	272,435,209	1,269,688	7,583,147	263,582,374
2009	287,574,646	31,050,923	256,523,723	1,464,772	5,803,966	249,254,985
2008	356,453,019	44,923,149	311,529,870	(89,180)	72,474,467	239,144,583
2007	353,298,945	45,222,828	308,076,117	1,843,907	82,855,128	223,377,082

### Schedule 2 – Statement of Activities and Changes in Net Assets

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Total revenues	\$101,911,086	\$60,791,819	(\$4,602,047)	\$56,821,786	\$101,938,049
Total expenses	53,365,620	44,880,333	50,404,100	53,368,033	43,216,852
Increase (decrease) in net assets	48,545,466	15,911,486	(55,006,147)	3,453,753	58,721,197
Net assets at beginning of year	272,435,209	256,523,723	311,529,870	308,076,117	249,354,920
Net assets at end of year	<u>\$320,980,675</u>	<u>\$272,435,209</u>	<u>\$256,523,723</u>	<u>\$311,529,870</u>	<u>\$308,076,117</u>

### AFFILIATED ORGANIZATIONS

WSUF has one affiliated entity, Cougar Property Holdings (CPH). CPH was established by WSUF early in 2000 to hold and manage property for the exclusive benefit of WSUF and WSU. CPH's total net assets as of June 30, 2011 were \$374,486.

## MANAGEMENT AND CONTROL

### **Management**

The management and administration of WSUF is the responsibility of its Board of Governors (BOG). As of June 30, 2011, the BOG consisted of no less than 30 members.

### **Board of Governors**

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

Tony Rojas	G. Thomas Hargrove
Gary Scheidmiller	Doyle Jacklin
Dan Harmon	James King
Rick Doane	Rhonda Kromm
Douglas Allred	Christopher Markel
Craig Angelo	Joseph Mendelson
Leo Bustad	Gina Meyers
Scott Carson	Donald Parachini
Larry Culver	Ann Redmond
Charles Eggert	Judy Rogers
Robert Felton	Lisa Thompson
Elson Floyd	Mikal Thomsen
Kathi Goertzen	Eugene Voiland
William Graber	D.J. Wilson
Douglas Grim	Howard Wright

### **Officers**

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

Tony Rojas, President  
Gary Scheidmiller, Vice President  
Dan Harmon, Treasurer  
Rick Doane, Secretary  
Mike Connell, Associate Vice President, Gift Planning  
Kevin Harvey, Associate Vice President, Finance  
Trevor Durham, Director of Foundation Communications & Marketing  
Cheryl Harrelson, Associate Vice President, Annual & Special Gifts, Stewardship, and Special Events  
Mark Hermanson, Associate Vice President, Constituency Development Programs  
Gill Picciotto, Associate Vice President, Leadership Gifts

### **Tax Status**

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

### **Conflict of Interest**

WSUF has a formal conflict of interest policy. The policy has procedures for reviewing the Annual Conflict of Interest Questionnaire, which the BOG and officers are required to submit for any activities or participation on the part of the BOG and officers that could possibly be interpreted as a conflict of interest. The policy also has procedures for resolving any disclosed conflicts of interest. Based on our review of the submitted 2011 disclosure statements, no exceptions were noted.

### **ORGANIZATION RECORDS**

WSUF's bylaws require a minimum of four BOG meetings per year. The BOG approves the audited financial statements and IRS Form 990. 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 that WSUF's annuity contract reserves as computed under RCW 48.38.020(3)(a) and (b) should be \$3,800,817 for the 99 in-force annuity contracts as of June 30, 2011. This amount was properly reported in WSUF's financial statements.

### **ANNUITY ASSETS CUSTODIAL FUNCTION**

The separate reserve fund assets were held legally and physically segregated from the other assets of WSUF as required by RCW 48.38.020(2)(a). The market values of the annuity investments as of June 30, 2011 were \$8,172,228 and consisted of cash, and bond and equity mutual funds. The annuity investments were properly reported in the financial statements at market value.

### **SUBSEQUENT EVENTS**

There were no material events which impacted 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 statements show the financial condition of the Washington State University Foundation as of June 30, 2011:

Statement of Financial Position  
Statement of Activities and Changes in Net Assets

**Washington State University Foundation**  
**Statement of Financial Position**  
**June 30, 2011**

	<u>Balance Per Annual Report</u>	<u>Examination Adjustments</u>	<u>Balance Per Examination</u>
<b>Assets</b>			
Cash and Cash Equivalents	\$586,109	\$0	\$586,109
Due from WSU	757,542		757,542
Other Receivables	126,593		126,593
Pledges Receivable	13,944,192		13,944,192
Endowment Investment Securities (Including Assets Held in Endowments for WSU of \$18,646,007)	286,713,590		286,713,590
Notes Receivable	259,869		259,869
Furniture, Fixtures, and Equipment (Net of Accumulated Depreciation of \$834,339)	545,163		545,163
Land and Real Estate	2,137,500		2,137,500
Assets Held in Charitable Trusts	33,625,749		33,625,749
Contributions Receivable From Charitable Trusts	7,151,535		7,151,535
Beneficial Interest in Perpetual Trusts	11,699,630		11,699,630
<b>Total Assets</b>	<b><u>\$357,547,472</u></b>	<b><u>\$0</u></b>	<b><u>\$357,547,472</u></b>
<b>Liabilities and Net Assets</b>			
Accounts Payable and Accrued Liabilities	\$425,468	\$0	\$425,468
Annuities Payable	14,055,102		14,055,102
Remainder Interest Payable	3,038,630		3,038,630
Assets Held for Other Organizations	401,590		401,590
Assets Held in Endowments for WSU	18,646,007		18,646,007
<b>Total Liabilities</b>	<b><u>36,566,797</u></b>	<b><u>0</u></b>	<b><u>36,566,797</u></b>
<b>Net Assets</b>			
Unrestricted	1,573,422	0	1,573,422
Temporarily Restricted	35,827,104		35,827,104
Permanently Restricted	283,580,149		283,580,149
<b>Total Net Assets</b>	<b><u>320,980,675</u></b>	<b><u>0</u></b>	<b><u>320,980,675</u></b>
<b>Total Liabilities and Net Assets</b>	<b><u>\$357,547,472</u></b>	<b><u>\$0</u></b>	<b><u>\$357,547,472</u></b>

**Washington State University Foundation  
Statement of Activities and Changes in Net Assets  
For the Fiscal Year Ended June 30, 2011**

	<u>Balance Per Annual Report</u>	<u>Examination Adjustments</u>	<u>Balance Per Examination</u>
Total revenues	\$101,911,086	\$0	\$101,911,086
Total expenses	<u>53,365,620</u>		<u>53,365,620</u>
Increase (decrease) in net assets	48,545,466	0	48,545,466
Net assets at beginning of year	<u>272,435,209</u>		<u>272,435,209</u>
<b>Net assets at end of year</b>	<b><u>\$320,980,675</u></b>	<b><u>\$0</u></b>	<b><u>\$320,980,675</u></b>

**ACKNOWLEDGMENT**

Acknowledgment is hereby made of the cooperation extended to the examiners by the officers and employees of the Washington State University Foundation 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 Orlando R. Gabriel, CFE, 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 that reads "Albert Karau, Jr." is written over a solid horizontal line.

Albert Karau, Jr., CPA, CFE, FLMI  
Examiner-in-Charge  
State of Washington

