

STATE OF WASHINGTON  
OFFICE OF THE INSURANCE COMMISSIONER



FINANCIAL EXAMINATION  
OF THE CHARITABLE GIFT ANNUITY BUSINESS  
OF  
NORTHWEST UNIVERSITY  
KIRKLAND, WASHINGTON

May 31, 2011

Order 12-168  
Northwest University  
Exhibit A

**SALUTATION**

Seattle, Washington  
June 4, 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:

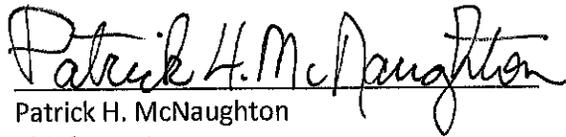
In accordance with your instructions and in compliance with the statutory requirements of Chapter 48.38 RCW, Charitable Gift Annuity Business, an examination was made of the corporate matters and financial records pertaining to the charitable gift annuity (CGA) business of

**Northwest University**  
of  
Kirkland, Washington

hereinafter referred to as "NWU" at its office, 5520-108<sup>th</sup> Avenue Northeast, Kirkland, Washington 98033. This report of examination is respectfully submitted showing the financial condition and related corporate matters of the CGA business of NWU as of May 31, 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 Northwest University of Kirkland, Washington. This report shows the financial condition of the CGA business and related corporate matters of the Northwest University as of May 31, 2011.



Patrick H. McNaughton  
Chief Examiner

6-4-12

Date

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## SCOPE OF THE EXAMINATION

The examination covers the period June 1, 2006 through May 31, 2011. The scope of our examination focused only on the transactions and operations of the CGA business. NWU'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, NWU's certified public accountant's (CPA's) audit of the May 31, 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 Kirkland office of NWU by examiners from the state of Washington.

The examiners reviewed NWU's CGA Annual Reports as part of the statutory examination. This review was performed to determine if NWU completed the Annual Reports in accordance with the Annual Report Instructions published by the OIC and to verify that NWU'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 NWU did not conform to RCW 48.38.010(10)(a) and the OIC Annual Report Instructions.

- a. NWU was unable to reconcile the unrestricted net assets, temporarily restricted net assets, permanently restricted net assets, total net assets, income, expenses, and net loss reported in the OIC Annual Report to its internal accounts and records. (See Note 1 to the Financial Statements.)
- b. Balances reported included the accounts of NWU consolidated with its affiliate, Northwest University Foundation (the Foundation). NWU 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 NWU's affiliate, thereby, reflecting only the financial statements of NWU in accordance with the OIC Annual Report Instructions.

Adjustments to the 2011 Annual Report resulted in a decrease in cash and cash equivalents of \$5,817,255; a decrease in investments of \$1,927,461; a decrease in assets held in charitable remainder of \$4,379,280; a decrease in other assets of \$1,254,032; a decrease in charitable remainder trust liabilities of \$2,655,149; a decrease in other liabilities of \$2,947,842; a decrease in unrestricted net assets of \$2,678,869; a decrease in temporarily restricted net assets of \$1,239,329; a decrease in permanently restricted net assets of \$3,856,839; a decrease in revenues of \$1,320,134; a decrease in expenses of \$183,313; an increase in other changes in net assets of

\$355,000; and a decrease in net assets at beginning of year of \$6,993,216. (See Note 2 to the Financial Statements.)

**NWU 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 and to maintain accurate accounts and records to support the amounts reported to the OIC.**

### **COMMENTS AND RECOMMENDATIONS**

#### **1. Asset Custodial Agreement**

NWU properly maintained two brokerage accounts for its CGA assets in accordance with RCW 48.38.020(2). However, NWU did not have a custodial agreement with one of the two brokers, AG Financial Solutions.

**It is recommended that NWU maintain a custodial agreement with AG Financial Solutions for the NWU annuity fund investments. The agreement should be reviewed and approved by the Board of Directors on an annual basis.**

### **ORGANIZATION PROFILE**

#### **History**

NWU was organized and incorporated on July 18, 1952. NWU is under the control of the Assemblies of God Church and is a Christian, co-educational institution offering masters and undergraduate degrees.

#### **Territory and Plan of Operation**

NWU was granted Certificate of Exemption No. 1 to conduct a CGA business in the state of Washington by the OIC on October 10, 1979. NWU had ten in-force annuity contracts issued as of May 31, 2011.

#### **Total Net Assets**

NWU's total net assets as of May 31, 2011 were \$20,214,786. This amount included unrestricted net assets of \$20,214,661. The minimum unrestricted net assets requirement was satisfied pursuant to RCW 48.38.010(6).

#### **Growth**

The growth of NWU for the past five years is reflected in the following schedules. The May 31, 2011 balances were adjusted for examination findings. All information for the other four fiscal years ended May 31, 2010, were compiled from NWU's audited consolidated financial statements.

### Schedule 1 – Statement of Financial Position

<u>Year</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Total Net Assets</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
*2011	\$62,653,303	\$42,438,517	\$20,214,786	\$20,214,661	\$125	\$0
2010	73,929,379	47,138,547	26,790,832	22,132,528	890,798	3,767,506
2009	73,409,554	46,019,537	27,390,017	22,843,878	820,803	3,725,336
2008	71,670,669	45,331,438	26,339,231	21,921,612	1,489,100	2,928,519
2007	62,746,819	37,208,661	25,538,158	21,088,554	1,863,753	2,585,851

### 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	\$26,718,686	\$24,380,248	\$25,507,021	\$23,830,271	\$24,919,564
Total expenses	<u>26,301,516</u>	<u>24,357,916</u>	<u>24,456,235</u>	<u>23,029,197</u>	<u>20,452,019</u>
Increase (decrease) in net assets	417,170	22,332	1,050,786	801,074	4,467,545
Other changes in net assets	0	(621,517)	0	0	0
Net assets at beginning of year	<u>19,797,616</u>	<u>27,390,017</u>	<u>26,339,231</u>	<u>25,538,157</u>	<u>21,070,613</u>
Net assets at end of year	<u>\$20,214,786</u>	<u>\$26,790,832</u>	<u>\$27,390,017</u>	<u>\$26,339,231</u>	<u>\$25,538,158</u>

Number of gift annuity contracts  
at end of year

10                      10                      10                      13                      12

\*The 2011 balances include examination adjustments. (See Notes 1 and 2 to the Financial Statements.)

### AFFILIATED ORGANIZATIONS

Northwest University Foundation (the Foundation) is legally separate from, but under the direct control of NWU. The Foundation was established on June 1, 1992 to secure, receive, and administer gifts of money, real estate, and tangible and intangible property on behalf of NWU.

### MANAGEMENT AND CONTROL

#### **Management**

The Board of Directors (BOD) retains ultimate responsibility for the management of NWU and delegates to the President the administrative oversight of NWU.

#### **Board of Directors**

The following individuals were directors as of May 31, 2011:

Leslie Welk, Chairperson	Gary Morton
Joseph Castleberry	Byron Perkins
Dave Cole	Barbara Petty
Sallee Conn	Jeffery Portmann
Don Detrick	Boyd's Power

Art Dickhoff  
Chris Edwardson  
Robert Fox  
John Fox  
Doyle Fulkes  
Prince Guneratnam  
James Hayford  
Gary King  
Bob Lebeda

George Reece  
David Rodli  
Eugene Smith  
Philippe Vallerand  
Mark Veristain  
Alan Warneke  
Bill Welch  
William Wilson  
Dan York

#### **Officers**

The following individuals were officers as of May 31, 2011:

Joseph Castleberry, President  
Gary King, Treasurer  
Sallee Conn, Secretary

#### **Tax Status**

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

#### **Conflict of Interest**

NWU has a conflict of interest policy which requires submission of a conflict of interest statement annually by each member of the BOD, officers and employees for management review. Based on our review of the submitted 2011 disclosure statements, no exceptions were noted.

### **ORGANIZATION RECORDS**

The BOD meets at least two times a year to discuss any pertinent business to NWU. BOD meeting minutes documented the approval of NWU'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 NWU's annuity contract reserves as computed under RCW 48.38.020(3)(a) and (b) should be \$318,661 for ten in-force annuity contracts as of May 31, 2011. This amount was properly reported in NWU's financial statements.

### **ANNUITY ASSETS CUSTODIAL FUNCTION**

The separate reserve fund assets were held legally and physically segregated from the other assets of NWU as required by RCW 48.38.020(2)(a). The market values of the annuity investments as of May 31, 2011 were \$493,864 and consisted of cash and equivalents and mutual funds. The annuity investments were properly reported in the 2011 Annual Report at market value.

### **SUBSEQUENT EVENTS**

There were no additional material events which impacted NWU 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 financial condition of the Northwest University as of May 31, 2011:

Statement of Financial Position

Statement of Activities and Changes in Net Assets

**Northwest University**  
**Statement of Financial Position**  
**May 31, 2011**

	<u>Balance Per Annual Report</u>	<u>Examination Adjustments</u>	<u>Balance Per Examination</u>	<u>Notes</u>
<b>Assets</b>				
Cash and cash equivalents	\$7,215,266	(\$5,817,255)	\$1,398,011	2
Investments	9,372,681	(1,927,461)	7,445,220	2
CGA investments	493,864		493,864	
Assets held in charitable remainder	4,379,280	(4,379,280)	0	2
Other assets	53,247,481	68,727	53,316,208	1, 2
<b>Total Assets</b>	<b><u>\$74,708,572</u></b>	<b><u>(\$12,055,269)</u></b>	<b><u>\$62,653,303</u></b>	
<b>Liabilities and Net Assets</b>				
Charitable remainder trust	\$2,655,149	(\$2,655,149)	\$0	2
CGA liabilities	318,661		318,661	
Other liabilities	45,067,698	(2,947,842)	42,119,856	2
<b>Total Liabilities</b>	<b><u>48,041,508</u></b>	<b><u>(5,602,991)</u></b>	<b><u>42,438,517</u></b>	
<b>Net Assets</b>				
Unrestricted	21,711,510	(1,496,849)	20,214,661	1, 2
Temporarily restricted	1,112,197	(1,112,072)	125	1, 2
Permanently restricted	3,843,357	(3,843,357)	0	1, 2
<b>Total Net Assets</b>	<b><u>26,667,064</u></b>	<b><u>(6,452,278)</u></b>	<b><u>20,214,786</u></b>	
<b>Total Liabilities and Net Assets</b>	<b><u>\$74,708,572</u></b>	<b><u>(\$12,055,269)</u></b>	<b><u>\$62,653,303</u></b>	

**Northwest University**  
**Statement of Activities and Changes in Net Assets**  
**For the Year Ended May 31, 2011**

	<u>Balance Per Annual Report</u>	<u>Examination Adjustments</u>	<u>Balance Per Examination</u>	<u>Notes</u>
Total revenues	\$26,181,293	\$537,393	\$26,718,686	1, 2
Total expenses	<u>26,305,061</u>	<u>(3,545)</u>	<u>26,301,516</u>	1, 2
Increase (decrease) in net assets	(123,768)	540,938	417,170	
Net assets at beginning of year	<u>26,790,832</u>	<u>(6,993,216)</u>	<u>19,797,616</u>	2
<b>Net assets at end of year</b>	<b><u>\$26,667,064</u></b>	<b><u>(\$6,452,278)</u></b>	<b><u>\$20,214,786</u></b>	

**NOTES TO THE FINANCIAL STATEMENTS**

Examination adjustments to NWU's financial statements are as follows:

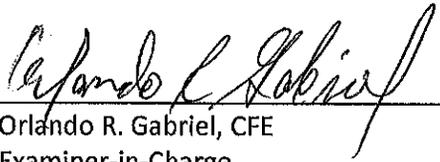
1. Annual report errors. The examination adjustments were made to bring the OIC Annual Report in agreement with NWU's consolidated financial statements. The adjustments resulted in an increase in other assets of \$1,322,759; an increase in unrestricted net assets of \$1,182,020; an increase in temporarily restricted net assets of \$127,257; an increase in permanently restricted net assets of \$13,482; an increase in other changes in net assets of \$1,322,759; an increase in revenues of \$1,857,527; and an increase in expenses of \$179,768. (See Instruction 1a.)
2. Assets, liabilities, revenues, expenses, and net assets of NWU's affiliate were removed in order to present NWU's financial statements in accordance with the OIC Annual Report Instructions. Balances reported included the accounts of NWU consolidated with its affiliate, Northwest University Foundation. The examination adjustments resulted in a decrease in cash and cash equivalents of \$5,817,255; a decrease in investments of \$1,927,461; a decrease in assets held in charitable remainder of \$4,379,280; a decrease in other assets of \$1,254,032; a decrease in charitable remainder trust liabilities of \$2,655,149; a decrease in other liabilities of \$2,947,842; a decrease in unrestricted net assets of \$2,678,869; a decrease in temporarily restricted net assets of \$1,239,329; a decrease in permanently restricted net assets of \$3,856,839; a decrease in revenues of \$1,320,134; a decrease in expenses of \$183,313; an increase in other changes in net assets of \$355,000; and a decrease in net assets at beginning of year of \$6,993,216. (See Instruction 1b.)

**ACKNOWLEDGMENT**

Acknowledgment is hereby made of the cooperation extended to the examiners by the officers and employees of the Northwest University 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 Richard Bologna, 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,



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

