

STATE OF WASHINGTON
OFFICE OF THE INSURANCE COMMISSIONER



FINANCIAL EXAMINATION
OF THE CHARITABLE GIFT ANNUITY BUSINESS
OF
SEATTLE PACIFIC UNIVERSITY
SEATTLE, WASHINGTON

June 30, 2011

Order 12-169
Seattle Pacific 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:

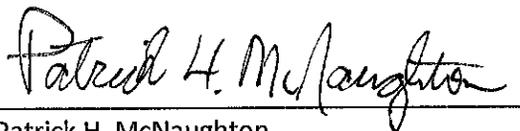
In accordance with your instructions and in compliance with the statutory requirements of Chapter 48.38 RCW, Charitable Gift Annuity Business, an examination was made of the corporate matters and financial records pertaining to the charitable gift annuity (CGA) business of

Seattle Pacific University
of
Seattle, Washington

hereinafter referred to as "SPU" at its office, 3307 Third Avenue West, Suite 112, Seattle, Washington 98119. This report of examination is respectfully submitted showing the financial condition and related corporate matters of the CGA business of SPU 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 Seattle Pacific University of Seattle, Washington. This report shows the financial condition of the CGA business and related corporate matters of Seattle Pacific University as of June 30, 2011.



Patrick H. McNaughton
Chief Examiner

6-4-12

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. SPU'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, SPU'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 Seattle office of SPU by examiners from the state of Washington.

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

- a. Balances reported included the accounts of SPU consolidated with its affiliate, Seattle Pacific Foundation. SPU 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 SPU's affiliate, thereby, reflecting only the financial statements of SPU in accordance with the OIC Annual Report Instructions.

Adjustments to SPU's 2011 Annual Report resulted in a decrease in cash and cash equivalents of \$46 thousand, a decrease in investments of \$27.2 million, a decrease in other assets of \$68 thousand, a decrease in trust and annuity obligations of \$8.7 million, a decrease in other liabilities of \$9.1 million, a decrease in unrestricted net assets of \$710 thousand, a decrease in temporarily restricted net assets of \$3.8 million, a decrease in permanently restricted net assets of \$4.9 million, a decrease in revenues of \$1.8 million, a decrease in expenses of \$379 thousand, and a decrease in net assets at beginning of year of \$8 million. (See Note 1 to the Financial Statements.)

- b. SPU's annuity investments are held in a separate account managed by Commonfund Asset Management Company, Inc. However, the investment account statement submitted to the OIC identifies Seattle Pacific Foundation as the registered owner of the annuity reserve fund account instead of SPU.

SPU 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 the registration name on the investment account statement should be Seattle Pacific University Annuity Reserve.

COMMENTS AND RECOMMENDATIONS

NONE

ORGANIZATION PROFILE

History

SPU is a private, nonprofit institution of higher education. It was established in 1891 under the name Seattle Seminary and was renamed Seattle Pacific College (College) in 1915. Full accreditation of the College's four-year liberal arts program was awarded in 1936 by the Northwest Association of Schools and Colleges. On June 5, 1977, the College officially became Seattle Pacific University. Today, SPU offers 55 undergraduate majors, 12 master degree programs, and three doctoral programs.

Territory and Plan of Operation

SPU was granted Certificate of Exemption No. 3 to conduct a CGA business in the state of Washington by the OIC on July 30, 1980. SPU had 47 in-force annuity contracts as of June 30, 2011; 40 were issued in the state of Washington.

Total Net Assets

SPU's total net assets as of June 30, 2011 were \$110.9 million. This amount included unrestricted net assets of \$65.3 million. The minimum unrestricted net assets requirement was satisfied pursuant to RCW 48.38.010(6).

Growth

The growth of SPU 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, was compiled from SPU'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*	\$215,331	\$104,407	\$110,924	\$65,302	\$15,798	\$29,824
2010	233,135	127,873	105,262	57,822	14,579	32,861
2009	229,888	129,582	100,306	59,896	8,799	31,611
2008	251,888	133,088	118,800	75,463	10,485	32,852
2007	261,474	134,849	126,625	84,814	10,345	31,466

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	\$102,398	\$88,245	\$86,508	\$83,789	\$85,801
Total expenses	<u>88,711</u>	<u>87,605</u>	<u>85,067</u>	<u>84,955</u>	<u>77,467</u>
Increase (decrease) in net assets	13,687	640	1,441	(1,166)	8,334
Other changes in net assets		4,316	(19,935)	(6,659)	9,072
Net assets at beginning of year	<u>97,237</u>	<u>100,306</u>	<u>118,800</u>	<u>126,625</u>	<u>109,219</u>
Net assets at end of year	<u>\$110,924</u>	<u>\$105,262</u>	<u>\$100,306</u>	<u>\$118,800</u>	<u>\$126,625</u>
Number of gift annuity contracts	47	59	58	57	56

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

AFFILIATED ORGANIZATIONS

SPU has a controlling financial interest in Seattle Pacific Foundation (the Foundation) through direct ownership of the majority voting interest in the Foundation. SPU's Board of Trustees appoints and has delegated to the Foundation directors the responsibility for the overall investment management of all SPU endowment funds, annuity funds and a charitable trust. The financial statements of SPU and the Foundation have been presented on a consolidated basis and transactions between these entities are eliminated upon consolidation.

MANAGEMENT AND CONTROL

Management

The Board of Trustees (BOT) is responsible for the governance and control of SPU. The president of SPU is a member of the BOT, is the chief executive officer and official adviser to the BOT, and its Executive Committee. He is responsible for the management of SPU.

Board of Trustees

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

Dennis Weibling, Chairman	Dr. Philip Eaton
Frederick Stabbert, Vice Chair	Victor Moses
Dr. Douglas Backous	Donald Nielsen
Clyde Ballard	Richard Stearns
Kathleen Cummins	Bradley Thoreson
Sara Dial	Dr. Dennis Wayman
Rev. Harvey Drake, Jr.	Dr. Matthew Whitehead

Officers

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

Dr. Philip Eaton, President
Victor Moses, Treasurer
Dr. Matthew Whitehead, Secretary

Tax Status

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

Conflict of Interest

According to SPU's Conflict of Interest Policy, the BOT and key employees are required to disclose any potential conflicts of interest by submitting a Conflict of Interest Questionnaire form annually to the SPU president. The SPU president will review any perceived conflicts of interest and decide on the disposition of the situation. Based on our review of the submitted 2011 questionnaire statements, no exceptions were noted.

ORGANIZATION RECORDS

The BOT meets at least four times a year to discuss any pertinent business to SPU. BOT meeting minutes documented the approval of SPU'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 SPU's annuity contract reserves as computed under RCW 48.38.020(3)(a) and (b) should be \$2,877,079 for 47 in-force annuity contracts as of June 30, 2011. This amount was properly reported in SPU's financial statements.

ANNUITY ASSETS CUSTODIAL FUNCTION

The separate reserve fund assets were held legally and physically segregated from the other assets of SPU as required by RCW 48.38.020(2)(a). The market values of the annuity investments as of June 30, 2011 were \$4,124,056 and consisted of debt and equity securities and money market funds. The annuity investments were properly reported in the financial statements at market value. However, the assets are held by a custodian and are not held in the name of SPU, but in the name of its affiliate, Seattle Pacific Foundation. (See Instruction No. 1b.)

SUBSEQUENT EVENTS

There were no additional material events which impacted SPU 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 Seattle Pacific University as of June 30, 2011:

Statement of Financial Position

Statement of Activities and Changes in Net Assets

Seattle Pacific University
Statement of Financial Position
June 30, 2011
(In Thousands)

	<u>Balance Per Annual Report</u>	<u>Examination Adjustments</u>	<u>Balance Per Examination</u>	<u>Notes</u>
Assets				
Cash and cash equivalents	\$10,919	(\$46)	\$10,873	1
Investments	99,364	(26,457)	72,907	1, 2
CGA investments	4,124		4,124	
Land, buildings and equipment	109,578		109,578	
Other assets	17,917	(68)	17,849	1
Total Assets	<u>\$241,902</u>	<u>(\$26,571)</u>	<u>\$215,331</u>	
Liabilities and Net Assets				
Trust and annuity obligations	\$8,723	(\$8,723)	\$0	1
CGA liabilities	2,877		2,877	
Other liabilities	110,609	(9,079)	101,530	1, 2
Total Liabilities	<u>122,209</u>	<u>(17,802)</u>	<u>104,407</u>	
Net Assets				
Unrestricted	66,198	(896)	65,302	1, 2
Temporarily restricted	19,030	(3,232)	15,798	1, 2
Permanently restricted	34,465	(4,641)	29,824	1, 2
Total Net Assets	<u>119,693</u>	<u>(8,769)</u>	<u>110,924</u>	
Total Liabilities and Net Assets	<u>\$241,902</u>	<u>(\$26,571)</u>	<u>\$215,331</u>	

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

	<u>Balance Per Annual Report</u>	<u>Examination Adjustments</u>	<u>Balance Per Examination</u>	<u>Notes</u>
Total revenues	\$103,499	(\$1,101)	\$102,398	1, 2
Total expenses	<u>89,068</u>	<u>(357)</u>	<u>88,711</u>	1, 2
Increase (decrease) in net assets	14,431	(744)	13,687	
Net assets at beginning of year	<u>105,262</u>	<u>(8,025)</u>	<u>97,237</u>	
Net assets at end of year	<u>\$119,693</u>	<u>(\$8,769)</u>	<u>\$110,924</u>	

NOTES TO THE FINANCIAL STATEMENTS

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

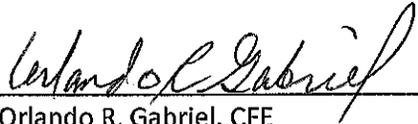
1. Assets, liabilities, revenues, expenses, and net assets of the affiliate were removed in order to present SPU's financial statements in accordance with the OIC Annual Report Instructions. Balances reported included the accounts of SPU consolidated with its affiliate, the Foundation. The examination adjustments resulted in a decrease in cash and cash equivalents of \$46 thousand, a decrease in investments of \$27.2 million, a decrease in other assets of \$68 thousand, a decrease in trust and annuity obligations of \$8.7 million, a decrease in other liabilities of \$9.1 million, a decrease in unrestricted net assets of \$710 thousand, a decrease in temporarily restricted net assets of \$3.8 million, a decrease in permanently restricted net assets of \$4.9 million, a decrease in revenues of \$1.8 million, and a decrease in expenses of \$379 thousand. (See Instruction No. 1a.)
2. 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 adjustments were made in the audited financial statements by SPU after the Annual Report was submitted to the OIC. The examination adjustments resulted in an increase in investments of \$733 thousand, a decrease in unrestricted net assets of \$186 thousand, an increase in temporarily restricted net assets of \$599 thousand, an increase in permanently restricted net assets of \$316 thousand, an increase in revenues of \$751 thousand, and an increase in expenses of \$22 thousand.

ACKNOWLEDGMENT

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

In addition to the undersigned, Michael V. Jordan, CPA, CFE, MHP, Assistant Chief Examiner; and Susan Campbell, CPA, CFE, FLMI, Life and Disability Field Supervising Examiner; all from the Washington State Office of the Insurance Commissioner, participated in the examination and in the preparation of this report.

Respectfully submitted,



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

