

STATE OF WASHINGTON
OFFICE OF THE INSURANCE COMMISSIONER



FINANCIAL EXAMINATION
OF THE CHARITABLE GIFT ANNUITY BUSINESS
OF
THE CORPORATION OF GONZAGA UNIVERSITY
SPOKANE, WASHINGTON

MAY 31, 2013

Order No. 14-127
The Corporation of Gonzaga University
Exhibit A

SALUTATION

Seattle, Washington
May 22, 2014

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

The Corporation of Gonzaga University
of
Spokane, Washington

hereinafter referred to as "GU" at its office, East 502 Boone Avenue, Spokane, WA 99258. This report of examination is respectfully submitted showing the financial condition and related corporate matters of the CGA business of GU as of May 31, 2013.

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 Corporation of Gonzaga University of Spokane, Washington. This report shows the financial condition of the CGA business and related corporate matters of The Corporation of Gonzaga University as of May 31, 2013.



Patrick H. McNaughton
Chief Examiner

8-4-14
Date

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SCOPE OF THE EXAMINATION

The examination covers the period January 1, 2008 through May 31, 2013. The scope of our examination focused only on the transactions and operations of the CGA business. GU'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, GU's May 31, 2013 audited financial statements 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 Spokane office of GU by examiners from the state of Washington.

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

INSTRUCTIONS

NONE

COMMENTS AND RECOMMENDATIONS

NONE

ORGANIZATION PROFILE

History

GU was founded in 1887 and incorporated in 1894 as an institution of higher education. The primary schools within GU include the school of arts and sciences, business, engineering, education, professional studies, and law.

Territory and Plan of Operation

On March 16, 1991, the OIC granted GU a Certificate of Exemption No. 32 to conduct a CGA business in the state of Washington. There were 37 in-force contracts as of May 31, 2013, of which 28 were issued to the residents of the state of Washington.

Total Net Assets

GU's total net assets as of May 31, 2013 were \$325.9 million. This amount included unrestricted net assets of \$145.6 million. The minimum unrestricted net assets requirement was satisfied pursuant to RCW 48.38.010(6).

Growth

The growth of GU for the past five years is reflected in the following schedules:

Schedule 1 – Statement of Financial Position (In Thousands)

Year	Assets	Liabilities	Total Net		Temporarily Restricted	Permanently Restricted
			Assets	Unrestricted		
2013	\$530,981	\$205,045	\$325,936	\$145,552	\$99,878	\$80,506
2012	465,457	193,622	271,835	128,741	67,562	75,532
2011	462,621	195,235	267,386	124,555	73,755	69,076
2010	428,641	194,991	233,650	107,871	60,140	65,639
2009	392,037	180,664	211,373	97,617	51,640	62,116

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

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Total revenues	\$229,592	\$189,515	\$205,925	\$190,070	\$124,961
Total expenses	177,644	180,599	172,351	170,204	158,460
Increase (decrease) in net assets	51,948	8,916	33,574	19,866	(33,499)
Other changes in net assets	2,153	(4,467)	162	2,411	(4,696)
Net assets at beginning of year	271,835	267,386	233,650	211,373	249,568
Net assets at end of year	\$325,936	\$271,835	\$267,386	\$233,650	\$211,373
Number of gift annuity contracts	37	35	26	28	28

AFFILIATED ORGANIZATIONS

GU is affiliated with the following organizations:

- Gonzaga Immobiliare (GI) is an affiliate of GU. GI is an Italian corporation formed to purchase and remodel a classroom/administration building used in GU's Florence program.
- The Law School Foundation. The purpose of the Law School Foundation is to provide revenue, endowment, and additional income to Gonzaga University's Law School.

GU's interorganizational accounts and transactions between the entities are eliminated upon consolidation.

MANAGEMENT AND CONTROL

Management

GU is governed by a Board of Trustees (BOT). As of May 31, 2013, the BOT had 31 trustees who were elected to four-year terms. Approximately one-third of the BOT's terms expire each year, and all officers

of the BOT are elected annually. The president is the executive head of Gonzaga University and serves as a trustee on the BOT.

Board of Trustees

The following individuals were trustees as of May 31, 2013:

Alvin Wolff, JR, Chair	Thayne McCulloh
Scott Morris, Vice Chair	Kathleen Magnuson Sheppard
Tim Barnard	Shannon McCambridge
Paul Barclich	Jack McCann
Fred Brown	Phil McCarthy
Tim Clancy, S.J.	John McGarry, S.J.
Gerri Craves	Kevin McQuilkin
Don Curran	Don Nelles
John Fitzgibbons, S.J.	Mike Patterson
Theresa Gee	Jim Powers
Michael Graham, S.J.	Edward Reese, S.J.
John Hemmingson	Joseph Rossi, S.J.
Steve Kuder, S.J.	Pete Stanton
David Leigh, S.J.	Edward Taylor
Rita Liebelt	Bob Tomlinson
John Luger	

Officers

The following individuals were officers as of May 31, 2013:

Thayne McCulloh, President
Maureen McGuire, Secretary, Corporate Counsel
Charles Murphy, Treasurer, VP Finance
Earl (Marty) Martin, Executive VP
Sue Weitz, VP Student Life
Frank Case, S.J., VP Mission
Joe Poss, VP University Relations (Acting)
Patricia O’Connell Killen, VP Academic

Tax Status

GU is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code, except on unrelated business income.

Conflict of Interest

Each BOT member and each officer is required to sign a Conflict of Interest Disclosure of Relationships and Related Party Transaction Policy at the beginning of his or her term. The conflict of interest disclosure forms are reviewed by the BOT or the appropriate person identified in the conflict of interest policy and procedure. No exceptions were noted.

ORGANIZATION RECORDS

The BOT meets five times a year to discuss any pertinent business of GU. Minutes of the meetings of the BOT documented the approval of GU's transactions and events. No exceptions were noted.

SEPARATE RESERVE FUND (SRF)

GU's separate reserve fund was reviewed and found to be in compliance with RCW 48.38.020(2)(a) which requires the SRF assets to be held legally and physically segregated from the other assets of GU, and RCW 48.38.010(10)(b) which requires an actuarial opinion to be issued by a qualified actuary relating to annuity reserves. In addition, GU was in compliance with RCW 48.38.020(3)(c) which requires GU to maintain a SRF balance equal to the actuarial calculation for annuity reserves plus a 10 percent surplus. No exceptions were noted.

SUBSEQUENT EVENTS

There were no additional material events which impacted GU 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 GU's annual reports and financial statements.

FINANCIAL STATEMENTS

The following financial statements show the unconsolidated financial condition of GU as of May 31, 2013:

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

The Corporation of Gonzaga University
Statement of Financial Position
May 31, 2013
(In Thousands)

	<u>Balance Per</u> <u>Annual Report</u>	<u>Examination</u> <u>Adjustments</u>	<u>Balance Per</u> <u>Examination</u>
Assets			
Cash and cash equivalents	\$75,397	\$0	\$75,397
Account and interest receivable, net	10,251		10,251
Inventories and prepaid expenses	4,049		4,049
Contributions receivable, net	22,699		22,699
Notes receivable, net	14,913		14,913
Deposit with bond trustees	13,210		13,210
Investments	159,205		159,205
Beneficial interest in trusts	7,818		7,818
Property, plant, & equipment, net	223,439		223,439
Total Assets	<u>\$530,981</u>	<u>\$0</u>	<u>\$530,981</u>
Liabilities and Net Assets			
Accounts and other payables	\$18,192	\$0	\$18,192
Accrued salaries, taxes, and benefits	16,336		16,336
Deferred revenues	11,311		11,311
Split-interest agreement obligations	5,955		5,955
Federal student loan program	11,062		11,062
Obligation under interest rate swaps	6,744		6,744
Notes and bonds payable	135,445		135,445
Total Liabilities	<u>205,045</u>	<u>0</u>	<u>205,045</u>
Net Assets			
Unrestricted	145,552	0	145,552
Temporarily restricted	99,878		99,878
Permanently restricted	80,506		80,506
Total Net Assets	<u>325,936</u>	<u>0</u>	<u>325,936</u>
Total Liabilities and Net Assets	<u>\$530,981</u>	<u>\$0</u>	<u>\$530,981</u>

The Corporation of Gonzaga University
Statement of Activities and Changes in Net Assets
For the Year Ended May 31, 2013
(In Thousands)

	<u>Balance Per Annual Report</u>	<u>Examination Adjustments</u>	<u>Balance Per Examination</u>
Total revenues	\$229,592	\$0	\$229,592
Total expenses	<u>177,644</u>		<u>177,644</u>
Increase (decrease) in net assets	51,948	0	51,948
Other changes in net assets	2,153		2,153
Net assets at beginning of year	<u>271,835</u>		<u>271,835</u>
Net assets at end of year	<u>\$325,936</u>	<u>\$0</u>	<u>\$325,936</u>

ACKNOWLEDGMENT

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

In addition to the undersigned, Michael V. Jordan, CPA, CFE, MHP, Assistant Chief Examiner and Tarik Subbagh, CPA, CFE, MSBA, Property and Casualty Field Supervising Examiner, both from the Washington State Office of the Insurance Commissioner, participated in the examination and in the preparation of this report.

Respectfully submitted,



Edsel Dino, AFE
Examiner-in-Charge
State of Washington

