

STATE OF WASHINGTON  
OFFICE OF THE INSURANCE COMMISSIONER



FINANCIAL EXAMINATION  
OF THE CHARITABLE GIFT ANNUITY BUSINESS  
OF  
PACIFIC LUTHERAN UNIVERSITY  
TACOMA, WASHINGTON  
MAY 31, 2013

Order No. 14-139  
Pacific Lutheran University  
Exhibit A

**SALUTATION**

Seattle, Washington  
May 1, 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:

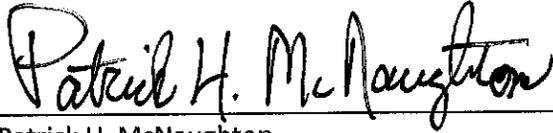
In accordance with your instructions and in compliance with the statutory requirements of Chapter 48.38 RCW, Charitable Gift Annuity Business, an examination was made of the corporate matters and financial records pertaining to the charitable gift annuity (CGA) business of

**Pacific Lutheran University**  
of  
Tacoma, Washington

hereinafter referred to as "PLU" at its office, 12180 Pacific Avenue South, Tacoma, WA 98447. This report of examination is respectfully submitted showing the financial condition and related corporate matters of the CGA business of PLU 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 Pacific Lutheran University of Tacoma, Washington. This report shows the financial condition of the CGA business and related corporate matters of Pacific Lutheran University as of May 31, 2013.



Patrick H. McNaughton  
Chief Examiner

6-25-14

Date

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## **SCOPE OF THE EXAMINATION**

The examination covers the period June 1, 2008 through May 31, 2013. The scope of our examination focused only on the transactions and operations of the CGA business. PLU'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, PLU'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 Tacoma office of PLU by financial examiners from the state of Washington.

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

## **INSTRUCTIONS**

### **1. CGA Agreements**

PLU used annuity contract forms offered to residents of this state which were not in compliance with RCW 48.38.010(9):

- Two annuity contracts issued in 2010 did not include the reasonable value of the benefits created, and
- Two annuity contracts were issued under the wrong name, Pacific Lutheran University, Inc., instead of its correct legal name, Pacific Lutheran University.

**PLU is instructed to comply with RCW 48.38.010(9) by re-filing the corrected CGA contract forms for OIC's approval.**

## **COMMENTS AND RECOMMENDATIONS**

None

## **ORGANIZATION PROFILE**

### **History**

PLU was founded in 1890 by a group of Norwegians from the Puget Sound region. It offers approximately 3,500 students a blend of academically liberal arts and professional programs.

### Territory and Plan of Operation

On May 7, 1984, the OIC granted PLU a Certificate of Exemption No. 14 to conduct a CGA business in the state of Washington. There were 53 in-force contracts as of May 31, 2013, of which 22 were issued in the state of Washington.

### Total Net Assets

PLU's total net assets as of May 31, 2013 were \$158,371,429. This amount included unrestricted net assets of \$61,572,824. The minimum unrestricted net assets requirement was satisfied pursuant to RCW 48.38.010(6).

### Growth

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

#### 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>
2013	\$244,376,714	\$86,005,285	\$158,371,429	\$61,572,824	\$21,582,023	\$75,216,582
2012	239,467,143	85,232,889	154,234,254	60,523,280	22,552,802	71,158,172
2011	248,452,936	86,708,239	161,744,697	66,509,799	24,593,484	70,641,414
2010	226,980,177	86,506,484	140,473,693	52,322,139	20,735,950	67,415,604
2009	222,332,835	88,401,496	133,931,339	56,694,343	15,828,988	61,408,008

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

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Total revenues	\$105,319,932	\$93,145,826	\$118,211,017	\$100,751,270	\$87,704,782
Total expenses	<u>101,182,757</u>	<u>100,656,269</u>	<u>96,940,013</u>	<u>94,208,916</u>	<u>96,999,802</u>
Increase (decrease) in net assets	4,137,175	(7,510,443)	21,271,004	6,542,354	(9,295,020)
Net assets at beginning of year	<u>154,234,254</u>	<u>161,744,697</u>	<u>140,473,693</u>	<u>133,931,339</u>	<u>143,226,359</u>
<b>Net assets at end of year</b>	<b><u>\$158,371,429</u></b>	<b><u>\$154,234,254</u></b>	<b><u>\$161,744,697</u></b>	<b><u>\$140,473,693</u></b>	<b><u>\$133,931,339</u></b>

Number of gift annuity contracts	53	63	67	81	81
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#### AFFILIATED ORGANIZATIONS

None

## MANAGEMENT AND CONTROL

### **Management**

According to the Articles of Incorporation and Bylaws, the affairs of PLU are managed by the governing Board of Regents (BOR) consisting of 37 members including the president. The president is the executive head of PLU and an advisory member of all committees of the BOR. The officers are elected from among the Regents.

### **Board of Regents**

Regents as of May 31, 2013:

Daniel Alsaker	Jon Kvinsland
Neal Arntson	Kathleen McCallum Sachse
Linda Barbo	Donald Morken
Dale Benson	Brenda Morris
Gayle Berge	Larry Neeb
Bruce Bjerke	Knut Olson
Chris Boerger	David Peters
David Brauer-Rieke	Nancy Powell
Edward Grogan	Jeffrey Rippey
Darren Hamby	Donna Schlitt
Roe Hatlen	Jerry Skaga
Tony Hicks	Charleen Tachibana
James Hushagen	Eileen Tellefson
David Johnson	Bradley Tilden
Estelle Kelley	Tom Vraalsen
Lisa Kittilsby	Shelley Wickstrom
Thomas Krise	Donald Wilson
Mark Knudson	Andrew Yee
Lisa Korsmo	

### **Officers**

Officers as of May 31, 2013:

Thomas Krise, President  
Bruce Bjerke, Chair  
James Hushagen, Vice-Chair  
Eileen Tellefson, Secretary

### **Tax Status**

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

### **Conflict of Interest**

BOR members are required to submit a conflict of interest disclosure form annually. PLU's policy statement indicates that should an actual conflict of interest arise, it will be reviewed and voted upon by the BOR. Formal procedures exist for remedying conflicts of interest. No exceptions were noted.

### **ORGANIZATION RECORDS**

The BOR meets three times a year to discuss any business which is pertinent to PLU. BOR meeting minutes documented the approval of PLU's transactions and events. No exceptions were noted.

### **SEPARATE RESERVE FUND**

PLU's separate reserve fund (SRF) 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 PLU, 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, PLU was in compliance with RCW 48.38.020(3)(c) which requires PLU 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 PLU between the examination date and the last day of our field work.

### **FOLLOW UP ON PREVIOUS EXAMINATION FINDINGS**

All previous report instructions have been addressed and corrected.

### **ACCOUNTING RECORDS AND PROCEDURES**

The records and source documentation supported the data and amounts presented in PLU's annual reports and financial statements.

### **FINANCIAL STATEMENTS**

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

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

**Pacific Lutheran University  
Statement of Financial Position  
May 31, 2013**

	<u>Balance Per Annual Report</u>	<u>Examination Adjustments</u>	<u>Balance Per Examination</u>
<b>Assets</b>			
Cash and cash equivalents	\$11,785,020	\$0	\$11,785,020
Endowment and other investments	85,566,005		85,566,005
CGA investments	2,903,469		2,903,469
Property and equipment, net	103,621,433		103,621,433
Other assets	<u>40,500,787</u>		<u>40,500,787</u>
<b>Total Assets</b>	<b><u>\$244,376,714</u></b>	<b><u>\$0</u></b>	<b><u>\$244,376,714</u></b>
<b>Liabilities and Net Assets</b>			
Long-term debt	\$55,854,612	\$0	\$55,854,612
Other annuities payable	4,292,997		4,292,997
CGA liabilities	2,355,129		2,355,129
Other liabilities	<u>23,502,547</u>		<u>23,502,547</u>
<b>Total Liabilities</b>	<b><u>86,005,285</u></b>	<b><u>0</u></b>	<b><u>86,005,285</u></b>
<b>Net Assets</b>			
Unrestricted	61,572,824	0	61,572,824
Temporarily restricted	21,582,023		21,582,023
Permanently restricted	<u>75,216,582</u>		<u>75,216,582</u>
<b>Total Net Assets</b>	<b><u>158,371,429</u></b>	<b><u>0</u></b>	<b><u>158,371,429</u></b>
<b>Total Liabilities and Net Assets</b>	<b><u>\$244,376,714</u></b>	<b><u>\$0</u></b>	<b><u>\$244,376,714</u></b>

**Pacific Lutheran University**  
**Statement of Activities and Changes in Net Assets**  
**For the Year Ended May 31, 2013**

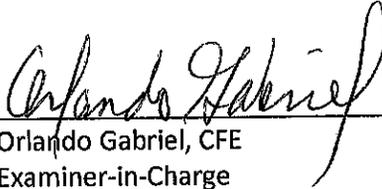
	<u>Balance Per Annual Report</u>	<u>Examination Adjustments</u>	<u>Balance Per Examination</u>
Total revenues	\$105,319,932	\$0	\$105,319,932
Total expenses	<u>101,182,757</u>		<u>101,182,757</u>
Increase (decrease) in net assets	4,137,175	0	4,137,175
Net assets at beginning of year	<u>154,234,254</u>		<u>154,234,254</u>
<b>Net assets at end of year</b>	<b><u>\$158,371,429</u></b>	<b><u>\$0</u></b>	<b><u>\$158,371,429</u></b>

**ACKNOWLEDGMENT**

Acknowledgment is hereby made of the cooperation extended to the examiners by the officers and employees of Pacific Lutheran 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, ARA, Life and Disability 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,

  
\_\_\_\_\_  
Orlando Gabriel, CFE  
Examiner-in-Charge  
State of Washington

