

**STATE OF WASHINGTON
OFFICE OF THE INSURANCE
COMMISSIONER**



**FINANCIAL EXAMINATION
of the Charitable Gift Annuity Business**

of

**Saint Martin's University
Lacey, Washington**

June 30, 2008

Order No. 10-19
Saint Martin's University
Exhibit A

SALUTATION

Seattle, Washington
February 3, 2010

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 affairs and financial records pertaining to the charitable gift annuity (CGA) business of

Saint Martin's University

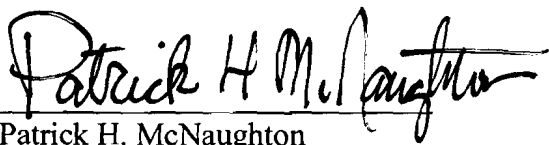
of

Lacey, Washington

hereinafter referred to as "SMU" at its office, 5500 Pacific Avenue SE, Lacey, Washington 98503. This report of examination is respectfully submitted showing the condition of the CGA business of SMU as of June 30, 2008.

CHIEF EXAMINER'S AFFIDAVIT

I hereby certify I have read the attached Report of the Financial Examination of the Charitable Gift Annuity business of Saint Martin's University of Lacey, Washington. This report shows the financial condition of the CGA business and related corporate matters of Saint Martin's University as of June 30, 2008.



Patrick H. McNaughton
Chief Examiner

2/3/10

Date

TABLE OF CONTENTS

SCOPE OF EXAMINATION.....	1
INSTRUCTIONS.....	1
COMMENTS AND RECOMMENDATIONS.....	2
ORGANIZATION PROFILE	2
HISTORY	2
TERRITORY AND PLAN OF OPERATION.....	2
TOTAL NET ASSETS	2
GROWTH	2
AFFILIATED COMPANIES	3
MANAGEMENT AND CONTROL	3
MANAGEMENT	3
BOARD OF TRUSTEES	3
OFFICERS	3
TAX STATUS	4
CONFLICT OF INTEREST.....	4
CORPORATE RECORDS	4
STATEMENT OF ACTUARIAL OPINION	4
ANNUITY ASSETS CUSTODIAL FUNCTION.....	4
SUBSEQUENT EVENTS	4
ACCOUNTING RECORDS AND PROCEDURES	5
FINANCIAL STATEMENTS	5
ACKNOWLEDGMENT	7
AFFIDAVIT.....	8

SCOPE OF THE EXAMINATION

This examination covers the period January 1, 2004 through December 31, 2008. The 2008 Annual Report reflected the balance sheet and statement of revenue and expenses of SMU as of June 30, 2008. The OIC granted permission to SMU to present its CGA Annual Report as of its fiscal year ended June 30, 2008. The examination of the 2008 Annual Report, therefore, covers the period ending June 30, 2008 for the balance sheet and statement of revenue and expenses sections, and the period ending December 31, 2008 for the general interrogatories and charitable gift annuities reserve fund, and other applicable financial activities as deemed necessary. The scope of our examination focused only on the transactions and operations of the CGA business.

SMU'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, SMU's certified public accountant's (CPA's) reports were reviewed and utilized, where possible, 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 Lacey office of SMU by examiners from the state of Washington.

INSTRUCTIONS

The examiners reviewed SMU's CGA Annual Reports as part of the statutory examination. This review was performed to determine if SMU completed the Annual Reports in accordance with the Annual Report Instructions published by the OIC and to verify that SMU's accounts and records were prepared and maintained in accordance with Chapter 48.38 RCW.

The following summarizes the exceptions noted while performing this review.

1. CGA Liabilities - Reserves

RCW 48.38.020 requires SMU to establish and maintain a separate reserve fund adequate to meet the future payments under its charitable gift annuity contracts. The amount of the separate reserve fund shall include a surplus of ten percent (10%). SMU maintained a separate fund, but it did not include the surplus of 10% to the actuary's calculated reserve amount required by RCW 48.38.020(3)(c). Pursuant to RCW 48.38.020(3)(c), the statutory aggregate reserves should be \$329,895. As a result, the reported annuities payable was understated by \$29,990 on December 31, 2008.

No examination adjustment was made for June 30, 2008 reserves due to immateriality in relation to net assets and unrestricted assets available to back up the reserves.

SMU is instructed to report the statutory reserve calculated by the actuary pursuant to RCW 48.38.010(10)(c), plus an additional 10% as required by RCW 48.38.020(1) and (3)(c).

COMMENTS AND RECOMMENDATIONS

There were no comments or recommendations made in this examination report.

ORGANIZATION PROFILE

History: SMU is a nonprofit, charitable institution of higher learning. It was established in 1895 as Saint Martin's College. In 2005, the name was changed to Saint Martin's University.

Territory and Plan of Operation: On February 20, 2002, the OIC granted SMU a Certificate of Exemption No. 175 to conduct a CGA business in the state of Washington. There were twelve in-force annuity contracts as of December 31, 2008; eleven were issued to residents of the state of Washington and one was issued to a resident of California.

Total Net Assets: SMU's total net assets as of June 30, 2008 were \$37,528,726. This amount included an unrestricted net asset of \$24,446,134. The minimum unrestricted net assets requirement was satisfied pursuant to RCW 48.38.010(6).

Growth: The growth of SMU for the past five years is reflected in the following schedules. All information was compiled from SMU's audited financial statements as of fiscal year ending June 30:

Schedule 1 – Statement of Financial Position

<u>Fiscal Year</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Total Net Assets</u>	<u>Total Net Assets Allocated Into:</u>		
				<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
2008	\$85,225,713	\$47,696,987	\$37,528,726	\$24,446,134	\$6,249,530	\$6,833,062
2007	80,753,944	41,261,938	39,492,006	29,339,835	3,494,790	6,657,381
2006	54,863,576	17,740,036	37,123,540	28,451,700	2,924,022	5,747,818
2005	56,061,045	19,979,942	36,081,103	28,213,026	4,067,071	3,801,006
2004	49,655,185	13,936,501	35,718,684	28,612,858	3,868,504	3,237,322

Schedule 2 – Statement of Activities and Changes in Net Assets

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Total revenues	\$30,644,973	\$27,860,024	\$23,461,656	\$20,848,840	\$21,082,938
Total expenses	<u>32,608,253</u>	<u>25,491,558</u>	<u>22,419,219</u>	<u>20,486,421</u>	<u>18,792,227</u>
Increase (decrease) in net	(1,963,280)	2,368,466	1,042,437	362,419	2,290,711
Net assets at beginning of year	<u>39,492,006</u>	<u>37,123,540</u>	<u>36,081,103</u>	<u>35,718,684</u>	<u>33,427,973</u>
Net assets at end of year	<u>\$37,528,726</u>	<u>\$39,492,006</u>	<u>\$37,123,540</u>	<u>\$36,081,103</u>	<u>\$35,718,684</u>
Number of gift annuity contracts at end of year	12	10	7	8	6

AFFILIATED ORGANIZATIONS

SMU does not have any affiliates.

MANAGEMENT AND CONTROL

Management: SMU's property and business are governed by a Board of Trustees (BOT) of no less than nine or more than thirty-five members. The trustees are elected by the Board for a term of three years and may be re-elected to three additional consecutive three-year terms. All trustees have full voting rights.

Board of Trustees: The BOT as of June 30, 2008:

Brian Charneski	Terence Monaghan
Father Bede Classick	Kathleen O'Grady
Michael Cronk	Rick Panowicz
Patrick Crumb	Ken Parsons
Waite Dalrymple	Pat Rants
Daniel Dugaw	Richard Roney
Mary Gentry	Father George Seidel
Richard Hecker	Hilton Smith
Father Alfred Hulscher	Wayne Staley
Francis Iwasawa	Major General James Taylor
Father Timothy Lamm	Philip Weigand
Brother Boniface Lazzari	Cynthia Worth
Father Kilian Malvey	

Officers: The officers as of June 30, 2008:

Abbot Neal Roth, Chancellor
Douglas Astolfi, President
Barbara Gayle, Vice President for Academic Affairs
Stephen McGlone, Vice President for Institutional Advancement

Mary Sigmen, Vice President for Finance
Father Alfred Hulscher, Secretary
Father Bede Classick, Treasurer

Tax Status: SMU is a tax-exempt charitable, religious, educational and scientific organization under Section 501(c)(3) of the Internal Revenue Code.

Conflict of Interest: The members of the BOT and officers are required to abide by the Conflict of Interest Provision as stated in Article XVIII Section 3 of SMU's ByLaws. No trustee or officer is disqualified from holding any office by reason of any interest, but any conflict of interest must be made known to the corporation at the earliest practical time. There were no exceptions noted.

ORGANIZATION RECORDS

The BOT meets four times a year to discuss any business which is pertinent to SMU. BOT meeting minutes documented the approval of SMU's transactions and events. 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. The SAO indicated that SMU's annuity contract reserves as computed under RCW 48.38.020(3)(a) and (b) should be \$299,905 for twelve contracts as of December 31, 2008. This amount, plus an additional 10% as required by RCW 48.38.020(3)(c), was not properly reported as annuity liabilities in SMU's financial statements. (See Instruction No. 1.)

ANNUITY ASSETS CUSTODIAL FUNCTION

The separate reserve fund assets were held legally and physically segregated from the other assets of SMU as required by RCW 48.38.020(2). The market values of the annuity investments as of December 31, 2008 were \$369,675 and consisted of cash equivalents, corporate obligations and mutual funds. The annuity investments were properly reported in the financial statements at market value.

SUBSEQUENT EVENTS

The President and Vice President for Academic Affairs retired effective June 30, 2008.

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 information summarizes the financial statements of SMU:

SAINT MARTIN'S UNIVERSITY STATEMENT OF FINANCIAL POSITION June 30, 2008

	<u>Balance per Annual Report</u>	<u>Examination Adjustments</u>	<u>Balance Per Examination</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$10,846,580	\$0	\$10,846,580
Account receivables	5,571,282		5,571,282
Investments	13,009,958		13,009,958
CGA investments	361,874		361,874
Other assets	18,915,442		18,915,442
Fixed assets-net	36,520,577		36,520,577
Total Assets	<u>\$85,225,713</u>	<u>\$0</u>	<u>\$85,225,713</u>
<u>LIABILITIES</u>			
Annuities payable	\$231,897	\$0	\$231,897
Other payables	47,465,090		47,465,090
Total Liabilities	<u>47,696,987</u>	<u>0</u>	<u>47,696,987</u>
<u>NET ASSETS</u>			
Unrestricted	24,446,134		24,446,134
Temporarily restricted	6,249,530		6,249,530
Permanently restricted	6,833,062		6,833,062
Total Net Assets	<u>37,528,726</u>		<u>37,528,726</u>
Total Liabilities and Net Assets	<u>\$85,225,713</u>	<u>\$0</u>	<u>\$85,225,713</u>

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

For Fiscal Year Ended June 30, 2008

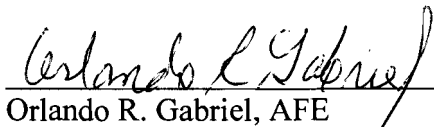
	<u>Balance Per</u> <u>Annual Report</u>	<u>Examination</u> <u>Adjustments</u>	<u>Balance Per</u> <u>Examination</u>
Total revenues	\$30,644,973	\$0	\$30,644,973
Total expenses	32,608,253		32,608,253
Increase (decrease) in net assets	(\$1,963,280)	0	(\$1,963,280)
Net assets at beginning of year	39,492,006		39,492,006
Net assets at end of year	\$37,528,726	\$0	\$37,528,726

ACKNOWLEDGMENT

Acknowledgment is hereby made of the cooperation extended to the examiners by the officers and employees of SMU 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, both from the Washington State Office of the Insurance Commissioner, participated in the examination and the preparation of this report.

Respectfully submitted,



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



January 14, 2010

Mr. James T. Odiorne, CPA, JD
Deputy Insurance Commissioner
Company Supervision Division
P. O. Box 40255
Olympia, WA 98504-0255

RE: Financial Examination Report of Saint Martin's University; June 30, 2008

Dear Mr. Odiorne:

Thank you for the draft Financial Examination Report on Saint Martin's charitable gift annuity program. We have reviewed the results and agree to comply with the findings outlined in the Instructions section. We have no further comments about the report.

We enjoyed the opportunity to work with Mr. Gabriel.

Sincerely,

Stephen C. McGlone
Vice President
Institutional Advancement

Cc: Mary Sigmen, Vice President for Finance, Saint Martin's University
Michael G. Watson, Chief Deputy Insurance Commissioner
Patrick H. McNaughton, Chief Examiner

#190376

RECEIVED

JAN 19 2010

INSURANCE COMMISSIONER
COMPANY SUPERVISION

