

STATE OF WASHINGTON  
OFFICE OF THE INSURANCE COMMISSIONER



FINANCIAL EXAMINATION  
OF THE CHARITABLE GIFT ANNUITY BUSINESS  
OF  
BOARD OF TRUSTEES OF WHITMAN COLLEGE  
WALLA WALLA, WASHINGTON

JUNE 30, 2011

**SALUTATION**

Seattle, Washington  
May 16, 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:

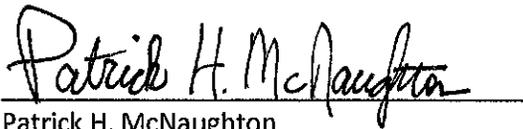
In accordance with your instructions and in compliance with the statutory requirements of Chapter 48.38 RCW, Charitable Gift Annuity Business, an examination was made of the corporate matters and financial records pertaining to the charitable gift annuity (CGA) business of

Board of Trustees of Whitman College  
of  
Walla Walla, Washington

hereinafter referred to as "BTWC" at its office, 345 Boyer Avenue, Walla Walla, Washington 99362. This report of examination is respectfully submitted showing the financial condition and related corporate matters of the CGA business of BTWC 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 the Board of Trustees of Whitman College of Walla Walla, Washington. This report shows the financial condition of the CGA business and related corporate matters of the Board of Trustees of Whitman College as of June 30, 2011.



Patrick H. McNaughton  
Chief Examiner

5-16-12

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. BTWC'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, BTWC's certified public accountant's (CPA's) audit of the 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 Walla Walla office of BTWC by examiners from the state of Washington.

The examiners reviewed BTWC's CGA Annual Reports as part of the statutory examination. This review was performed to determine if BTWC completed the Annual Reports in accordance with the Annual Report Instructions published by the OIC and to verify that BTWC'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 BTWC did not conform to RCW 48.38.010(10)(a) and the OIC Annual Report Instructions during the five-year examination period. Balances reported included the accounts of BTWC consolidated with its affiliates, Paul Garrett Whitman College Foundation and 21<sup>st</sup> Century Trust. BTWC 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 BTWC's affiliates, thereby, reflecting only the financial statements of BTWC in accordance with the OIC Annual Report Instructions.

Adjustments to BTWC's 2011 Annual Report resulted in a decrease in cash and cash equivalents of \$319 thousand, a decrease in other investments of \$7.8 million, a decrease in unrestricted net assets of \$3.7 million, a decrease in temporarily restricted net assets of \$3 million, a decrease in permanently restricted net assets of \$1.4 million, a decrease in revenues of \$2.9 million, a decrease in expenses of \$8.5 million, and a decrease in net assets at beginning of year of \$8.7 million. (See Note 1 to the Financial Statements.)

**BTWC 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.**

## COMMENTS AND RECOMMENDATIONS

NONE

## ORGANIZATION PROFILE

### History

BTWC is an independent co-educational, non-sectarian, liberal arts and sciences, and undergraduate college founded in 1859. BTWC was chartered by the state of Washington as a degree granting college in 1883.

### Territory and Plan of Operation

BTWC was granted a Certificate of Exemption No. 208 to conduct a CGA business in the state of Washington by the OIC on July 30, 2003. BTWC had 91 in-force annuity contracts as of June 30, 2011 of which 68 were issued in the state of Washington.

### Total Net Assets

BTWC's total net assets as of June 30, 2011 were \$502.4 million. This amount included unrestricted net assets of \$194.4 million. The minimum unrestricted net assets requirement was satisfied pursuant to RCW 48.38.010(6).

### Growth

The growth of BTWC 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, were compiled from BTWC'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	\$594,338	\$93,261	\$501,077	\$194,416	\$172,599	\$134,062
2010	536,450	94,885	441,565	171,298	143,524	126,743
2009	489,223	91,610	397,613	160,070	120,327	117,216
2008	585,913	88,538	497,375	192,517	191,726	113,132
2007	561,842	56,855	504,987	196,276	199,893	108,818

#### 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	\$135,418	\$105,464	(\$36,001)	\$49,954	\$113,278
Total expenses	67,188	61,512	63,761	57,566	54,878
Increase (decrease) in net assets	68,230	43,952	(99,762)	(7,612)	58,400
Net assets at beginning of year	432,847	397,613	497,375	504,987	446,587
<b>Net assets at end of year</b>	<b>\$501,077</b>	<b>\$441,565</b>	<b>\$397,613</b>	<b>\$497,375</b>	<b>\$504,987</b>
Number of gift annuity contracts	91	102	103	99	100

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

## **AFFILIATED ORGANIZATIONS**

BTWC has two affiliates, Paul Garrett Whitman College Foundation and 21<sup>st</sup> Century Trust, which are included in BTWC's audited consolidated financial statements.

## **MANAGEMENT AND CONTROL**

### **Management**

The business, operations, and affairs of BTWC are managed and controlled by its Board of Trustees (BOT) of up to 18 members. The BOT and the President of Whitman College have authority to exercise any power and perform any function delegated to them by BTWC's Constitution or by its BOT or both.

### **Board of Trustees**

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

Peter van Oppen - Chair	Kari Glover	David Nierenberg
Nancy Serrurier – Vice Chair	Tom McCracken	James Robart
Megan Clubb	Brad McMurchie	John Stanton
John Coleman	Megan Medica	Larry Stone
Ryan Crocker	Walt Minnick	
Andy Ferrari	Dean Nichols	

### **Officers**

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

George Bridges – President  
Peter Harvey – Treasurer and Chief Financial Officer  
Keiko Pitter – Chief Information Officer

### **Tax Status**

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

### **Conflict of Interest**

According to BTWC's Conflict of Interest Policy, each BOT member is required to disclose any possible personal, family or business relationships giving rise to a conflict of interest by completing and submitting a Trustee Conflict of Interest Disclosure Form annually to the Board Chair. The Board Chair provides the disclosure forms to the Chief Financial Officer and the Controller for their review and determination if further action is required. Based on our review of the submitted disclosure statements, no exceptions were noted.

## **ORGANIZATION RECORDS**

The BOT meets three times a year to discuss any pertinent business to BTWC. BOT meeting minutes documented the approval of BTWC'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 BTWC's annuity contract reserves as computed under RCW 48.38.020(3)(a) and (b) should be \$2,153,933 for 91 in-force annuity contracts as of June 30, 2011. This amount was properly reported in BTWC's Annual Report.

### **ANNUITY ASSETS CUSTODIAL FUNCTION**

The separate reserve fund assets were held legally and physically segregated from the other assets of BTWC as required by RCW 48.38.020(2)(a). The market values of the annuity investments as of June 30, 2011 were \$4,015,966 and consisted of money market and mutual funds. The annuity investments were properly reported in the financial statements at market value.

### **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 Board of Trustees of Whitman College as of June 30, 2011:

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

**Board of Trustees of Whitman College**  
**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>
<b>Assets</b>				
Cash and cash equivalents	\$10,049	(\$319)	\$9,730	1
Land, buildings, equipment and collections, net	145,434		145,434	
Other investments	412,209	(2,757)	409,452	1, 2
CGA investments	4,016		4,016	
Other assets	25,706		25,706	
<b>Total Assets</b>	<b><u>\$597,414</u></b>	<b><u>(\$3,076)</u></b>	<b><u>\$594,338</u></b>	
<b>Liabilities and Net Assets</b>				
CGA liabilities	\$2,385		\$2,385	
Other liabilities	90,876		90,876	
<b>Total Liabilities</b>	<b><u>93,261</u></b>	<b><u>0</u></b>	<b><u>93,261</u></b>	
<b>Net Assets</b>				
Unrestricted	200,962	(6,546)	194,416	1, 2
Temporarily restricted	170,380	2,219	172,599	1, 2
Permanently restricted	132,811	1,251	134,062	1, 2
<b>Total Net Assets</b>	<b><u>504,153</u></b>	<b><u>(3,076)</u></b>	<b><u>501,077</u></b>	
<b>Total Liabilities and Net Assets</b>	<b><u>\$597,414</u></b>	<b><u>(\$3,076)</u></b>	<b><u>\$594,338</u></b>	

**Board of Trustees of Whitman College**  
**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>Note</u>
Total revenues	\$138,359	(\$2,941)	\$135,418	1
Total expenses	<u>75,771</u>	<u>(8,583)</u>	<u>67,188</u>	1
Increase (decrease) in net assets	62,588	5,642	68,230	
Net assets at beginning of year	<u>441,565</u>	<u>(8,718)</u>	<u>432,847</u>	1
<b>Net assets at end of year</b>	<b><u>\$504,153</u></b>	<b><u>(\$3,076)</u></b>	<b><u>\$501,077</u></b>	

**NOTES TO THE FINANCIAL STATEMENTS**

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

1. Assets, liabilities, revenues, expenses, and net assets of the supporting organizations were adjusted in order to present BTWC's financial statements in accordance with the OIC Annual Report Instructions. Balances reported included the accounts of BTWC consolidated with its affiliates, Paul Garrett Whitman College Foundation and 21<sup>st</sup> Century Trust. The examination adjustments resulted in a decrease in cash and cash equivalents of \$319 thousand, a decrease in other investments of \$7.8 million, a decrease in unrestricted net assets of \$3.7 million, a decrease in temporarily restricted net assets of \$3 million, a decrease in permanently restricted net assets of \$1.4 million, a decrease in revenues of \$2.9 million, a decrease in expenses of \$8.6 million, and a decrease in net assets at beginning of year of \$8.7 million. (See Instruction 1.)
2. To reflect adjustments made by BTWC's staff after the Annual Report was submitted to the OIC and represent routine business activity to finalize the 2011 fiscal year. The examination adjustments resulted in an increase of other investments of \$5.1 million, a decrease in unrestricted net assets of \$2.8 million, an increase in temporarily restricted net assets of \$5.2 million, and an increase in permanently restricted net assets of \$2.7 million.

**ACKNOWLEDGMENT**

Acknowledgment is hereby made of the cooperation extended to the examiners by the officers and employees of the Board of Trustees of Whitman College 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 Orlando R. Gabriel, CFE, 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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Youngjae Lee, CPA  
Examiner-in-Charge  
State of Washington

