

STATE OF WASHINGTON  
OFFICE OF THE INSURANCE COMMISSIONER



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

June 30, 2012

Order No. 13-155  
Seattle University  
Exhibit A

**SALUTATION**

Seattle, Washington  
April 4, 2013

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:

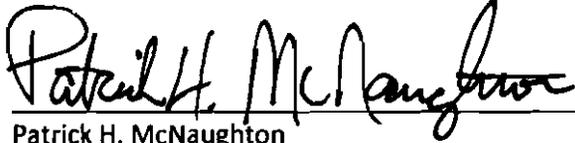
In accordance with your instructions and in compliance with the statutory requirements of Chapter 48.38 RCW, Charitable Gift Annuity Business, an examination was made of the corporate matters and financial records pertaining to the charitable gift annuity (CGA) business of

**Seattle University**  
of  
Seattle, Washington

hereinafter referred to as "the University" at its office, 901 12<sup>th</sup> Avenue, O'Brien Center 201, Seattle, Washington 98122. This report of examination is respectfully submitted showing the financial condition and related corporate matters of the CGA business of the University as of June 30, 2012.

**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 University of Seattle, Washington. This report shows the financial condition of the CGA business and related corporate matters as of June 30, 2012.



Patrick H. McNaughton  
Chief Examiner

5-9-13

Date

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## **SCOPE OF THE EXAMINATION**

The examination covers the period July 1, 2007 through June 30, 2012. The scope of our examination focused only on the transactions and operations of the CGA business. The University'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, the University's certified public accountant's (CPA's) audit of the June 30, 2012 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 the University by examiners from the state of Washington.

The examiners reviewed the University's CGA Annual Reports as part of the statutory examination. This review was performed to determine if the University completed the Annual Reports in accordance with the Annual Report Instructions published by the OIC and to verify that the University'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**

The University, which was founded in 1891, is a Jesuit Catholic university located in Seattle, Washington. Approximately 7,500 students are enrolled in undergraduate and graduate programs within eight schools and colleges.

### **Territory and Plan of Operation**

On November 30, 1998, the OIC granted the University Certificate of Exemption Number 123 to conduct a CGA business in the state of Washington. There were 63 in-force annuity contracts as of June 30, 2012.

### **Total Net Assets**

The University's total net assets as of June 30, 2012 were \$399.5 million. This amount included unrestricted net assets of \$247.2 million. The minimum unrestricted net assets requirement was satisfied pursuant to RCW 48.38.010(6).

## Growth

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

### Schedule 1 – Statement of Financial Position (In Thousands)

Year	Assets	Liabilities	Total Net Assets	Total Net Assets Allocation:		
				Unrestricted	Temporarily Restricted	Permanently Restricted
*2012	\$591,361	\$191,892	\$399,469	\$247,224	\$50,169	\$102,076
2011	591,266	194,834	396,432	238,503	58,299	99,630
2010	565,611	199,308	366,303	192,191	76,379	97,733
2009	514,217	159,447	354,770	206,946	53,115	94,709
2008	553,908	161,022	392,886	262,351	39,256	91,279

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

	<u>*2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Total revenues	\$198,742	\$220,180	\$186,564	\$135,116	\$186,598
Total expenses	<u>195,705</u>	<u>190,051</u>	<u>175,031</u>	<u>173,232</u>	<u>166,907</u>
Increase (decrease) in net assets	3,037	30,129	11,533	(38,116)	19,691
Other changes in net assets					
Net assets at beginning of year	<u>396,432</u>	<u>366,303</u>	<u>354,770</u>	<u>392,886</u>	<u>373,195</u>
Net assets at end of year	<u>\$399,469</u>	<u>\$396,432</u>	<u>\$366,303</u>	<u>\$354,770</u>	<u>\$392,886</u>
Number of gift annuity contracts at end of year	63	60	56	49	48

\*The 2012 balances include adjustments made subsequent to the OIC Annual Report filing. (See Note 1 to the Financial Statements.)

### AFFILIATED ORGANIZATIONS

The University has no affiliated organizations.

### MANAGEMENT AND CONTROL

#### Management

The University is governed by a Board of Trustees (BOT) comprised of 31 members, including the President of the University. The duties of the BOT include selecting the University's President and providing strategic guidance. With the exception of the BOT's President, members are elected to four-year terms. The President's term is indefinite and coincides with the term of the University's President.

**Board of Trustees**

The following individuals were trustees as of June 30, 2012:

Mohamed Alabbar	Michael McCarthy, S.J.
Michael Bayard, S.J.	Carol Murphy
Rodney Bench	William Owens
Robert Blais	Dennis Parnell S.J.
Mark Bosco, S.J.	Nicole Piasecki
David Burcham	Robert Ratliffe
Peter Chiarelli	Rick Redman
Marta Dalla Gasperina	Stuart Rolfe
Thomas Ellison	Peter Rose
Allan Golston	David Sabey
Donald Horowitz	Mick Schreck
Patrick Howell, S.J.	Stephen Sundborg, S.J.
Craig Jelinek	Jill Wakefield
Patrick Kelly, S.J.	Betty Woods
Maureen Lee	Jeffrey Wright
Gordon McHenry, Jr.	

**Officers**

The following individuals were officers as of June 30, 2012:

Stephen Sundborg, S.J., President  
Timothy Leary, Executive Vice President  
Constance Kanter, Chief Financial Officer  
Isiaah Crawford, Provost

**Tax Status**

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

**Conflict of Interest**

The University's conflict of interest policy requires each member of the BOT to disclose all financial or other interests that constitute a possible conflict of interest. After a trustee's disclosure of financial or other interest, the Chairman of the BOT determines if there is a possible conflict requiring action by the BOT. Based on our review, no exceptions were noted.

**ORGANIZATION RECORDS**

The BOT meets quarterly to discuss any business which is pertinent to the University. The minutes from the BOT meetings documented the approval of the University'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 the University's annuity contract reserves as computed under RCW 48.38.020(3)(a) and (b) should be \$2,095,568 for 63 in-force annuity contracts as of June 30, 2012. The separate reserve fund reported by SU on their financial statements also included an additional 10 percent in compliance with RCW 48.38.020(3)(c).

### **ANNUITY ASSETS CUSTODIAL FUNCTION**

The separate reserve fund assets were held legally and physically segregated from the other assets of the University as required by RCW 48.38.020(2)(a). The market values of the annuity investments as of June 30, 2012 were approximately \$2,838,113 and consisted of money market and mutual funds. The annuity investments were properly reported at market value in the University's financial statements.

### **SUBSEQUENT EVENTS**

There were no additional material events which impacted the University 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 financial condition of Seattle University as of June 30, 2012:

Statement of Financial Position

Statement of Activities and Changes in Net Assets

**Seattle University**  
**Statement of Financial Position**  
**June 30, 2012**  
(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	\$53,625	(\$8,712)	\$44,913	1
Accounts Receivable	(6)	6,066	6,060	1
Contributions Receivable	37	5,273	5,310	1
Prepaid Expenses and Inventories	3,595	(3)	3,592	1
Investments	168,234	8,007	176,241	1
Other Assets	1,744	62	1,806	1
Funds Held In Trust By Others	1,749	(38)	1,711	1
Student Loans Receivable	7,707	3	7,710	1
Assets Held Under Split Interest	4,957	(365)	4,592	1
CGA Investments	2,838		2,838	
Goodwill	4,941		4,941	
Deferred Unrealized Gains on Interest Rate Swaps	(1,519)	1,519		1
Property, Plant, and Equipment	322,812	8,835	331,647	1
<b>Total Assets</b>	<b><u>\$570,714</u></b>	<b><u>\$20,647</u></b>	<b><u>\$591,361</u></b>	
<b>Liabilities and Net Assets</b>				
Accounts payable	\$3,406	\$1,616	\$5,022	1
Accrued Liabilities	18,574	889	19,463	1
Deferred Revenue and Student Deposits	15,674	(5,634)	10,040	1
Liabilities under split interest	2,589	(93)	2,496	1
CGA Liabilities	2,472		2,472	
Funds Held In Custody For Others		2,275	2,275	1
Long-term Debt	140,490	(22)	140,468	1
Unrealized Loss on Interest Rate Swap Agreements		3,368	3,368	1
U.S. Government Loan Funds	6,288		6,288	
<b>Total Liabilities</b>	<b><u>189,493</u></b>	<b><u>2,399</u></b>	<b><u>191,892</u></b>	
<b>Net Assets</b>				
Unrestricted	275,481	(28,257)	247,224	1
Temporarily restricted	3,975	46,194	50,169	1
Permanently restricted	101,765	311	102,076	1
<b>Total Net Assets</b>	<b><u>381,221</u></b>	<b><u>18,248</u></b>	<b><u>399,469</u></b>	
<b>Total Liabilities and Net Assets</b>	<b><u>\$570,714</u></b>	<b><u>\$20,647</u></b>	<b><u>\$591,361</u></b>	

\*See note 1 for explanation

**Seattle University**  
**Statement of Activities and Changes in Net Assets**  
**For the Year Ended June 30, 2012**  
(In Thousands)

	<u>Balance Per Annual Report</u>	<u>*Examination Adjustments</u>	<u>Balance Per Examination</u>	<u>Notes</u>
Total revenues:	\$258,043	(\$59,301)	\$198,742	1
Total expenses:	266,357	(70,652)	195,705	1
Increase (decrease) in net assets	(8,314)	11,351	3,037	
Other changes in net assets				
Net assets at beginning of year	389,535	6,897	396,432	1
Net assets at end of year	<u>\$381,221</u>	<u>\$18,248</u>	<u>\$399,469</u>	

\*See note 1 for explanation

## **NOTES TO THE FINANCIAL STATEMENTS**

Adjustments to the University's financial statements are as follows:

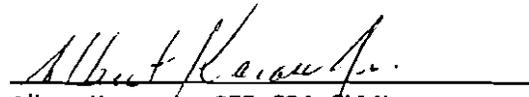
1. To reflect closing accruals, deferrals, and other financial statement adjustments made by the University after the OIC Annual Report filing, based on the Annual CPA Report.

**ACKNOWLEDGMENT**

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

Respectfully submitted,

A handwritten signature in cursive script, reading "Albert Karau, Jr.", is written over a solid horizontal line.

Albert Karau, Jr., CFE, CPA, FLMI  
Examiner-in-Charge  
State of Washington

