

STATE OF WASHINGTON
OFFICE OF THE INSURANCE COMMISSIONER



FINANCIAL EXAMINATION
OF THE CHARITABLE GIFT ANNUITY BUSINESS
OF
ST. MARTIN'S UNIVERSITY
LACEY, WASHINGTON

JUNE 30, 2013

Order No. 14-107
St. Martin's University
Exhibit A

SALUTATION

Seattle, Washington
January 7, 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:

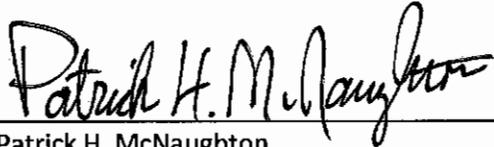
In accordance with your instructions and in compliance with the statutory requirements of Chapter 48.38 RCW, Charitable Gift Annuity Business, an examination was made of the corporate matters and financial records pertaining to the charitable gift annuity (CGA) business of

St. Martin's University
of
Lacey, Washington

hereinafter referred to as "SMU" at its office, 5000 Abbey Way SE, Lacey, WA 98503. This report of examination is respectfully submitted showing the financial condition and related corporate matters of the CGA business of SMU as of June 30, 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 St. Martin's University of Lacey, Washington. This report shows the financial condition of the CGA business and related corporate matters of St. Martin's University as of June 30, 2013.



Patrick H. McNaughton
Chief Examiner

5-22-14

Date

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SCOPE OF THE EXAMINATION

The examination covers the period July 1, 2008 through June 30, 2013. 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 June 30, 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 Lacey office of SMU by financial examiners from the state of Washington.

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

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 fourteen in-force annuity contracts as of June 30, 2013, and all fourteen were issued to residents of the state of Washington.

Total Net Assets

SMU's total net assets as of June 30, 2013 were \$38,746,564. This amount included unrestricted net assets of \$24,965,721. 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:

Schedule 1 – Statement of Financial Position

Fiscal Year	Assets	Liabilities	Total Net Assets	Total Net Assets Allocated Into:		
				Unrestricted	Temporarily Restricted	Permanently Restricted
2013	\$87,198,221	\$48,451,657	\$38,746,564	\$24,965,721	\$3,781,618	\$9,999,225
2012	89,717,768	55,466,063	34,251,705	22,007,503	3,890,193	8,354,009
2011	83,461,201	48,361,468	35,099,733	21,953,199	4,916,806	8,229,728
2010	81,962,868	50,009,802	31,953,066	21,498,728	2,503,430	7,950,908
2009	82,304,473	47,980,995	34,323,478	23,447,444	3,801,456	7,074,578

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	\$39,968,447	\$32,246,174	\$34,504,150	\$30,013,862	\$28,972,616
Total expenses	35,473,588	33,094,198	31,357,487	32,384,274	32,177,864
Increase (decrease) in net assets	4,494,859	(848,024)	3,146,663	(2,370,412)	(3,205,248)
Net assets at beginning of year	34,251,705	35,099,729	31,953,066	34,323,478	37,528,726
Net assets at end of year	<u>\$38,746,564</u>	<u>\$34,251,705</u>	<u>\$35,099,729</u>	<u>\$31,953,066</u>	<u>\$34,323,478</u>

Number of gift annuity contracts.	14	12	12	11	12
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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 BOT 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

Trustees as of June 30, 2013:

Patrick Rants, Chair	Fr. Alfred Hulscher, O.S.B.
Joe Alongi	Steve Leahy
Armandino Batali	Kathy Lombardo
Kenneth Berchtold	Fr. Kilian Malvey, O.S.B.
Brian Charneski	Matt Marcus
Fr. Bede Classick, O.S.B.	Fr. Justin McCreedy, O.S.B.
Michael Cronk	Terry Monaghan
Patrick Crumb	John O'Halloran
Waite Dalrymple	Abbot Neal G. Roth, O.S.B.
Lori Drummond	Stephen Rowan
Daniel Dugaw	Phillip Weigand
Phillip Hall	Joe Williams
Richard Hecker	Aelred Woodard
Roy Heynderickx	Cynthia Worth

Officers

Officers as of June 30, 2013:

Roy F. Heynderickx, President
Susan Heltsley, Chief Financial Officer

Tax Status

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

Conflict of Interest

BOT members are required to submit a conflict of interest questionnaire annually. SMU's policy statement indicates that should an actual or potential conflict of interest arise, it will be reviewed and voted upon by the BOT. Based on our review, no exceptions were noted.

ORGANIZATION RECORDS

The BOT meets four times a year to discuss business pertinent to SMU. BOT meeting minutes documented the approval of SMU's transactions and events. No exceptions were noted.

SEPARATE RESERVE FUND (SRF)

SMU'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 SMU, 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, SMU was in compliance with RCW 48.38.020(3)(c) which requires SMU 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 SMU 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 SMU's annual reports and financial statements.

FINANCIAL STATEMENTS

The following financial statements show the financial condition of SMU as of June 30, 2013:

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

St. Martin's University
Statement of Financial Position
June 30, 2013

	<u>Balance Per Annual Report</u>	<u>Examination Adjustments</u>	<u>Balance Per Examination</u>	<u>Note</u>
Assets				
Cash and cash equivalents	\$5,366,496	\$0	\$5,366,496	
CGA separate reserve fund	880,407		880,407	
Investments	16,742,139		16,742,139	
Property, plant, & equipment, net	59,930,071		59,930,071	
Other assets	<u>4,279,108</u>		<u>4,279,108</u>	
Total Assets	<u>\$87,198,221</u>	<u>\$0</u>	<u>\$87,198,221</u>	
Liabilities and Net Assets				
Accounts and other payables	\$3,123,598	\$0	\$3,123,598	
CGA liabilities	607,137	102,091	709,228	1
Obligation under interest rate swaps	9,203,180		9,203,180	
Notes and bonds payable	32,520,000		32,520,000	
Other liabilities	<u>2,895,651</u>		<u>2,895,651</u>	
Total Liabilities	<u>48,349,566</u>	<u>102,091</u>	<u>48,451,657</u>	
Net Assets				
Unrestricted	25,010,220	(44,499)	24,965,721	1
Temporarily restricted	3,839,210	(57,592)	3,781,618	1
Permanently restricted	<u>9,999,225</u>		<u>9,999,225</u>	
Total Net Assets	<u>38,848,655</u>	<u>(102,091)</u>	<u>38,746,564</u>	
Total Liabilities and Net Assets	<u>\$87,198,221</u>	<u>\$0</u>	<u>\$87,198,221</u>	

St. Martin's University
Statement of Activities and Changes in Net Assets
For the Year Ended June 30, 2013

	Balance Per Annual Report	Examination Adjustments	Balance Per Examination	Note
Total revenues	\$55,927,428	(\$15,958,981)	\$39,968,447	2
Total expenses	<u>(51,330,479)</u>	<u>15,856,891</u>	<u>(35,473,588)</u>	2
Increase (decrease) in net assets	4,596,949	(102,090)	4,494,859	
Net assets at beginning of year	<u>34,251,706</u>	<u>(1)</u>	<u>34,251,705</u>	
Net assets at end of year	<u>\$38,848,655</u>	<u>(\$102,091)</u>	<u>\$38,746,564</u>	

NOTES TO THE FINANCIAL STATEMENTS

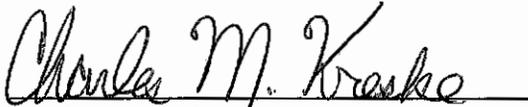
1. To reflect CPA audit adjustments made after the OIC Annual Report filing.
2. The income and expense numbers in the OIC Annual Report display the scholarship allowance of \$15,724,889 differently compared to the CPA Audited Financial Statements. The scholarship allowance is included with the expenses in the OIC Annual Report. The CPA Audited Financial Statements nets the scholarship against the revenue. Per Governmental Accounting Standards Board (GASB) Statement No. 34, a higher education institution is required to net the scholarships against the tuition revenue. The remaining amount is due to CPA audit adjustments made after the OIC Annual Report filing.

ACKNOWLEDGMENT

Acknowledgment is hereby made of the cooperation extended to the examiners by the officers and employees of St. Martin's University 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, and Orlando Gabriel, CFE, 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 that reads "Charles M. Kreske". The signature is written in black ink and is positioned above a horizontal line.

Charles M. Kreske, AFE
Financial Examiner
State of Washington

