STATE OF WASHINGTON
OFFICE OF THE INSURANCE COMMISSIONER

FINANCIAL EXAMINATION

of the Charitable Gift Annuity Business

of

University of Puget Sound
Tacoma, Washington

JUNE 30, 2003

Order No. G 07-8
University of Puget Sound
Exhibit A

SALUTATION

Seattle, Washington
January 30, 2007

The Honorable Mike Kreidler, Commissioner
Washington State Office of the Insurance Commissioner (OIC)
Insurance Building, Capitol Campus
302-14th Avenue SW
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 (CGAB), an examination was made of the corporate affairs and financial records pertaining to the CGAB of the

University of Puget Sound

of

Tacoma, Washington

hereinafter referred to as "the University" at its office, 1500 N. Warner Street, Tacoma, WA 98416.

This report of examination is respectfully submitted showing the condition of the CGAB of the University as of June 30, 2003.

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 University of Puget Sound of Tacoma, Washington. This report shows the financial condition of the Charitable Gift Annuity Business and related corporate matters of the University of Puget Sound as of June 30, 2003.

Patrick H. McNaughton
Chief Examiner

1-30-2007
Date

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SCOPE OF THE EXAMINATION

This examination covers the period January 1, 1999 through June 30, 2003. The 2003 Annual Report reflected the balance sheet and statement of revenue and expenses of the University as of June 30, 2003. The OIC granted permission to the University to present its CGAB Annual Report as of its fiscal year ended June 30, 2003. The examination of the 2003 Annual Report, therefore, covers the period ending June 30, 2003 for the balance sheet and statement of revenue and expenses sections, and the period ending December 31, 2003 for the general interrogatories and charitable gift annuities reserve fund. The financial statements are presented for the entire University. However, the scope of our examination focused only on the transactions and operations of the CGAB. The University's records, along with various aspects of the University's operating procedures and financial reports, were reviewed and tested during the course of this examination as necessary to substantiate CGAB 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) reports were reviewed and utilized, where possible, to facilitate efficiency in the examination.

The examination was conducted in accordance with 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 the University by examiners from the state of Washington.

INSTRUCTIONS

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

The number of in-force Washington State annuity contracts stated in Charitable Gift Annuities Reserve Fund Activity (the Schedule) section of the 2003 Annual Report was incorrectly reported. There were thirty-seven in-force annuity contracts as of December 31, 2003; thirty-one of which were issued to residents of the state of Washington. Therefore, only 31 should be reported in the Washington Contracts section of the Schedule. As a result, the University was not in compliance with the OIC Annual Report Instructions as required by Chapter 48.38 RCW.

RCW 48.38.010 states that: "The commissioner may grant a certificate of exemption to any insurer or educational, religious, charitable, or scientific institution conducting a charitable gift annuity business: (10) Which: (a) Files with the insurance commissioner on or before March 1 of each year a copy of its annual statement prepared pursuant to the laws of its state of domicile, as well as such other financial material as may be requested, . . ."

Pursuant to RCW 48.38.010, the University is instructed to develop and implement a system for the accounting and reporting of its charitable gift annuity business to ensure compliance with the principles or practices prescribed or permitted by Chapter 48.38 RCW.

COMMENTS AND RECOMMENDATIONS

Documentation of Closed Annuity Contracts

The University did not obtain a certified copy of the death certificate to support the transfer of charitable annuity funds to the University from deceased annuitants.

It is recommended that the University obtain and retain, in the annuitant's file, a certified copy of the death certificate to document an annuitant's death.

ORGANIZATION PROFILE

History: The University of Puget Sound is an independent, predominantly residential, nonsectarian undergraduate liberal arts college with selected graduate programs. The University was established in 1888 by what is now the United Methodist Church. Today, the University is governed by a wholly independent Board of Trustees.

Territory and Plan of Operation: On August 9, 1983, the OIC granted the University a Certificate of Exemption to conduct a CGAB in the state of Washington. There were thirty-seven (37) annuity contracts as of December 31, 2003: thirty-one (31) were issued to residents of the state of Washington, one (1) was issued to a resident of the state of Oregon, one (1) was issued to a resident of the state of Virginia, three (3) were issued to residents of the state of New York, and one (1) was issued to a resident of the state of Arizona. (See INSTRUCTION No.1)

Total Net Assets: The University's total net assets as of June 30, 2003 were $264,248,064. This amount included unrestricted net assets of $183,860,936. 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 years is reflected in the following schedules. All information was compiled from the University's audited financial statements for the fiscal years ending August 31 (1999 – 2002) and June 30 (2003).

Schedule 1 – Statement of Financial Position (Dollars in Thousands)

Fiscal Year	Assets	Liabilities	Total Net Assets	Total Net Assets Allocated Into: Unrestricted	Temporarily Restricted	Permanently Restricted
2003	$334,772	$70,524	$264,248	$183,861	$12,197	$68,190
2002	336,169	86,000	250,169	174,220	9,871	66,078
2001	359,348	87,127	272,221	197,903	9,952	64,366
2000	378,743	77,932	300,811	226,360	15,281	59,170
1999	$338,724	$79,439	$259,285	$191,697	$14,604	$52,984

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

	2003	2002	2001	2000	1999
Total revenues	$79,991	$47,084	$38,383	$105,217	$108,419
Total expenses	65,912	69,136	66,973	63,691	60,730
Excess (deficit) of revenue over expenses	14,079	(22,052)	(28,590)	41,526	47,689
Net assets at beginning of year	250,169	272,221	300,811	259,285	211,596
Net assets at end of year	**$264,248**	**$250,169**	**$272,221**	**$300,811**	**$259,285**
Number of gift annuity contracts at end of year	37	37	33	33	32

AFFILIATED ORGANIZATIONS

The University does not have any affiliates.

MANAGEMENT AND CONTROL

Management: Responsibility for governing the University is vested in a Board of Trustees. The Trustees are elected by the Board of Trustees at each annual meeting. The University Bylaws may be amended or repealed at any regular meeting of the Board by a vote of two-thirds of all members present.

Board of Trustees: Members of the Board of Trustees as of December 31, 2003, included:

Carl G. Behnke
Richard M. Brooks
Marvin H. Caruthers
Bradbury F. Cheney
Michael J. Corliss
John W. Creighton, Jr.
William D. McCormick
William H. Neukom
Marc A. Olson
Deanna W. Oppenheimer
Carolyn Reid-Wallace
Allan D. Sapp

Lowell Daun
Hollis Dillon
Elias G. Galvan
Nancy R. Hoff
Mack L. Hogans
Justin L. Jaschke
Haruo Kazama
Thomas E. Leavitt
Janeen S. McAninch
Nathalie B. Simsak
Elaine J.W. Stanovsky
Kiseko Miki Takahashi
Ronald R. Thomas
Peter K. Wallerich
William T. Weyerhaeuser
John A. Whalley
Peter J. Whittall
Kenneth W. Willman
Ronald B. Woodard

Officers: In accordance with the Bylaws, the Board of Trustees may appoint a president, one or more vice-presidents, a dean of the university, a secretary, and a treasurer. The officers as of December 31, 2003, included:

Ronald R. Thomas, President
Kristine Bartanen, Dean of the University
Sherry Mondou, Vice President for Finance and Administration
Michael Oman, Vice President for University Relations
George H. Mills, Vice President for Enrollment
Jeffrey S. Johnson, Secretary

Tax Status: The University is a Washington State not-for-profit institution and is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code.

Conflict of Interest: The University has a conflict of interest policy which is a part of, and is defined in, its Corporate Bylaws. Any duality of interest or possible conflict of interest on the part of any trustee should be disclosed to the other trustees and made a matter of record through an annual procedure established by the Board.

CORPORATE RECORDS

The Board of Trustees meets at least three times a year to discuss any business which is pertinent to the University. Minutes of the meetings of the trustees documented the approval of the University's transactions and events. No exceptions were noted.

STATEMENT OF ACTUARIAL OPINION

A consulting actuary with the firm of Aon Consulting, Inc., determined the adequacy of the annuity reserves. In the Statement of Actuarial Opinion, the actuary affirmed he is a member of the American Academy of Actuaries and meets the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion. His opinion indicates that the University's annuity contract reserves meet the requirements of RCW 48.38.020 of the Washington Insurance Code.

ANNUITY ASSETS CUSTODIAL FUNCTION

The assets of the separate reserve fund were physically segregated from the other assets of the University as required by RCW 48.38.020(2). Investments were recorded at fair value and consisted of money market funds, bonds and stocks.

SUBSEQUENT EVENTS

There were no material events which impacted the University's CGAB 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 the annual reports and financial statements. (See Instruction No. 1)

FINANCIAL STATEMENTS

The following financial information summarizes the financial statements of the University as of June 30, 2003:

Statement of Financial Position

	Balance Per Annual Report	Examination Adjustments	Adjusted Balance
ASSETS			
Cash and cash equivalents	$36,305,625		$36,305,625
Investments	173,617,631		173,617,631
CGA assets*	964,798		964,798
Assets held in charitable remainder trust	6,851,254		6,851,254
Other assets	117,032,312		117,032,312
Total Assets	**$334,771,620**	**0**	**$334,771,620**
LIABILITIES			
Accounts payable	9,788,542		9,788,542
Unitrust liabilities	2,893,515		2,893,515
CGA reserves*	592,917		592,917
Other liabilities	57,248,582		57,248,582
Total Liabilities	70,523,556	0	70,523,556
NET ASSETS			
Unrestricted	183,860,936		183,860,936
Temporarily restricted	12,197,521		12,197,521
Permanently restricted	68,189,607		68,189,607
Total Net Assets	264,248,064	0	264,248,064
Total Liabilities and Net Assets	**$334,771,620**	**$0**	**$334,771,620**

*The distribution of the annuity assets and statutory reserves are based on the Statement of Actuarial Opinion as of December 31, 2003.

Statement of Financial Activity and Changes in Net Assets

	Balance Per Annual Report	Examination Adjustments	Adjusted Balance
Total revenues	$79,990,585	$0	$79,990,585
Total expenses	65,911,523		65,911,523
Increase (decrease) in net assets	14,079,062		14,079,062
Net assets at beginning of year	250,169,002		250,169,002
Changes in net assets per examination		0	0
Net assets at end of year	**$264,248,064**	**$0**	**$264,248,064**

ACKNOWLEDGMENT

Acknowledgment is hereby made of the cooperation extended to the examiners by the officers and employees of the University during the course of this examination.

In addition to the undersigned, Michael V. Jordan, CPA, CFE, MHP, Assistant Chief Examiner; John Gaynard, CPA, CFE, FLMI, Life and Disability Field Supervising Examiner, 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

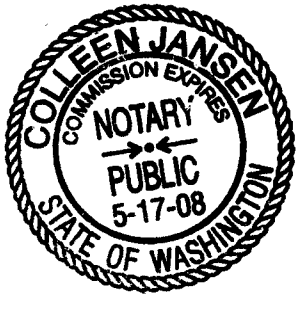
AFFIDAVIT

STATE OF WASHINGTON }
} ss
COUNTY OF KING }

Orlando R. Gabriel, being duly sworn, deposes and says that the foregoing report subscribed by him is true to the best of his knowledge and belief.

He attests that the examination of the University's CGAB was performed in a manner consistent with the standards and procedures required or prescribed by the Washington State Office of the Insurance Commissioner and the National Association of Insurance Commissioners (NAIC).

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

Subscribed and sworn to before me on this 30th day of January, 2007.

Notary Public in and for the
State of Washington,
Residing at Seattle.