

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



FINANCIAL EXAMINATION
of the Charitable Gift Annuity Business
of
Swedish Medical Center Foundation
Seattle, Washington

DECEMBER 31, 2005

Order No. G 07-298
Swedish Medical Center Foundation
Exhibit A

SALUTATION

Seattle, Washington
August 27, 2007

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 (CGA) business, an examination was made of the corporate affairs and financial records pertaining to the CGA business of

Swedish Medical Center Foundation

of

Seattle, Washington

hereinafter referred to as "SMCF" at its office, 747 Broadway, Met Park East, Seattle, Washington 98122.

This report of examination is respectfully submitted showing the condition of SMCF as of December 31, 2005.

CHIEF EXAMINER'S AFFIDAVIT

I hereby certify I have read the attached Report of the Financial Examination of the Charitable Gift Annuity business of Swedish Medical Center Foundation of Seattle, Washington. This report shows the financial condition of the Charitable Gift Annuity business and related corporate matters of Swedish Medical Center Foundation as of December 31, 2005.



Patrick H. McNaughton
Chief Examiner

8-27-07

Date

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SCOPE OF THE EXAMINATION

This examination covers the period January 1, 2001 through December 31, 2005. The audited combined financial statements and supplemental information are presented for SMCF and its parent company, Swedish Health Services (Swedish). However, the scope of our examination focused only on the transactions and operations of the CGA business. SMCF'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.

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 SMCF by examiners from the state of Washington.

INSTRUCTIONS

The examiners reviewed SMCF's Annual Reports as part of the statutory examination. This review was performed to determine if SMCF 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.

There were no instructions made in this examination report.

COMMENTS AND RECOMMENDATIONS

1. Entity Name Change

On March 23, 2005, the OIC notified SMCF that its request for name change from "Swedish Hospital Medical Center" to "Swedish Medical Center Foundation" had been approved effective November 27, 1989. Accordingly, the name was changed in the Annual Report, restated Articles of Incorporation and Bylaws, Internal Revenue Service Form 990, annuity agreements, statement of actuarial opinion, and financial statements. However, the custodial account, used for the charitable gift annuities held by Wells Fargo Bank, uses "Swedish Hospital Medical Center Foundation" or "Swedish Health Services Foundation" name for the SMCF account.

It is recommended that SMCF coordinate with Wells Fargo Bank to change the name in the statement to "Swedish Medical Center Foundation – Gift Annuity Reserve" for the custodial account.

ORGANIZATION PROFILE

History: SMCF was incorporated on December 30, 1976. The purpose of SMCF is to provide fundraising to further the charitable, educational, health care, and scientific activities of Swedish.

Territory and Plan of Operation: On November 29, 1989, the OIC granted Swedish Hospital Medical Center (SHMC) a Certificate of Exemption Number 28. On March 23, 2005, the OIC amended Certificate of Exemption Number 28 to reflect the name change from SHMC to SMCF. There were fifteen in-force annuity contracts as of December 31, 2005. All of the fifteen annuity contracts were issued to residents of the state of Washington.

Total Net Assets: SMCF's total net assets as of December 31, 2005 were \$41,984,174. This amount included an unrestricted net asset of \$20,869,351. The minimum unrestricted net assets requirement was satisfied pursuant to RCW 48.38.010(6).

Growth: The growth of SMCF for the past five years is reflected in the following schedules. All information was compiled from Swedish's audited Financial Statements and Supplemental Information for the calendar years ending December 31.

Schedule 1 – Statement of Financial Position (amounts in thousands)

<u>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>
2005	\$45,793	\$3,809	\$41,984	\$20,869	\$16,382	\$4,733
2004	47,679	7,834	39,845	19,354	15,316	5,175
2003	43,303	4,671	38,632	19,883	13,652	5,097
2002	37,821	1,365	36,456	18,737	12,383	5,336
2001	37,062	510	36,552	17,865	13,389	5,298

Schedule 2 – Statement of Activities and Changes in Net Assets (amounts in thousands)

	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Revenues and gains	\$16,171	\$20,327	\$16,489	\$10,933	\$13,539
Expenses	14,032	19,114	14,313	11,029	10,063
Increase (decrease) in net assets	2,139	1,213	2,176	(96)	3,476
Net assets at beginning of year	39,845	38,632	36,456	36,552	33,076
Net assets at end of year	\$41,984	\$39,845	\$38,632	\$36,456	\$36,552
Number of gift annuity contracts at end of year	15	13	11	6	7

AFFILIATED ORGANIZATIONS

Swedish is the parent company and the sole member of SMCF. Swedish provides comprehensive inpatient, outpatient, and emergency health care services through three acute care hospitals, a network of primary care medical clinics, and other medical organizations, primarily in the Seattle, Washington area.

MANAGEMENT AND CONTROL

Management: According to the restated Articles of Incorporation and Bylaws (February 25, 2004), SMCF is governed by a Board of Governors (BOG) consisting of not less than fifteen (15) persons.

The BOG as of December 31, 2005:

Lucius Andrew III	Charles S. Lytle
Cheryl Gossman	Donovan Olson
Tom Gores	Jane Uhler, MD
Barbara O'Sullivan, MD	James F. Vatn
Donella Goudeau	J. Scott Harrison
Robert J. Hutnik	Jean Viereck
William W. Krippaehne, Jr.	Thomas W. Malone
Janet True	Richard Peterson
Don Theophilus	Cindy Strauss
Ron Sperling	

Officers: The Corporate Bylaws state that the officers and administration of SMCF include an executive director, a secretary, and a treasurer. Don Theophilus, the Executive Director, fulfills the role and responsibilities of president of SMCF. Cindy Strauss, the Secretary of SMCF, is the vice president/general counsel of Swedish. Ron Sperling, the Treasurer of SMCF, is the chief financial officer of Swedish. The executive director, secretary, and treasurer are under the supervision of the president/chief executive officer of Swedish.

Tax Status: SMCF is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code.

Conflict of Interest: According to the BOG Conflict of Interest Policy, each board member has an obligation to complete and sign a Conflict of Interest Questionnaire on an annual basis to disclose all actual, apparent, or potential conflict of interest. A copy of the questionnaire is provided to the board chair and to the general counsel. The executive committee reviews all conflict of interest questionnaires; makes a finding as to whether an actual, apparent or potential conflict of interest exists; and makes recommendations as to how the conflict of interest should be addressed. No exceptions were noted.

CORPORATE RECORDS

The BOG meets at least four times a year to discuss any business which is pertinent to SMCF. Minutes of the meetings of governors documented the approval of SMCF's transactions and events. No exceptions were noted.

STATEMENT OF ACTUARIAL OPINION

A consulting actuary with Mercer Human Resource Consulting reviewed the adequacy of the annuity reserves and issued a Statement of Actuarial Opinion (SAO) which stated that he is a member of the Society of Actuaries. The SAO indicated that SMCF's annuity contract reserves as computed under RCW 48.38.020(3)(a) and (b) of the Washington insurance code should be \$741,977. This amount, plus the 10% surplus required by RCW 48.38.020(3)(c), was properly reported as CGA liabilities in SMCF financial statements.

ANNUITY ASSETS CUSTODIAL FUNCTION

The separate reserve fund assets were held legally and physically segregated from the other assets of SMCF as required by RCW 48.38.020(2). Total annuity investments as of December 31, 2005 were \$817,073, and consisted of cash, money market funds and mutual funds. Investments were recorded at fair value.

SUBSEQUENT EVENTS

There were no material events which impacted SMCF's CGA business between the examination date and the last day of field work.

ACCOUNTING RECORDS AND PROCEDURES

The records and source documentation supported the data and amounts presented in the annual reports and financial statements.

FINANCIAL STATEMENTS

(Amounts in thousands)

The following financial information summarizes the financial statements of SMCF as of December 31, 2005:

Balance Sheet

	Balance Per Annual Report	Adj.	Examination Adjustments	Adjusted Balance
<u>ASSETS</u>				
Cash and cash equivalents	\$1,946		\$0	\$1,946
CGA investments	817			817
Other investments	20,288			20,288
Other assets	22,742			22,742
Total Assets	<u>\$45,793</u>		<u>\$0</u>	<u>\$45,793</u>
<u>LIABILITIES</u>				
CGA reserves (including current portion)	\$816		\$0	\$816
Other liabilities	2,993			2,993
Total Liabilities	<u>3,809</u>		<u>0</u>	<u>3,809</u>
<u>NET ASSETS</u>				
Unrestricted	20,869		0	20,869
Temporarily restricted	16,382		0	16,382
Permanently restricted	4,733		0	4,733
Total Net Assets	<u>41,984</u>		<u>0</u>	<u>41,984</u>
Total Liabilities and Net Assets	<u>\$45,793</u>		<u>\$0</u>	<u>\$45,793</u>

Statement of Financial Activity and Changes in Net Assets

	Balance Per Annual Report	Adj.	Examination Adjustments	Adjusted Balance
Total revenues	\$16,171		\$0	\$16,171
Total expenses	14,032			14,032
Increase (decrease) in net assets	2,139		0	2,139
Net assets at beginning of year	39,845			39,845
Net assets at end of year	<u>\$41,984</u>		<u>\$0</u>	<u>\$41,984</u>

ACKNOWLEDGMENT

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

In addition to the undersigned, Michael V. Jordan, CPA, CFE, MHP, Assistant Chief Examiner, from the Washington State Office of the Insurance Commissioner; 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

