STATE OF WASHINGTON
OFFICE OF THE INSURANCE COMMISSIONER

FINANCIAL EXAMINATION

of the Charitable Gift Annuity Business

of

Overlake Hospital Foundation
Bellevue, Washington

June 30, 2006

Order No. 08-0142
Overlake Hospital Foundation
Exhibit A

SALUTATION

Seattle, Washington
October 7, 2008

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 affairs and financial records pertaining to the charitable gift annuity (CGA) business of

Overlake Hospital Foundation

of

Bellevue, Washington

hereinafter referred to as "OHF" at its office, 1120 112th Avenue NE, Suite 200, Bellevue, Washington 98004. This report of examination is respectfully submitted showing the condition of the CGA business of OHF as of June 30, 2006.

CHIEF EXAMINER'S AFFIDAVIT

I hereby certify I have read the attached Report of the Financial Examination of the CGA business of Overlake Hospital Foundation of Bellevue, Washington. This report shows the financial condition of the CGA business and related corporate matters of Overlake Hospital Foundation as of June 30, 2006.

Patrick H. McNaughton

Patrick H. McNaughton
Chief Examiner

10-7-08

Date

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SCOPE OF THE EXAMINATION

This examination covers the period July 1, 2001 through June 30, 2006. The 2006 Annual Report reflected the balance sheet and statement of revenue and expenses of OHF as of December 31, 2006. OHF'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 the CGA business reporting. The results of the examination are commented upon in the various sections of this report. In addition, OHF'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 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 Bellevue office of OHF by examiners from the state of Washington.

INSTRUCTIONS

The examiners reviewed OHF's CGA Annual Reports as part of the statutory examination. This review was performed to determine if OHF completed its 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. Statutory Reserves

RCW 48.38.020 requires OHF to establish and maintain a separate reserve fund adequate to meet the future payments under its charitable gift annuity contracts. OHF maintained a separate reserve fund but it did not agree to the actuary's calculated reserve amount and did not include the surplus of 10% as required by RCW 48.38.020(3)(c). As a result, the reported CGA reserves were understated on June 30, 2006. No examination adjustment was required due to immateriality.

OHF is instructed to report the statutory reserve calculated by the actuary pursuant to RCW 48.38.010(10)(c), and an additional 10% surplus required by RCW 48.38.020(3)(c).

COMMENTS AND RECOMMENDATIONS

1. Board Meetings – Quorum

There were 5 meetings during the period under examination where there was not a quorum present. In addition, the Board of Trustees (BOT) minutes do not record when a quorum is present. There is a risk that BOT decisions are made when the authority to make those decisions does not exist.

It is recommended that the BOT determine at the beginning of every meeting whether or not a quorum is present. This should be documented in the minutes of every meeting.

2. Conflict of Interest Policy

OHF's conflict of interest policy requires all directors, trustees, and key members of management to sign a conflict of interest questionnaire once per year and to return it to OHF within two weeks of receipt. It also requires all potential conflicts of interest to be brought to the BOT's attention, and lists specific procedures that must be followed to dispose of the potential conflicts.

In 2006, there were two individuals that did not return the questionnaire. It was also noted that the BOT did not review the conflicts of interest in 2006 as required by the policy.

It is recommended that OHF adhere to the conflict of interest policy by requiring all required individuals to timely sign the conflict of interest statement annually, and by following up on questionnaires that are not received. It is recommended that OHF and the BOT adhere to the conflict of interest policy by reviewing and resolving all potential conflicts of interest in the manner required by the policy.

3. Board Review of Investment Portfolio

The investment policy states: "The Trustees (of the Board) delegated the monitoring and evaluation of adherence to these guidelines and the portfolio and investment management performance to its Finance Committee. The Finance Committee will report periodically (at least semi-annually) to the Trustees with respect to matters relating to the Portfolio." The minutes document that the finance report is being approved, but only document a discussion about revenues, expenses, and fund raising. There is no documentation that the portfolio was discussed or reviewed.

It is recommended that the BOT document its discussion and review of the investment portfolio.

4. Annuity Agreements

One annuity was not paid according to the frequency specified in the contract. OHF amended the contract prior to the issuance of this report.

It is recommended that OHF follow the terms of its annuity contracts.

ORGANIZATION PROFILE

History: OHF's purpose is to: (a) receive grants, bequests, donations, and contributions on behalf of; (b) provide fund-raising and other support to; and (c) make contributions to, Overlake Hospital and its related tax exempt corporations.

Territory and Plan of Operation: On June 16, 1997, the OIC granted OHF Certificate of Exemption Number 105 to conduct a CGA business in the state of Washington. There were seventeen annuity contracts as of December 31, 2006.

Total Net Assets: OHF's total adjusted net assets as of June 30, 2006 were $9,987,716. This amount included an unrestricted net asset of $4,013,025. The minimum unrestricted net asset requirement as of December 31, 2006 was satisfied pursuant to RCW 48.38.010(6).

Growth: The growth of OHF for the previous years is reflected in the following schedules. All information was compiled from OHF's filed audited financial statements and IRS Forms 990 as of fiscal years ending June 30.

Schedule 1 Statement of Financial Position (Balance Sheet)

				Total Net Assets Allocated Into:		
Fiscal Year	Assets	Liabilities	Total Net Assets	Unrestricted	Temporarily Restricted	Permanently Restricted
2006	$10,358,906	$289,627	$10,069,279	$4,013,025	$1,975,511	$4,080,743
2005	7,796,767	265,616	7,531,151	3,603,926	0	3,927,225
2004	9,062,987	230,128	8,832,859	4,828,015	206,517	3,798,327
2003	8,747,186	280,950	8,466,236	5,064,357	206,517	3,195,362
2002	9,067,561	242,997	8,824,564	5,392,484	1,035,534	2,396,546

Schedule 2: Statements of Financial Activity and Changes in Net Assets

	2006	2005	2004	2003	2002
Total Revenue	$6,668,265	$3,938,428	$4,474,942	$5,103,589	$5,167,069
Total Expenses	(3,540,329)	(5,314,194)	(4,385,000)	(5,557,287)	(5,128,990)
Other changes in net assets	(589,808)	74,058	276,681	95,370	3,241
Increase (decrease) in net	2,538,128	(1,301,708)	366,623	(358,328)	41,320
Net assets, beginning of year	7,531,151	8,832,859	8,466,236	8,824,564	8,783,244
Net assets at end of year	**$10,069,279**	**$7,531,151**	**$8,832,859**	**$8,466,236**	**$8,824,564**
Number of gift annuity contracts at end of year	17	13	10	5	5

AFFILIATED ORGANIZATIONS

Overlake Hospital Medical Center (OHMC), a separate Washington nonprofit medical center, is the parent of OHF.

MANAGEMENT AND CONTROL

Management: OHF is governed by a BOT. The Bylaws require the BOT to consist of at least 15 members, who are elected by the BOT of OHMC to serve three year terms. At June 30, 2006, there were 26 Trustees.

The BOT as of June 30, 2006 were:

Dr. Roger Stark, Chairman	Nathaniel Miles
Gregory Collins, Chairman Elect	Jacqueline Coyan
Phillip Corneil	Jeffrey Sanderson
Joan Albee	Shelly Agricola, MD
Jody Cunningham	Astrid (Ozzie) Traff
John Nelson, MD	Clodagh Ash
Patricia Shands, MD	Thomas Fowler
Laura Allison	Jim Hill
Linda Mahaffey	Kevin Berry
Kathy Surace-Smith	Roger Anderson
Robert Moorman	Peggy Swistak
Sue Raschella	Peter Glidden
Susan Smith	Vicki Orrico

The officers as of June 30, 2006 were:

Kenneth Graham, President & CEO
Dr. Roger Stark, Chairman
Gregory Collins, Chairman Elect
Clodagh Ash, Immediate Past Chair
Peggy Swistak, Secretary
Kevin Berry, Treasurer

Tax Status: OHF is a tax-exempt charitable organization under Section 501(c)(3) of the Internal Revenue Code.

Conflict of Interest: OHF's policy requires each member of the BOT and all officers, directors, and key members of management to sign a conflict of interest questionnaire once per year. The signed questionnaire is reviewed by an appropriate committee to determine if actual conflicts of interest exist. Formal procedures exist for remedying conflicts of interest. (See Comment and Recommendation No. 2.)

ORGANIZATION RECORDS

The BOT meets regularly to discuss any business which is pertinent to OHF. Minutes of the meetings of trustees documented the approval of OHF's transactions and events. Five meetings during the period under review did not have a quorum present, and the minutes do not document the BOT's review of the investment portfolio. (See Comments and Recommendations Nos. 1 and 3, respectively.)

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 OHF's annuity contract reserves as computed under RCW 48.38.020(3)(a) and (b) of the Washington Insurance Code should be $204,573 as of December 31, 2006. This amount, plus the 10% surplus required by RCW 48.38.020(3)(c), was not properly reported as annuity liabilities in OHF's financial statements. (See Instruction No. 1.)

ANNUITY ASSETS CUSTODIAL FUNCTION

The separate reserve fund assets were held legally and physically segregated from the other assets of OHF as required by RCW 48.38.020(2). The fair value of the annuity investments as of June 30, 2006 was $342,893.

SUBSEQUENT EVENTS

There were no material events which impacted OHF's CGA business 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.

FINANCIAL STATEMENTS

The following financial information summarizes the financial statements of OHF as of June 30, 2006:

Statement of Financial Position

	Balance per Annual Report	Examination Adjustments	Balance per Examination
ASSETS			
Cash and cash equivalents	$162,911	$0	$162,911
Current receivables and other assets	2,320,714		2,320,714
Other current assets	19,273		19,273
CGA Investments	342,893		342,893
Other Investments	7,513,115		7,513,115
Total Assets	**$10,358,906**	**$0**	**$10,358,906**
LIABILITIES			
CGA reserves	$143,467	$0	$143,467
Accounts payable and accrued liabilities	13,403		13,403
Other liabilities	132,757		132,757
Total Liabilities	**289,627**	**0**	**289,627**
NET ASSETS			
Unrestricted	4,013,025		4,013,025
Temporarily restricted	1,975,511		1,975,511
Permanently restricted	4,080,743		4,080,743
Total Net Assets	**10,069,279**	**0**	**10,069,279**
Total Liabilities and Net Assets	**$10,358,906**	**$0**	**$10,358,906**

Statement of Activities and Changes in Net Assets

	Balance Per Annual Report	Examination Adjustments	Balance Per Examination
Total revenue, operating and nonoperating	$5,610,916	$0	$5,610,916
Total expenses, operating and nonoperating	(1,050,350)		(1,050,350)
Increase (decrease) in net assets	4,560,566		4,560,566
Transfers to OHMC	(1,432,630)		(1,432,630)
Other changes per IRS Form 990	(589,808)		(589,808)
Net assets at beginning of year	7,531,151		7,531,151
Net assets at end of year	**$10,069,279**	**$0**	**$10,069,279**

ACKNOWLEDGMENT

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

Respectfully submitted,

Adrienne C. DeBella, CPA, CFE, ALMI
Examiner-in-Charge
State of Washington

AFFIDAVIT

STATE OF WASHINGTON }
} **ss**
COUNTY OF KING }

Adrienne C. DeBella, being duly sworn, deposes and says that the foregoing report subscribed by her is true to the best of her knowledge and belief.

She attests that the examination of OHF's CGA business 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).

Adrienne C. DeBella, CPA, CFE, ALMI
Examiner-in-Charge
State of Washington

Subscribed and sworn to before me on this 7th day of October, 2008.

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