

STATE OF WASHINGTON
OFFICE OF THE INSURANCE COMMISSIONER



FINANCIAL EXAMINATION
OF THE CHARITABLE GIFT ANNUITY BUSINESS
OF
MULTICARE HEALTH SYSTEM
TACOMA, WASHINGTON

December 31, 2011

Order No. 13-241
MultiCare Health System
Exhibit A

SALUTATION

Seattle, Washington
August 21, 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:

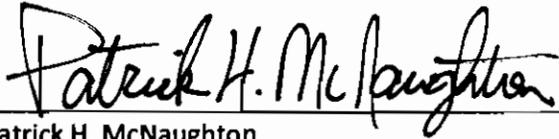
In accordance with your instructions and in compliance with the statutory requirements of Chapter 48.38 RCW, Charitable Gift Annuity Business, an examination was made of the corporate matters and financial records pertaining to the charitable gift annuity (CGA) business of

MultiCare Health System
of
Tacoma, Washington

hereinafter referred to as "MultiCare" at its office, 737 South Fawcett Street, Tacoma, WA 98415. This report of examination is respectfully submitted showing the financial condition and related corporate matters of the CGA business of MultiCare as of December 31, 2011.

CHIEF EXAMINER'S AFFIDAVIT

I hereby certify I have read the attached Report of the Financial Examination of the Charitable Gift Annuity Business of MultiCare Health System of Tacoma, Washington. This report shows the financial condition of the CGA business and related corporate matters as of December 31, 2011.



Patrick H. McNaughton
Chief Examiner

8-21-13

Date

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SCOPE OF THE EXAMINATION

The examination covers the period January 1, 2007 through December 31, 2011. The scope of our examination focused only on the transactions and operations of the CGA business. MultiCare'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, MultiCare's certified public accountant's (CPA's) audit of the December 31, 2011 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 Tacoma office of MultiCare by examiners from the state of Washington.

The examiners reviewed MultiCare's CGA Annual Reports as part of the statutory examination. This review was performed to determine if MultiCare completed the Annual Reports in accordance with the Annual Report Instructions published by the OIC and to verify that MultiCare's accounts and records were prepared and maintained in accordance with RCW 48.38.010(10)(a).

INSTRUCTIONS

1. Annual Report Error

In its December 31, 2011 Annual Report, MultiCare mistakenly reported \$471,690 for the total CGA liability. The amount reported should have been \$2,216,274.

MultiCare is instructed to comply with RCW 48.38.010(10)(a) and file with the insurance commissioner annually a report of its current financial condition, on a form and in a manner prescribed by the commissioner.

2. CGA Contract Form – Missing Reasonable Value

One of MultiCare's CGA contract forms, where the gift annuity agreement consists of two lives, joint and survivor, where the donor is not an annuitant, and payments are deferred with a fixed commencement date, does not include the reasonable value as of the date of the agreement of the benefits created.

MultiCare is instructed to comply with RCW 48.38.030(5) and include the reasonable value as of the date of the agreement of the benefits created in all contract forms.

COMMENTS AND RECOMMENDATIONS

NONE

ORGANIZATION PROFILE

History

MultiCare, a Washington not-for-profit corporation, was created in 1980, and includes a hospital division, medical group division, and an outreach unit. The MultiCare Hospital Division includes Allenmore Hospital, Tacoma General Hospital, Good Samaritan Hospital, and Mary Bridge Children's Hospital. The MultiCare Medical Group includes Healthworks, Good Samaritan Physicians, and the Urgent Care Centers. The outreach unit includes behavioral health, children's therapy, and community service. MultiCare controls four affiliated entities, Good Samaritan Foundation, Mary Bridge Children's Foundation, MultiCare Health Foundation, and Medis Corporation. The foundations raise funds and community awareness for the hospitals and health related issues. Medis Corporation is a for-profit corporation conducting health-related services within the for-profit sector, such as physician joint ventures, facilities management, and leasing.

Territory and Plan of Operation

On March 22, 1994, the OIC granted MultiCare Certificate of Exemption No. 51 to conduct a CGA business in the state of Washington. There were 29 in-force annuity contracts as of December 31, 2011.

Total Net Assets

MultiCare's total unrestricted net assets as of December 31, 2011 were approximately \$1 billion. The minimum unrestricted net assets requirement was satisfied pursuant to RCW 48.38.010(6).

Growth

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

Schedule 1 – Statement of Financial Position (In Thousands)

Year	Assets	Liabilities	Total Net		Temporarily Restricted	Permanently Restricted
			Assets	Unrestricted		
*2011	\$2,270,274	\$1,261,537	\$1,008,737	\$1,008,737	\$0	\$0
2010	1,557,443	1,011,385	546,058	546,058	0	0
2009	1,393,490	906,209	487,281	487,281	0	0
2008	1,304,999	998,394	306,605	306,605	0	0
2007	1,326,011	787,167	538,844	538,844	0	0

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

	*2011	2010	2009	2008	2007
Total revenues	\$1,375,240	\$1,031,579	\$1,094,956	\$925,997	\$893,562
Total expenses	1,331,271	991,959	976,312	869,937	795,212
Increase (decrease) in net assets	43,969	39,620	118,644	56,060	98,350
Other changes in net assets	418,710	19,157	62,032	(288,299)	(8,489)
Net assets at beginning of year	546,058	487,281	306,605	538,844	448,983
Net assets at end of year	\$1,008,737	\$546,058	\$487,281	\$306,605	\$538,844

Number of gift annuity contracts at end of year	29	27	29	25	25
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*The 2011 balances include examination adjustments. (See Notes 1 and 2 to the Financial Statements.)

AFFILIATED ORGANIZATIONS

Affiliates of MultiCare include three foundations: Mary Bridge Children’s Foundation; MultiCare Health Foundation; and Good Samaritan Foundation; and Medis Corporation, a wholly owned subsidiary which conducts health related services within the for-profit sector.

MANAGEMENT AND CONTROL

Management

MultiCare is controlled and governed by a community-based Board of Directors (BOD). The BOD currently consists of nine elected directors and two ex-officio, non-voting directors (the President and Chief Executive Officer of MultiCare and a representative of the Multicare physician division). The members of the BOD serve in a voluntary capacity and receive no compensation for their services.

Board of Directors

The following individuals were directors as of December 31, 2011:

- Diane Cecchettini, RN (Ex-Officio)
- Matt Davis, MD (Ex-Officio)
- John Folsom
- John Hall
- Sally Leighton
- Rob Roth, MD
- Dale Sowell
- Deedee Walkey
- John Wiborg
- Luke Xitco
- Robert Yost

Officers

The following individuals were officers as of December 31, 2011:

- | | |
|-----------------------|---|
| Diane Cecchettini, RN | President and Chief Executive Office |
| Vincent Schmitz | Senior Vice President and Chief Financial Officer |

Tax Status

MultiCare is a Washington State not-for-profit corporation and is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

Conflict of Interest

MultiCare's Conflict of Interest Declaration and Disclosure Protocol require that senior management and others in key roles, sign an annual standard conflict of interest declaration form. The forms are reviewed by the BOD and MultiCare's Internal Audit Department. No exceptions were noted.

ORGANIZATION RECORDS

The BOD meets monthly to discuss any business which is pertinent to MultiCare. The minutes from the BOD meetings documented the approval of MultiCare'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 MultiCare's annuity contract reserves as computed under RCW 48.38.020(3)(a) and (b) should be \$2,014,795 for 29 in-force annuity contracts as of December 31, 2011. The separate reserve fund reported by MultiCare on its financial statements also included an additional 10 percent in compliance with RCW 48.38.020(3)(c), which was \$2,216,274. However, MultiCare did not report the correct amount to the OIC on its Annual Report. (See Instruction No. 1.)

ANNUITY ASSETS CUSTODIAL FUNCTION

The separate reserve fund assets were held legally and physically segregated from MultiCare's other assets as required by RCW 48.38.020(2)(a). The market values of the annuity investments as of December 31, 2011 were approximately \$3,022,231 and consisted of money market and mutual funds. The annuity investments were properly reported at market value in MultiCare's financial statements.

SUBSEQUENT EVENTS

There were no additional material events which impacted MultiCare 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 generally supported the data and amounts presented in the annual reports and financial statements. (See Instruction No. 1.)

FINANCIAL STATEMENTS

The following financial statements show the financial condition of MultiCare Health System as of December 31, 2011:

Statement of Financial Position

Statement of Activities and Changes in Net Assets

MultiCare Health System
Statement of Financial Position
December 31, 2011
(In Thousands)

	<u>Balance Per Annual Report</u>	<u>Examination Adjustments</u>	<u>Balance Per Examination</u>	<u>Notes</u>
Assets				
Cash and Cash Equivalents	\$167,372		\$167,372	
Investments	689,403	4,679	694,082	1
CGA Investments	3,022		3,022	
Other Assets	<u>1,392,796</u>	<u>13,002</u>	<u>1,405,798</u>	1
Total Assets	<u>\$2,252,593</u>	<u>\$17,681</u>	<u>\$2,270,274</u>	
Liabilities and Net Assets				
CGA Liabilities	\$472	1,744	\$2,216	2
Other Liabilities	<u>1,236,418</u>	<u>22,903</u>	<u>1,259,321</u>	1
Total Liabilities	<u>1,236,890</u>	<u>24,647</u>	<u>1,261,537</u>	
Net Assets				
Unrestricted	1,015,703	(6,966)	1,008,737	1
Temporarily restricted				
Permanently restricted				
Total Net Assets	<u>1,015,703</u>	<u>(6,966)</u>	<u>1,008,737</u>	
Total Liabilities and Net Assets	<u>\$2,252,593</u>	<u>\$17,681</u>	<u>\$2,270,274</u>	

MultiCare Health System
Statement of Activities and Changes in Net Assets
For the Year Ended December 31, 2011
(In Thousands)

	<u>Balance Per Annual Report</u>	<u>Examination Adjustments</u>	<u>Balance Per Examination</u>	<u>Notes</u>
Total revenues:	\$1,331,063	\$44,177	\$1,375,240	1
Total expenses:	1,291,428	39,843	1,331,271	1
Increase (decrease) in net assets	39,635	4,334	43,969	
Other changes in net assets	439,180	(20,470)	418,710	1
Net assets at beginning of year	536,888	9,170	546,058	1
Net assets at end of year	<u>\$1,015,703</u>	<u>(\$6,966)</u>	<u>\$1,008,737</u>	

NOTES TO THE FINANCIAL STATEMENTS

Examination adjustments to MultiCare's financial statements are as follows:

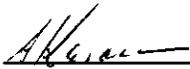
1. To reflect closing accruals, deferrals, and other financial statement adjustments made by MultiCare after the OIC Annual Report filing, based on MultiCare's Annual CPA Report.
2. To reflect the correct CGA liability amount recorded on MultiCare's financial books as of December 31, 2011. (See Instruction 1.)

ACKNOWLEDGMENT

Acknowledgment is hereby made of the cooperation extended to the examiners by the officers and employees of MultiCare Health System 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,



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

