

STATE OF WASHINGTON  
OFFICE OF THE INSURANCE COMMISSIONER



FINANCIAL EXAMINATION  
OF THE CHARITABLE GIFT ANNUITY BUSINESS  
OF  
VIRGINIA MASON HEALTH SYSTEM  
SEATTLE, WASHINGTON

DECEMBER 31, 2012

Order No. 13-307  
Virginia Mason Health System  
Exhibit A

**SALUTATION**

Seattle, Washington  
November 13, 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

**Virginia Mason Health System**  
of  
Seattle, Washington

hereinafter referred to as "VMHS" at its office, 1100 Ninth Avenue, Seattle, WA 98111. This report of examination is respectfully submitted showing the financial condition and related corporate matters of the CGA business of VMHS as of December 31, 2012.

**CHIEF EXAMINER'S AFFIDAVIT**

I hereby certify I have read the attached Report of the Financial Examination of the Charitable Gift Annuity Business of Virginia Mason Health System of Seattle, Washington. This report shows the financial condition of the CGA business and related corporate matters of Virginia Mason Health System as of December 31, 2012.

A handwritten signature in black ink that reads "Patrick H. McNaughton". The signature is written in a cursive style and is positioned above a horizontal line.

Patrick H. McNaughton  
Chief Examiner

11-13-13

Date

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## **SCOPE OF THE EXAMINATION**

The examination covers the period January 1, 2008 through December 31, 2012. The scope of our examination focused only on the transactions and operations of the CGA business. VMHS' 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, VMHS' certified public accountant's (CPA's) audit of the December 31, 2012 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 Seattle office of VMHS by examiners from the state of Washington.

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

VMHS is a nonprofit organization established in 1986 and incorporated in the state of Washington on October 17, 1985. VMHS is the parent and sole owner of the Virginia Mason Medical Center (VMMC) and Benaroya Research Institute (BRI); both are Washington nonprofit corporations. VMHS raises philanthropic support through a division, Virginia Mason Foundation, to provide new facilities, equipment, and comprehensive services and programs for VMMC and BRI.

### **Territory and Plan of Operation**

On February 23, 1993, the OIC granted VMHS a Certificate of Exemption No. 45 to conduct a CGA business in the state of Washington. There were 17 in-force annuity contracts as of December 31, 2012.

### Total Net Assets

VMHS' total unconsolidated net assets as of December 31, 2012 were approximately \$36.9 million. This amount included unrestricted net assets of approximately \$13.7 million. The unconsolidated net assets exclude the VMMC and BRI financial statements and represent the financial position of VMHS' Foundation. The minimum unrestricted net assets requirement was satisfied pursuant to RCW 48.38.010(6).

### Growth

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

#### Schedule 1 – Statement of Financial Position (In Thousands)

Year	Assets	Liabilities	Total Net Assets	Unrestricted	Temporarily Restricted	Permanently Restricted
2012	\$41,133	\$4,237	\$36,896	\$13,727	\$13,545	\$9,624
2011	40,334	3,767	36,567	11,831	15,349	9,387
2010	45,340	4,625	40,715	11,896	19,536	9,283
2009	45,903	5,926	39,977	10,825	19,968	9,184
2008	46,232	5,376	40,856	6,248	25,017	9,591

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

	2012	2011	2010	2009	2008
Total revenues	\$13,644	\$13,134	\$14,301	\$17,080	\$12,570
Total expenses	<u>16,676</u>	<u>17,114</u>	<u>17,742</u>	<u>18,842</u>	<u>18,829</u>
Increase (decrease) in net assets	(3,032)	(3,980)	(3,441)	(1,762)	(6,259)
Other changes in net assets	3,361	(168)	4,179	883	1,203
Net assets at beginning of year	<u>36,567</u>	<u>40,715</u>	<u>39,977</u>	<u>40,856</u>	<u>45,912</u>
Net assets at end of year	<u>\$36,896</u>	<u>\$36,567</u>	<u>\$40,715</u>	<u>\$39,977</u>	<u>\$40,856</u>
Number of gift annuity contracts	17	22	25	23	23

### AFFILIATED ORGANIZATIONS

VMMC and BRI are subsidiaries of VMHS; all are nonprofit corporations.

### MANAGEMENT AND CONTROL

#### Management

Responsibility for the management of VMHS is vested in its Board of Directors (BOD). The number, qualifications, terms of office, manner of elections, time and place of meetings, and powers and duties of directors are prescribed by VMHS' Bylaws. The executive officers are responsible for administering the operations of VMHS, including providing for compliance with applicable laws and regulations.

**Board of Directors (BOD)**

Directors as of December 31, 2012:

Carolyn Corvi, Chairman	Gary Kaplan, MD
Evelyn Cruz Sroufe, Vice Chairman	Al Lopus
Bob Lemon, Treasurer	Dorothy Mann, PHD
Jim Young, Secretary	Richard Martinez
Jane Blodgett	David Moffett
Lewis Edelheit	Julie Morath, RN
Joshua Green III	Jamie Orlikoff
Tod Hamachek	Kristi Pangrazio

**Officers**

Officers as of December 31, 2012:

Gary Kaplan, Chairman and Chief Executive Officer/President  
Sarah Patterson, Executive Vice President and Chief Operating Officer  
Suzanne Anderson, Executive Vice President and Chief Financial Officer/Chief Information Officer

**Tax Status**

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

**Conflict of Interest**

VMHS has a conflict of interest policy which requires BOD members, executive officers, and key employees to complete and submit a Conflict of Interest Questionnaire. Disclosures are reviewed by the Governance Committee to determine if actual or potential conflict of interest exists and if so, how it should be managed. No exceptions were noted.

**ORGANIZATION RECORDS**

The BOD meets seven times a year to discuss any pertinent business of VMHS. Minutes of the meetings of the BOD documented the approval of VMHS' transactions and events. No exceptions were noted.

**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 VMHS' annuity contract reserves as computed under RCW 48.38.020(3)(a) and (b) should be \$362,000 for 17 in-force annuity contracts as of December 31, 2012. This amount was properly reported in VMHS' 2012 Annual Report and financial books.

### **ANNUITY ASSETS CUSTODIAL FUNCTION**

The separate reserve fund assets were held legally and physically segregated from the other assets of VMHS as required by RCW 48.38.020(2)(a). The market values of the annuity investments as of December 31, 2012 were \$609,000 and consisted of cash and cash equivalents. The annuity investments were properly reported in the financial statements at market value.

### **SUBSEQUENT EVENTS**

There were no additional material events which impacted VMHS 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 supported the data and amounts presented in the annual reports and financial statements.

### **FINANCIAL STATEMENTS**

The following financial statements show the financial condition of VMHS as of December 31, 2012:

Statement of Financial Position

Statement of Activities and Changes in Net Assets

**Virginia Mason Health System**  
**Statement of Financial Position**  
**December 31, 2012**  
(In Thousands)

	<u>Balance Per Annual Report</u>	<u>Examination Adjustments</u>	<u>Balance Per Examination</u>
<b>Assets</b>			
Cash and cash equivalents	\$965	\$0	\$965
CGA investments	609		609
Contributions receivable and other receivables	18,802		18,802
Other assets	<u>20,757</u>		<u>20,757</u>
<b>Total Assets</b>	<b><u>\$41,133</u></b>	<b><u>\$0</u></b>	<b><u>\$41,133</u></b>
<b>Liabilities and Net Assets</b>			
Accrued salaries and other payables	\$36	\$0	\$36
Due to affiliates	3,839		3,839
CGA liabilities	<u>362</u>		<u>362</u>
<b>Total Liabilities</b>	<b><u>4,237</u></b>	<b><u>0</u></b>	<b><u>4,237</u></b>
<b>Net Assets</b>			
Unrestricted	13,727	0	13,727
Temporarily restricted	13,545		13,545
Permanently restricted	<u>9,624</u>		<u>9,624</u>
<b>Total Net Assets</b>	<b><u>36,896</u></b>	<b><u>0</u></b>	<b><u>36,896</u></b>
<b>Total Liabilities and Net Assets</b>	<b><u>\$41,133</u></b>	<b><u>\$0</u></b>	<b><u>\$41,133</u></b>

**Virginia Mason Health System**  
**Statement of Activities and Changes in Net Assets**  
**For the Year Ended December 31, 2012**  
(In Thousands)

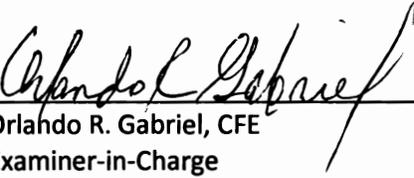
	<u>Balance Per Annual Report</u>	<u>Examination Adjustments</u>	<u>Balance Per Examination</u>
Total revenues	\$13,644	\$0	\$13,644
Total expenses	<u>16,676</u>		<u>16,676</u>
Increase (decrease) in net assets	(3,032)	0	(3,032)
Other changes in net assets	3,361		3,361
Net assets at beginning of year	<u>36,567</u>		<u>36,567</u>
<b>Net assets at end of year</b>	<b><u>\$36,896</u></b>	<b><u>\$0</u></b>	<b><u>\$36,896</u></b>

**ACKNOWLEDGMENT**

Acknowledgment is hereby made of the cooperation extended to the examiners by the officers and employees of Virginia Mason 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, ARA, 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,

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

