

STATE OF WASHINGTON
OFFICE OF THE INSURANCE COMMISSIONER



FINANCIAL EXAMINATION
OF THE CHARITABLE GIFT ANNUITY BUSINESS
OF
GROUP HEALTH FOUNDATION
SEATTLE, WASHINGTON

December 31, 2010

SALUTATION

Seattle, Washington
October 26, 2011

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:

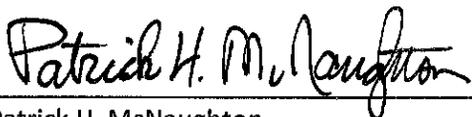
In accordance with your instructions and in compliance with the statutory requirements of Chapter 48.38 RCW, Charitable Gift Annuity Business, an examination was made of the corporate matters and financial records pertaining to the charitable gift annuity (CGA) business of

Group Health Foundation
of
Seattle, Washington

hereinafter referred to as "GHF" at its office, 320 Westlake Avenue North, Suite 100, Seattle, Washington 98109. This report of examination is respectfully submitted showing the financial condition and related corporate matters of the CGA business of GHF as of December 31, 2010.

CHIEF EXAMINER'S AFFIDAVIT

I hereby certify I have read the attached Report of the Financial Examination of the Charitable Gift Annuity Business of Group Health Foundation of Seattle, Washington. This report shows the financial condition of the CGA business and related corporate matters of Group Health Foundation as of December 31, 2010.



Patrick H. McNaughton
Chief Examiner

10-26-11

Date

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SCOPE OF THE EXAMINATION

The examination covers the period January 1, 2006 through December 31, 2010. The scope of our examination focused only on the transactions and operations of the CGA business. GHF'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, GHF's certified public accountant's (CPA's) audit of the 2010 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 GHF by examiners from the state of Washington.

INSTRUCTIONS

The examiners reviewed GHF's CGA Annual Reports as part of the statutory examination. This review was performed to determine if GHF completed the Annual Reports in accordance with the Annual Report Instructions published by the OIC and to verify that GHF's accounts and records were prepared and maintained in accordance with Chapter 48.38 RCW.

There were no exceptions noted while performing this review, and no instructions are included in this examination report.

COMMENTS AND RECOMMENDATIONS

1. Entity Name Change

On April 10, 2009, the OIC issued an amended Certificate of Exemption that reflected GHF's name change request from The Group Health Community Foundation to Group Health Foundation. Accordingly, the name was changed and utilized in the Annual Report, Restated Articles of Incorporation, Amended and Restated Bylaws, Internal Revenue Service Form 990, Statement of Actuarial Opinion, and financial statements. However, the account name on the custodial statement, which was used for the CGA assets of GHF held by Bank of America, continues to reflect the former name.

It is recommended that GHF coordinate with Bank of America to ensure that the account name is changed to Group Health Foundation on the custodial statement.

ORGANIZATION PROFILE

History

GHF is a Washington nonprofit charitable corporation that was founded and incorporated by its parent company, Group Health Cooperative (GHC), in November 1983. Originally licensed as The Foundation of Group Health Cooperative of Puget Sound, GHF changed its name to The Group Health/Kaiser

Permanente Community Foundation in September 2001 and changed its name to The Group Health Community Foundation in May 2004 before changing to its current name in February 2009.

Territory and Plan of Operation

GHF was organized to support research, health careers, training, health education, GHC programs, and other projects that promote high quality health care.

GHF was granted Certificate of Exemption Number 34 to conduct a CGA business in the state of Washington by the OIC on September 26, 1991. There were 43 in-force annuity contracts as of December 31, 2010.

Total Net Assets

GHF's total net assets as of December 31, 2010 were \$16,798,501. This amount included an unrestricted net asset of \$4,076,689. The minimum unrestricted net assets requirement was satisfied pursuant to RCW 48.38.010(6).

Growth

The growth of GHF for the past five years is reflected in the following schedules.

Schedule 1 – Statement of Financial Position

Year	Assets	Liabilities	Total Net Assets	Total Net Assets Allocated Into:		
				Unrestricted	Temporarily Restricted	Permanently Restricted
2010	\$19,082,027	\$2,283,526	\$16,798,501	\$4,076,689	\$5,026,057	\$7,695,755
2009	16,133,559	1,682,202	14,451,357	2,630,356	4,226,708	7,594,293
2008	12,414,597	2,528,456	9,886,141	521,301	1,822,595	7,542,245
2007	17,795,369	2,463,487	15,331,882	3,138,505	4,784,066	7,409,311
2006	17,065,258	1,590,658	15,474,600	2,700,459	5,433,669	7,340,472

Schedule 2 – Statement of Activities and Changes in Net Assets

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Total revenues	\$7,411,122	\$8,384,043	(\$566,522)	\$5,620,971	\$6,550,189
Total expenses	<u>5,063,978</u>	<u>3,818,827</u>	<u>4,879,219</u>	<u>5,763,689</u>	<u>4,305,050</u>
Increase (decrease) in net assets	2,347,144	4,565,216	(5,445,741)	(142,718)	2,245,139
Net assets at beginning of year	<u>14,451,357</u>	<u>9,886,141</u>	<u>15,331,882</u>	<u>15,474,600</u>	<u>13,229,461</u>
Net assets at end of year	<u>\$16,798,501</u>	<u>\$14,451,357</u>	<u>\$9,886,141</u>	<u>\$15,331,882</u>	<u>\$15,474,600</u>

AFFILIATED ORGANIZATIONS

GHF is controlled by its parent, GHC. In addition, GHC owns a subsidiary, Group Health Options, Inc., and controlled affiliates: KPS Health Plans (KPS); Auxiliary of Group Health Cooperative; and, KPS's wholly owned subsidiary, Northwest Credentials Verification Service, LLC.

MANAGEMENT AND CONTROL

Management

The business, operations, and affairs of GHF are managed and controlled by its Board of Directors (BOD) of no less than fifteen or more than thirty-five members.

Board of Directors

The following individuals were directors as of December 31, 2010:

Peter Davis, Chair	Susan Byington, Vice Chair
Stuart Grover, Treasurer	Scott Armstrong, Secretary
Ruth Ballweg	Phillip Bussey
Uriel Iñiguez	Terry Kakida
Eric Larson, MD, MPH	Jeff Lindenbaum, MD
Christopher Marr	Jill Ostrem
Shahina Piyarali	Jeff Sakuma
Paul Sherman, MD, MHA	Robin Shuler, CPA
Sandeep Sinha	Pegge Till, MHA
Janet Wainwright	Jennifer West
George Williams	James Wong

Officers

The following individuals were officers as of December 31, 2010:

Laura Rehrmann, President
Peter Davis, Chair
Susan Byington, Vice Chair
Stuart Grover, Treasurer
Scott Armstrong, Secretary

Tax Status

GHF is a tax-exempt public foundation under Section 501(c)(3) of the Internal Revenue Code.

Conflict of Interest

GHF has a formal conflict of interest policy. The policy has procedures for reviewing the Directors and Officers Disclosure Statement, which the BOD and officers were required to submit annually, for any activities or participation on the part of the BOD and officers that could possibly be interpreted as a conflict of interest. The policy also has procedures for resolving any disclosed conflicts of interest. Based on our review of the submitted 2010 disclosure statements, no exceptions were noted.

ORGANIZATION RECORDS

The BOD meets six times a year to discuss any pertinent business to GHF. BOD meeting minutes documented the approval of GHF's transactions and events. In addition to the BOD, GHF has five board committees: Board Governance, Executive, Finance and Audit, Fundraising, and Impact.

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 GHF's annuity contract reserves as computed under RCW 48.38.020(3)(a) and (b) should be \$1,113,001 for forty-three in-force annuity contracts as of December 31, 2010. This amount was properly reported in GHF's financial statements.

ANNUITY ASSETS CUSTODIAL FUNCTION

The separate reserve fund assets were held legally and physically segregated from the other assets of GHF as required by RCW 48.38.020(2)(a). The market values of the annuity investments as of December 31, 2010 were \$2,289,473 and consisted of money market and mutual funds. The annuity investments were properly reported in the financial statements at market value.

SUBSEQUENT EVENTS

An affiliate of GHF, Northwest Credentials Verification Service, LLC, discontinued operations at December 31, 2010.

There were no additional material events which impacted GHF 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 Group Health Foundation as of December 31, 2010:

Statement of Financial Position
Statement of Activities and Changes in Net Assets

**Group Health Foundation
Statement of Financial Position
December 31, 2010**

	<u>Balance Per Annual Report</u>	<u>Examination Adjustments</u>	<u>Balance Per Examination</u>
Assets			
Cash and Cash Equivalents	\$518,018	\$0	\$518,018
Accounts Receivable and Allowance	4,517		4,517
Intercompany Receivable	339,111		339,111
Long-Term Investments	15,930,908		15,930,908
CGA Investments	2,289,473		2,289,473
Total Assets	<u>\$19,082,027</u>	<u>\$0</u>	<u>\$19,082,027</u>
Liabilities and Net Assets			
CGA Liabilities	\$1,224,301		\$1,224,301
Other Liabilities	1,059,225		1,059,225
Total Liabilities	<u>2,283,526</u>	<u>0</u>	<u>2,283,526</u>
Net Assets			
Unrestricted	4,076,689		4,076,689
Temporarily Restricted	5,026,057		5,026,057
Permanently Restricted	7,695,755		7,695,755
Total Net Assets	<u>16,798,501</u>	<u>0</u>	<u>16,798,501</u>
Total Liabilities and Net Assets	<u>\$19,082,027</u>	<u>\$0</u>	<u>\$19,082,027</u>

Group Health Foundation
Statement of Activities and Changes in Net Assets
For the Year Ended December 31, 2010

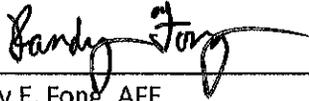
	<u>Balance Per Annual Report</u>	<u>Examination Adjustments</u>	<u>Balance Per Examination</u>
Total revenues	\$7,411,122	\$0	\$7,411,122
Total expenses	<u>5,063,978</u>		<u>5,063,978</u>
Increase (decrease) in net assets	2,347,144		2,347,144
Net assets at beginning of year	<u>14,451,357</u>		<u>14,451,357</u>
Net assets at end of year	<u>\$16,798,501</u>	<u>\$0</u>	<u>\$16,798,501</u>

ACKNOWLEDGMENT

Acknowledgment is hereby made of the cooperation extended to the examiners by the officers and employees of Group Health Foundation and its affiliates during the course of this examination.

In addition to the undersigned, Michael V. Jordan, CPA, CFE, MHP, Assistant Chief Examiner; Susan Campbell, CPA, CFE, FLMI, Life and Disability Field Supervising Examiner; and Orlando R. Gabriel, AFE, Financial Examiner; all from the Washington State Office of the Insurance Commissioner, participated in the examination and in the preparation of this report.

Respectfully submitted,



Randy E. Fong, AFE
Examiner-in-Charge
State of Washington

