

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



**FINANCIAL EXAMINATION
of the Charitable Gift Annuity Business
of
St. John Medical Center Foundation
Longview, Washington**

June 30, 2009

St. John Medical Center Foundation
Order No. 10-0188
Exhibit A

SALUTATION

Seattle, Washington
October 13, 2010

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

St. John Medical Center Foundation

of

Longview, Washington

hereinafter referred to as "SJMCF" at its office, 829 17th Avenue, Longview, Washington 98632. This report of examination is respectfully submitted showing the condition of the CGA business of SJMCF as of June 30, 2009.

CHIEF EXAMINER'S AFFIDAVIT

I hereby certify I have read the attached Report of the Financial Examination of the Charitable Gift Annuity business of St. John Medical Center Foundation of Longview, Washington. This report shows the financial condition of the CGA business and related corporate matters of St. John Medical Center Foundation as of June 30, 2009.



Patrick H. McNaughton
Chief Examiner

10-13-10

Date

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SCOPE OF THE EXAMINATION

This examination covers the period January 1, 2005 through December 31, 2009. The 2009 Annual Report reflected the balance sheet and statement of revenue and expenses of SJMCF as of June 30, 2009. The OIC granted permission to SJMCF to present its CGA Annual Report as of its fiscal year ended June 30, 2009. The examination of the 2009 Annual Report, therefore, covers the period ending June 30, 2009 for the balance sheet and statement of revenue and expenses sections, general interrogatories, charitable gift annuities reserve fund, and other applicable financial activities as deemed necessary. The scope of our examination focused only on the transactions and operations of the CGA business.

SJMCF'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, SJMCF'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 Longview office of SJMCF by examiners from the state of Washington.

INSTRUCTIONS

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

RCW 48.38.020 requires SJMCF to establish and maintain a separate reserve fund adequate to meet the future payments under its charitable gift annuity contracts. SJMCF maintained a separate annuities reserve of \$1,277,626 which did not agree to the actuary's calculated reserve amount of \$1,802,956. SJMCF did not include the surplus of 10% to the actuary's calculated reserve amount required by RCW 48.38.020(3)(c). Pursuant to RCW 48.38.020(3)(c), the statutory aggregate reserves should be \$1,983,251. As a result, the reported annuities liability was understated by \$705,625, and the unrestricted net assets were overstated by \$705,625, on June 30, 2009. Adjustments were

made to increase the charitable gift annuities liability by \$705,625 and to reduce the unrestricted net assets by \$705,625.

SJMCF is instructed to report the statutory reserve calculated by the actuary pursuant to RCW 48.38.010(10)(c), plus an additional 10% as required by RCW 48.38.020(1) and (3)(c).

2. Unrestricted Net Assets

The Annual Report showed an unrestricted net assets balance of \$1,051,902 on June 30, 2009. After considering the adjustments per Instruction No. 1, the unrestricted net assets balance was reduced to \$346,277. As a result, SJMCF was not in compliance with RCW 48.38.010(6) because it did not maintain the required \$500,000 minimum unrestricted net assets. Also, pursuant to RCW 48.38.012, SJMCF may not issue any new charitable gift annuities until SJMCF obtains and maintains the minimum unrestricted net assets as required by RCW 48.38.010(6).

SJMCF is instructed to maintain, at all times, the required \$500,000 of unrestricted net assets to ensure compliance with RCW 48.38.010(6) and RCW 48.38.012.

COMMENTS AND RECOMMENDATIONS

There were no comments or recommendations made in this examination report.

ORGANIZATION PROFILE

History: SJMCF is a community-based, nonprofit organization formed for the purpose of supporting St. John Medical Center (SJMC) by soliciting, receiving, managing, administering, and distributing funds or other gifts to or for the benefit of SJMC.

Territory and Plan of Operation: On February May 24, 1996, the OIC granted SJMCF a Certificate of Exemption No. 80 to conduct a CGA business in the state of Washington. There were sixty in-force annuity contracts as of June 30, 2009.

Total Net Assets: SJMCF's total net assets as of June 30, 2009 were \$3,830,507 (including examination adjustment). This amount included an unrestricted net asset of \$346,277. The minimum unrestricted net assets requirement was not satisfied pursuant to RCW 48.38.010(6). (See Instruction No. 2.)

Growth: The growth of SJMCF for the past five years is reflected in the following schedules. All information was compiled from SJMCF's audited financial statements as of the fiscal year ending June 30:

Schedule 1 – Statement of Financial Position

<u>Fiscal Year</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Total Net Assets</u>	Total Net Assets Allocated Into:		
				<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
*2009	\$6,527,971	\$2,697,464	\$3,830,507	\$346,277	\$2,549,170	\$935,060
2008	8,120,908	2,536,718	5,584,190	1,643,459	2,982,249	958,482
2007	9,167,797	2,652,473	6,515,324	1,776,206	3,827,669	911,449
2006	9,095,354	2,650,226	6,445,128	1,325,918	4,227,505	891,705
2005	8,469,042	2,637,708	5,831,334	1,116,599	3,833,609	881,126

Schedule 2 – Statement of Activities and Changes in Net Assets

	<u>*2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Total revenues	\$275,456	\$1,031,671	\$1,963,006	\$1,802,548	\$2,798,757
Total expenses	1,323,514	1,962,805	1,881,325	1,105,860	895,964
Increase (decrease) in net assets	(1,048,058)	(931,134)	81,681	696,688	1,902,793
Examination adjustment	(705,625)				
Prior year adjustments per Notes to Financial Statement 2008			(11,485)	(82,894)	
Net assets at beginning of year	5,584,190	6,515,324	6,445,128	5,831,334	3,928,541
Net assets at end of year	<u>\$3,830,507</u>	<u>\$5,584,190</u>	<u>\$6,515,324</u>	<u>\$6,445,128</u>	<u>\$5,831,334</u>
Number of gift annuity contracts at end of year	60	60	60	61	59

*The 2009 balances include examination adjustments. (See Financial Statements.)

AFFILIATED ORGANIZATIONS

SJMCF indicated it does not have any affiliates. However, SJMCF receives donated facilities and services from SJMC and PeaceHealth Corporation. The estimated fair market value of such donated items has been reflected in the financial statements as donated facilities and services with a like amount included in expenses.

MANAGEMENT AND CONTROL

Management: SJMCF's affairs are managed by its Board of Directors (BOD) of no less than three or more than thirty members.

Board of Directors: The BOD as of June 30, 2009:

Judy Allen	Earl Fisher	James Nakashima, MD
John Berwind, DDS	Denise Gabel	George H. Opsahl Jr.
Bill Boehm	Gene Guttormsen	Mark S. Purcell
Gerrie Booth	Sy Johnson	Tom Renaud
Steven Cabrales, MD	Julie Kendall	Pat Rodman
Maila Cadd	Pauline Kirchner	Don Rodman
Francena Dodd, CSJP	Gwen Larson	Bill Sari
Linda Doerr	Verona Lynam	Pat Sari
Robert Ehrlich, MD	Ed Mahn	Chris Searing
Jackie Evans	Michael McNellis, MD	

Officers: The officers as of June 30, 2009:

Dr. Michael McNellis, President
Maila Cadd, Vice President
Pauline Kirchner, Secretary
Bill Boehm, Treasurer
Sy Johnson, Chief Executive Officer
Cathy Barr, Executive Director

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

Conflict of Interest: All members of the Board and officers are required to submit a conflict of interest disclosure or questionnaire annually. The Governance Committee in consultation with the Board President and the Executive Director are responsible for ensuring that all potential conflicts of interest are brought before the Board for resolution. If a conflict arises, the individual at risk is contacted and asked to excuse him or herself from the room during discussion and voting. No exceptions were noted.

ORGANIZATION RECORDS

The BOD meets four times a year to discuss any business which is pertinent to SJMCF. BOD meeting minutes documented the approval of SJMCF's 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 SJMCF's annuity contract reserves as computed under RCW 48.38.020(3)(a) and (b) should be \$1,802,956 for sixty

contracts as of June 30, 2009. This amount, plus an additional 10% as required by RCW 48.38.020(3)(c), was not properly reported as annuity liabilities in SJMCF'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 SJMCF as required by RCW 48.38.020(2). The market values of the annuity investments as of June 30, 2009 were \$1,991,314 and consisted of cash equivalents and mutual funds. The annuity investments were properly reported in the financial statements at market value.

SUBSEQUENT EVENTS

There were no material events which impacted SJMCF 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 information summarizes the financial statements of SJMCF:

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

St. John Medical Center Foundation
STATEMENT OF FINANCIAL POSITION
June 30, 2009

	<u>Balance per Annual Report</u>	<u>Reference</u>	<u>Examination Adjustments</u>	<u>Balance Per Examination</u>
<u>ASSETS</u>				
Cash and cash equivalents	\$379,616		\$0	\$379,616
Investments	2,981,735			2,981,735
CGA investments	1,991,314			1,991,314
Assets under split-interest agreements	717,832			717,832
Other assets	457,474			457,474
Total Assets	<u>\$6,527,971</u>		<u>\$0</u>	<u>\$6,527,971</u>
<u>LIABILITIES</u>				
CGA liabilities	\$1,277,626	1	\$705,625	\$1,983,251
Liabilities under split-interest agreements	356,228			356,228
Other liabilities	357,985			357,985
Total Liabilities	<u>1,991,839</u>		<u>705,625</u>	<u>2,697,464</u>
<u>NET ASSETS</u>				
Unrestricted	1,051,902	1	(705,625)	346,277
Temporarily restricted	2,549,170			2,549,170
Permanently restricted	935,060			935,060
Total Net Assets	<u>4,536,132</u>		<u>(705,625)</u>	<u>3,830,507</u>
Total Liabilities and Net Assets	<u>\$6,527,971</u>		<u>\$0</u>	<u>\$6,527,971</u>

St. John Medical Center Foundation
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
June 30, 2009

	<u>Balance Per Annual Report</u>	<u>Reference</u>	<u>Examination Adjustments</u>	<u>Balance Per Examination</u>
Total revenues	\$275,456		\$0	\$275,456
Total expenses	1,323,514			1,323,514
Increase (decrease) in net assets	(\$1,048,058)		0	(\$1,048,058)
Examination adjustment		1	(705,625)	(705,625)
Net assets at beginning of year	5,584,190			5,584,190
Net assets at end of year	\$4,536,132		(\$705,625)	\$3,830,507

Adjustment Reference Note:

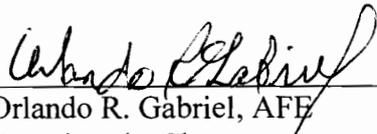
1. To adjust the charitable gift annuity liabilities to agree with the calculated statutory annuity reserves. (See Instructions No. 1 and No. 2.)

ACKNOWLEDGMENT

Acknowledgment is hereby made of the cooperation extended to the examiners by the officers and employees of SJMCF 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 the preparation of this report.

Respectfully submitted,



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

