

STATE OF WASHINGTON
OFFICE OF THE INSURANCE COMMISSIONER



FINANCIAL EXAMINATION
OF THE CHARITABLE GIFT ANNUITY BUSINESS
OF
FRANCISCAN FOUNDATION
TACOMA, WASHINGTON

JUNE 30, 2014

Order No. 15-261
Franciscan Foundation
Exhibit A

SALUTATION

Seattle, Washington
June 15, 2015

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

Franciscan Foundation
of
Tacoma, Washington

hereinafter referred to as "FF." The examination was performed from our OIC office located at 810 Third Avenue, Suite 650, Seattle, WA 98104. All of the information and supporting documentation required to perform this examination were requested via email and sent electronically to our office. This report of examination is respectfully submitted showing the financial condition and related corporate matters of the CGA business of FF as of June 30, 2014.

CHIEF EXAMINER'S AFFIDAVIT

I hereby certify I have read the attached Report of the Financial Examination of the Charitable Gift Annuity Business of Franciscan Foundation of Tacoma, Washington. This report shows the financial condition of the CGA business and related corporate matters of Franciscan Foundation as of June 30, 2014.



Patrick H. McNaughton
Chief Examiner

11-4-15

Date

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SCOPE OF THE EXAMINATION

The examination covers the period July 1, 2009 through June 30, 2014. The scope of our examination focused only on the transactions and operations of the CGA business. FF'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, FF's June 30, 2014 audited financial statements were 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 financial examiners reviewed FF's CGA OIC Annual Reports as part of the statutory examination. This review was performed to determine if FF completed the OIC Annual Reports in accordance with the OIC Annual Report Instructions and to verify that FF's 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

FF was established in 1986 to receive and administer charitable gifts made on behalf of Franciscan Health System.

Territory and Plan of Operation

On October 10, 1994, the OIC granted FF a Certificate of Exemption No. 62 to conduct a CGA business in the state of Washington. There were five in-force annuity contracts as of June 30, 2014.

Total Net Assets

FF's total net assets as of June 30, 2014 were approximately \$27 million. This amount included unrestricted net assets of \$5.6 million. The minimum unrestricted net assets requirement was satisfied pursuant to RCW 48.38.010(6).

Growth

The growth of FF for the past five years, as of June 30, is reflected in the following schedules based on the organization's audited financial statements:

Schedule 1 – Statement of Financial Position (In Thousands)

Year	Assets	Liabilities	Total Net Assets	Unrestricted	Temporarily Restricted	Permanently Restricted
2014	\$27,101	\$56	\$27,045	\$5,624	\$15,614	\$5,807
2013	24,956	503	24,453	4,490	14,337	5,626
2012	21,776	123	21,653	4,037	12,017	5,599
2011	24,080	1,077	23,003	4,238	13,302	5,463
2010	20,700	195	20,505	2,664	13,322	4,519

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

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Total revenues	\$8,809	\$9,016	\$5,167	\$8,325	\$9,246
Total expenses	6,217	6,216	6,517	5,827	7,804
Increase (decrease) in net asset	2,592	2,800	(1,350)	2,498	1,442
Net assets at beginning of year	24,453	21,653	23,003	20,505	19,063
Net assets at end of year	\$27,045	\$24,453	\$21,653	\$23,003	\$20,505

Number of gift annuity contracts
in force

5 3 3 3 0

AFFILIATED ORGANIZATIONS

FF is affiliated with Franciscan Health System (FHS), and is a wholly owned subsidiary of Catholic Health Initiatives (CHI). FHS supports the operations of FF. CHI's treasury department manages all the investments of its direct affiliates including those of FF.

MANAGEMENT AND CONTROL

Management

FF is governed by a Board of Trustees (BOT) of no less than three and not more than 25 members. According to the Bylaws, the officers of FF consist of a president/chief executive officer (CEO), a treasurer, and a secretary. The chair, vice chair, treasurer, and secretary are elected by the BOT. The president/CEO is appointed by the president/chief executive officer of FHS. The president/CEO is accountable to both the BOT of FF and the president/chief executive of FHS, and supervises and controls all the business and affairs of FF.

Board of Trustees

Trustees as of June 30, 2014:

Allan Belton, Chair
Stephen Bader, Vice Chair
Joanne Bachman
Kenneth Bergman
Kerry Bordeaux
Clemencia Castro-Woolery
Peter Comfort
Jude Connelly
Donna Fread

Edward Inderbitzin
Jamie Murray
Tom Pierson
Robert Ryan
Robert Sovern
Todd Suchan
Greg Unruh
Joseph Wilczek

Officers

Officers as of June 30, 2014:

Greg Unruh, President/CEO
Peter Comfort, Treasurer
Donna Fread, Secretary

Tax Status

FF is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code.

Conflict of Interest

FF's Conflict of Interest Policy requires all trustees and officers to complete, sign, and return a Conflict of Interest Disclosure Statement once per year. The completed statements are reviewed by the president and the board chair to determine if actual conflicts of interest exist. Formal procedures exist for remedying conflicts of interest. Based on our review, no exceptions were noted.

ORGANIZATION RECORDS

The BOT meets four times a year to discuss any business which is pertinent to FF. BOT meeting minutes documented the approval of FF's transactions and events. No exceptions were noted.

SEPARATE RESERVE FUND

FF's separate reserve fund (SRF) was reviewed and found to be in compliance with RCW 48.38.020(2)(a) which requires the SRF assets to be held legally and physically segregated from the other assets of FF, and RCW 48.38.010(10)(b) which requires an actuarial opinion to be issued by a qualified actuary relating to annuity reserves. In addition, FF was in compliance with RCW 48.38.020(3)(c) which requires FF to maintain a SRF balance equal to the actuarial calculation for annuity reserves plus a 10 percent surplus. No exceptions were noted.

SUBSEQUENT EVENTS

There were no additional material events which impacted FF between the examination date and the last day of our field work, June 15, 2015.

ACCOUNTING RECORDS AND PROCEDURES

The records and source documentation supported the data and amounts presented in FF's annual reports and financial statements.

FINANCIAL STATEMENTS

The following financial statements show the financial condition of FF as of June 30, 2014:

Statement of Financial Position

Statement of Activities and Changes in Net Assets

Franciscan Foundation
Statement of Financial Position
June 30, 2014
(In Thousands)

	<u>Balance Per Annual Report</u>	<u>Examination Adjustments</u>	<u>Balance Per Examination</u>
Assets			
Investments	\$23,163	\$0	\$23,163
CGA investments	80		80
Other assets	3,858		3,858
Total Assets	<u>\$27,101</u>	<u>\$0</u>	<u>\$27,101</u>
Liabilities and Net Assets			
Accounts payable and accrued expenses	\$18	\$0	\$18
CGA liabilities	38		38
Total Liabilities	<u>56</u>	<u>0</u>	<u>56</u>
Net Assets			
Unrestricted	5,624	0	5,624
Temporarily restricted	15,614		15,614
Permanently restricted	5,807		5,807
Total Net Assets	<u>27,045</u>	<u>0</u>	<u>27,045</u>
Total Liabilities and Net Assets	<u>\$27,101</u>	<u>\$0</u>	<u>\$27,101</u>

Franciscan Foundation
Statement of Activities and Changes in Net Assets
For the Year Ended June 30, 2014
(In Thousands)

	<u>Balance Per Annual Report</u>	<u>Examination Adjustments</u>	<u>Balance Per Examination</u>
Total revenues	\$8,809	\$0	\$8,809
Total expenses	6,217		6,217
Increase (decrease) in net assets	2,592	0	2,592
Net assets at beginning of year	24,453		24,453
Net assets at end of year	<u>\$27,045</u>	<u>\$0</u>	<u>\$27,045</u>

ACKNOWLEDGMENT

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

In addition to the undersigned, Michael V. Jordan, CPA, CFE, MHP, Assistant Chief Examiner and Orlando Gabriel, CFE, both from the Washington State Office of the Insurance Commissioner, participated in the examination and in the preparation of this report.

Respectfully submitted,

A handwritten signature in cursive script that reads "Susan Campbell". The signature is written in black ink and is positioned above the printed name and title.

Susan Campbell, CPA, CFE, FLMI, ARA
Life and Disability Field Supervising Examiner
State of Washington

AFFIDAVIT

STATE OF WASHINGTON }
 } ss
COUNTY OF KING }

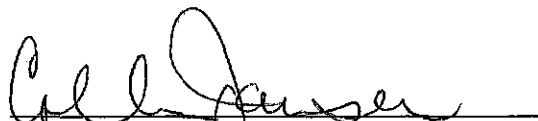
Susan Campbell, being duly sworn, deposes and says that the foregoing report subscribed by her is true to the best of her knowledge and belief.

She attests that the examination of the Charitable Gift Annuity business of Franciscan Foundation 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.



Susan Campbell, CPA, CFE, FLMI, ARA
Life Field Supervising Examiner
State of Washington

Subscribed and sworn to before me this 4th day of November, 2015.



Notary Public in and for the
State of Washington

