

STATE OF WASHINGTON  
OFFICE OF THE INSURANCE COMMISSIONER



FINANCIAL EXAMINATION  
OF THE CHARITABLE GIFT ANNUITY BUSINESS  
OF  
PEACEHEALTH  
BELLEVUE, WASHINGTON

JUNE 30, 2013

Order No. 14-163  
PeaceHealth  
Exhibit A

**SALUTATION**

Seattle, Washington  
June 5, 2014

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

**PeaceHealth**  
of  
Bellevue, Washington

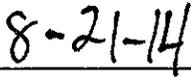
hereinafter referred to as "PH" at its office, 14432 Southeast Eastgate Way, Suite 210, Bellevue, WA 98007. This report of examination is respectfully submitted showing the financial condition and related corporate matters of the CGA business of PH as of June 30, 2013.

**CHIEF EXAMINER'S AFFIDAVIT**

I hereby certify I have read the attached Report of the Financial Examination of the Charitable Gift Annuity Business of PeaceHealth of Bellevue, Washington. This report shows the financial condition of the CGA business and related corporate matters of PeaceHealth as of June 30, 2013.



Patrick H. McNaughton  
Chief Examiner



Date

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## **SCOPE OF THE EXAMINATION**

The examination covers the period July 1, 2008 through June 30, 2013. The scope of our examination focused only on the transactions and operations of the CGA business. PH'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, PH's June 30, 2013 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 examination was conducted at the Bellevue office of PH by financial examiners from the state of Washington.

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

PH is a nonprofit corporation organized under the laws of the state of Washington. PH is organized and operated exclusively for charitable, religious, scientific, and educational purposes. PH is a community ministry providing health care in Washington, Oregon, and Alaska. PH is sponsored by the Sisters of St. Joseph of Peace.

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

On December 16, 1994, the OIC granted PH Certificate of Exemption No. 69 to conduct a CGA business in the state of Washington. There were 25 in-force annuity contracts as of June 30, 2013, of which 22 were issued to residents of the state of Washington.

### **Total Net Assets**

PH's total net assets as of June 30, 2013 were \$1.58 billion. This amount included unrestricted net assets of \$1.53 billion. The minimum unrestricted net assets requirement was satisfied pursuant to RCW 48.38.010(6).

## Growth

The growth of PH 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 Allocated Into:			
			Total Net Assets	Unrestricted	Temporarily Restricted	Permanently Restricted
2013	\$3,052,473	\$1,468,534	\$1,583,939	\$1,527,681	\$32,129	\$24,129
2012	2,059,636	1,095,518	964,118	939,601	21,758	2,759
2011	2,003,565	1,035,157	968,408	944,022	21,774	2,612
2010	1,880,502	1,029,112	851,390	827,346	20,607	3,437
2009	1,862,203	1,008,051	854,152	836,879	14,882	2,391

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

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Total revenues	\$2,188,496	\$1,619,728	\$1,625,163	\$1,458,544	\$1,337,959
Total expenses	<u>2,090,339</u>	<u>1,718,822</u>	<u>1,525,530</u>	<u>1,445,204</u>	<u>1,435,492</u>
Increase (decrease) in net assets	619,821	(4,290)	117,018	(2,762)	(125,009)
Net assets at beginning of year	<u>964,118</u>	<u>968,408</u>	<u>851,390</u>	<u>854,152</u>	<u>979,161</u>
<b>Net assets at end of year</b>	<b><u>\$1,583,939</u></b>	<b><u>\$964,118</u></b>	<b><u>\$968,408</u></b>	<b><u>\$851,390</u></b>	<b><u>\$854,152</u></b>
Number of gift annuity contracts	25	9	10	10	10

### AFFILIATED ORGANIZATIONS

The consolidated financial statements include the accounts of PH, its subsidiaries, and related foundations. The following operating divisions are components of PH:

- Oregon Network – PeaceHealth Sacred Heart Medical Center at University District, PeaceHealth Sacred Heart Medical Center at River Bend, PeaceHealth Cottage Grove Community Medical Center, PeaceHealth Peace Harbor Hospital.
- Columbia Network – PeaceHealth Southwest Medical Center, PeaceHealth St. John Medical Center. PeaceHealth St. John Medical Center Foundation operates for the exclusive benefit of the PeaceHealth St. John Medical Center in Longview, Washington and has maintained a separate charitable gift annuity exemption.
- Northwest Network – PeaceHealth Ketchikan Medical Center, PeaceHealth St. Joseph Medical Center, PeaceHealth Peace Island Medical Center.
- Systemwide Organizations – PeaceHealth Medical Group, PeaceHealth Laboratories, PeaceHealth Self-Insured Trusts, Columbia United Providers, Inc.

PH included the following controlled affiliates as of June 30, 2013:

- Southwest Washington Health Systems
- Property and Buildings, LLC
- Health Ventures
- Pooled Income Funds
- PeaceHealth Southwest Medical Center Foundation

## MANAGEMENT AND CONTROL

### **Management**

PH is governed by a Board of Directors (BOD) of no less than thirteen nor more than sixteen members. The directors are elected for a term of three years and may be re-elected to three additional consecutive three-year terms. All directors have full voting rights.

### **Board of Directors**

Directors as of June 30, 2013:

Sr. Andrea Nenzel, CSJP, Chair  
Dieter Morich, MD  
Sr. Anne Hayes, CSJP  
Ron Prill  
Carol Sheridan  
Sr. Kathleen Pruitt, CSJP  
Sr. Norah Clarke, CSJP  
Sr. Margaret Dimond, CSJP  
Bob De Vita  
Lee Kearney  
Roland Trenouth, MD  
Sr. Margaret Jane Kling, CSJP  
Gretchen Pierce

### **Officers**

Officers as of June 30, 2013:

Alan Yordy, President and Chief Mission Officer  
Sr. Andrea Nenzel, CSJP, Chair / First Vice President  
Sr. Anne Hayes, CSJP, Secretary  
Ron Prill, Treasurer

### **Tax Status**

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

### **Conflict of Interest**

BOD members are required to submit a conflict of interest questionnaire annually. PH's Organizational Integrity Department monitors compliance with the Conflict of Interest Policy. No exceptions were noted.

## ORGANIZATION RECORDS

The BOD meets four times a year to discuss business pertinent to PH. BOD meeting minutes documented the approval of PH's transactions and events. No exceptions were noted.

### **SEPARATE RESERVE FUND (SRF)**

PH's separate reserve fund 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 PH, 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, PH was in compliance with RCW 48.38.020(3)(c) which requires PH 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 PH 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 PH's annual reports and financial statements.

### **FINANCIAL STATEMENTS**

The following financial statements show the financial condition of PH as of June 30, 2013:

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

**PeaceHealth**  
**Statement of Financial Position**  
**June 30, 2013**  
(In Thousands)

	<u>Balance Per Annual Report</u>	<u>Examination Adjustments</u>	<u>Balance Per Examination</u>
<b>Assets</b>			
Cash	\$70,952	\$0	\$70,952
Other Investments	276,979		276,979
CGA Investments	1,089		1,089
Other assets whose use is limited	893,750		893,750
Net property, plant, and equipment	1,334,972		1,334,972
Other assets	474,731		474,731
<b>Total Assets</b>	<b><u>\$3,052,473</u></b>	<b><u>\$0</u></b>	<b><u>\$3,052,473</u></b>
<b>Liabilities and Net Assets</b>			
Current liabilities	\$291,521	\$0	\$291,521
CGA liabilities	887		887
Other long-term liabilities	253,427		253,427
Long-term debt due after 1 year	922,699		922,699
<b>Total Liabilities</b>	<b><u>1,468,534</u></b>	<b><u>0</u></b>	<b><u>1,468,534</u></b>
<b>Net Assets</b>			
Unrestricted	1,527,681		1,527,681
Temporarily restricted	32,129		32,129
Permanently restricted	24,129		24,129
<b>Total Net Assets</b>	<b><u>1,583,939</u></b>	<b><u>0</u></b>	<b><u>1,583,939</u></b>
<b>Total Liabilities and Net Assets</b>	<b><u>\$3,052,473</u></b>	<b><u>\$0</u></b>	<b><u>\$3,052,473</u></b>

**PeaceHealth**  
**Statement of Activities and Changes in Net Assets**  
**For the Year Ended June 30, 2013**  
(In Thousands)

	<u>Balance Per Annual Report</u>	<u>Examination Adjustments</u>	<u>Balance Per Examination</u>
Total revenues	\$2,188,496	\$0	\$2,188,496
Total expenses	<u>2,090,339</u>		<u>2,090,339</u>
Increase (decrease) in net assets	98,157	0	98,157
Other changes in net assets	521,664		521,664
Net assets at beginning of year	<u>964,118</u>		<u>964,118</u>
<b>Net assets at end of year</b>	<b><u>\$1,583,939</u></b>	<b><u>\$0</u></b>	<b><u>\$1,583,939</u></b>

**ACKNOWLEDGMENT**

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

In addition to the undersigned, Michael V. Jordan, CPA, CFE, MHP, Assistant Chief Examiner, Tarik Subbagh, CPA, CFE, MSBA, Property and Casualty Field Supervising Examiner, Susan Campbell, CPA, CFE, FLMI, ARA, Life Team Supervising Examiner, 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, appearing to read "Katy Bardsley", is written over a horizontal line.

Katy Bardsley, CPA, CFE  
Financial Examiner  
State of Washington

