

STATE OF WASHINGTON  
OFFICE OF THE INSURANCE COMMISSIONER



FINANCIAL EXAMINATION  
OF THE CHARITABLE GIFT ANNUITY BUSINESS  
OF  
PROVIDENCE HEALTH & SERVICES-WA  
RENTON, WASHINGTON

DECEMBER 31, 2012

Order No. 13-299  
Providence Health & Services - WA  
Exhibit A

**SALUTATION**

Seattle, Washington  
October 28, 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

**Providence Health & Services-WA**  
of  
Renton, Washington

hereinafter referred to as "PH&S-WA" at its office, 1801 Lind Avenue SW, Renton, WA 98057. This report of examination is respectfully submitted showing the financial condition and related corporate matters of the CGA business of PH&S-WA 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 Providence Health & Services-WA of Renton, Washington. This report shows the financial condition of the CGA business and related corporate matters of Providence Health & Services-WA as of December 31, 2012.



Patrick H. McNaughton  
Chief Examiner

10-28-13

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. PH&S-WA'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-WA's 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 Renton office of PH&S-WA by examiners from the state of Washington.

The examiners reviewed PH&S-WA's CGA Annual Reports as part of the statutory examination. This review was performed to determine if PH&S-WA completed the Annual Reports in accordance with the Annual Report Instructions published by the OIC and to verify that PH&S-WA'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&S-WA is one of the various organizations comprising Providence Health & Services (Providence). PH&S-WA is a not-for-profit entity organized and existing under the laws of the state of Washington. PH&S-WA provides scientific research and education, charitable and other activities, and services and programs related to its health care services.

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

On December 11, 1989, the OIC granted Sisters of Providence a Certificate of Exemption Number 29 to conduct a CGA business in the state of Washington. Sisters of Providence changed its name to Providence Health System-Washington (PHS-WA), and the name change was approved by OIC on April 11, 2002. On April 1, 2009, PHS-WA changed its name to Providence Health & Services-WA (PH&S-WA). As a result, the OIC granted PH&S-WA an amended Certificate of Exemption No. 29 effective as of April 17, 2009. There were 69 in-force contracts as of December 31, 2012.

### Total Net Assets

PH&S-WA's total net assets as of December 31, 2012 were \$2.7 billion. This amount included unrestricted net assets of \$2.6 billion. The minimum unrestricted net assets requirement was satisfied pursuant to RCW 48.38.010(6).

### Growth

The growth of PH&S-WA for the past five years is reflected in the following schedules:

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

| <u>Year</u> | <u>Assets</u> | <u>Liabilities</u> | <u>Total Net Assets</u> | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> |
|-------------|---------------|--------------------|-------------------------|---------------------|-------------------------------|-------------------------------|
| 2012        | \$5,928,040   | \$3,189,697        | \$2,738,343             | \$2,648,533         | \$75,456                      | \$14,354                      |
| 2011        | 4,558,780     | 2,043,932          | 2,514,848               | 2,428,681           | 74,268                        | 11,899                        |
| 2010        | 4,187,166     | 1,856,836          | 2,330,330               | 2,249,001           | 69,868                        | 11,461                        |
| 2009        | 3,744,539     | 1,635,539          | 2,109,000               | 2,030,038           | 67,878                        | 11,084                        |
| 2008        | 3,538,217     | 1,595,557          | 1,942,660               | 1,872,338           | 62,821                        | 7,501                         |

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

|                                   | <u>2012</u>        | <u>2011</u>        | <u>2010</u>        | <u>2009</u>        | <u>2008</u>        |
|-----------------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Total revenues                    | \$4,425,042        | \$3,499,820        | \$3,261,432        | \$3,129,855        | \$2,942,310        |
| Total expenses                    | <u>3,818,078</u>   | <u>3,395,961</u>   | <u>3,105,716</u>   | <u>2,987,319</u>   | <u>2,973,457</u>   |
| Increase (decrease) in net assets | 606,964            | 103,859            | 155,716            | 142,536            | (31,147)           |
| Other changes in net assets       | (383,469)          | 80,659             | 65,614             | 23,804             | 37,517             |
| Net assets at beginning of year   | <u>2,514,848</u>   | <u>2,330,330</u>   | <u>2,109,000</u>   | <u>1,942,660</u>   | <u>1,936,290</u>   |
| Net assets at end of year         | <u>\$2,738,343</u> | <u>\$2,514,848</u> | <u>\$2,330,330</u> | <u>\$2,109,000</u> | <u>\$1,942,660</u> |
| Number of gift annuity contracts  | 69                 | 67                 | 75                 | 78                 | 85                 |

### AFFILIATED ORGANIZATIONS

As of January 1, 2010, ultimate control of PH&S-WA and the other Providence entities resides in Providence Ministries which exercises such control through the reserved rights delineated in the Providence Bylaws. Prior to January 1, 2010, ultimate control of PH&S-WA was held by the Provincial Council of the Sisters of Providence (Provincial Council), but as of January 1, 2010, the Provincial Council transferred control to Providence Ministries. The other Providence entities include Providence Health & Services–Western Washington, Providence Health & Services–Oregon, Providence Health & Services–Southern California, and Providence Health & Services–Montana.

## **MANAGEMENT AND CONTROL**

### **Management**

The Board of Directors (BOD) exercises general governance and control of the mission and business affairs of PH&S-WA. The president is the chief executive officer of PH&S-WA and, subject to the direction of the BOD, has general management and supervision of the affairs of the corporation.

### **Board of Directors**

The following individuals were directors as of December 31, 2012:

|                         |                   |
|-------------------------|-------------------|
| Lucille Dean, SP, Chair | Dana Rasmussen    |
| Martha Aszkenazy        | Jim Roberts, MD   |
| Issiaah Crawford, PHD   | Owen Robinson     |
| Mary Heid, RSM          | Cheryl Scott      |
| Michael Holcomb         | Peter Snow        |
| Sallye Liner            | Michael Stein     |
| Kirby McDonald          | Charles Watts, MD |
| David Olsen             | Ellen Wolf        |

### **Officers**

The following individuals were officers as of December 31, 2012:

John Koster, MD, President  
Jeff Rogers, Secretary  
Todd Hofheins, Treasurer

### **Tax Status**

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

### **Conflict of Interest**

Each interested or affected person, as specifically defined in the Conflict of Interest Policy and Procedure, is required to submit a Confidentiality and Conflict of Interest Disclosure Form at the time of hire, and annually thereafter. The conflict of interest disclosure form is reviewed by the BOD or the appropriate person identified in the conflict of interest policy and procedure. No exceptions were noted.

## **ORGANIZATION RECORDS**

The BOD meets four times a year to discuss any pertinent business of PH&S-WA. Minutes of the meetings of the BOD documented the approval of PH&S-WA'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 PH&S-WA's annuity contract reserves as computed under RCW 48.38.020(3)(a) and (b) should be \$1.6 million for 69 in-force annuity contracts as of December 31, 2012. This amount was properly reported in PH&S-WA's 2012 Annual Report.

### **ANNUITY ASSETS CUSTODIAL FUNCTION**

The separate reserve fund assets were held legally and physically segregated from the other assets of PH&S-WA as required by RCW 48.38.020(2)(a). The market values of the annuity investments as of December 31, 2012 were \$2.5 million and consisted of cash, equity, and real estate funds. The annuity investments were properly reported in the financial statements at market value.

### **SUBSEQUENT EVENTS**

There were no additional material events which impacted PH&S-WA 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 PH&S-WA's annual reports and financial statements.

### **FINANCIAL STATEMENTS**

The following financial statements show the unconsolidated financial condition of PH&S-WA as of December 31, 2012:

Statement of Financial Position

Statement of Activities and Changes in Net Assets

**Providence Health & Services-WA**  
**Statement of Financial Position**  
**December 31, 2012**  
(In Thousands)

|   | <u>Balance Per<br/>Annual Report</u> | <u>Examination<br/>Adjustments</u> | <u>Balance Per<br/>Examination</u> |
|---|--------------------------------------|------------------------------------|------------------------------------|
| <b>Assets</b>                           |                                      |                                    |                                    |
| Cash and cash equivalents               | \$247,741                            | \$0                                | \$247,741                          |
| Affiliates and other receivables        | 1,771,861                            |                                    | 1,771,861                          |
| Trust funds & other investments         | 1,018,634                            |                                    | 1,018,634                          |
| CGA investments                         | 2,465                                |                                    | 2,465                              |
| Property, plant, & equipment, net       | 2,626,955                            |                                    | 2,626,955                          |
| Other assets                            | 260,384                              |                                    | 260,384                            |
| <b>Total Assets</b>                     | <b><u>\$5,928,040</u></b>            | <b><u>\$0</u></b>                  | <b><u>\$5,928,040</u></b>          |
| <b>Liabilities and Net Assets</b>       |                                      |                                    |                                    |
| Accounts payable                        | \$199,715                            | \$0                                | \$199,715                          |
| Accrued compensation                    | 248,613                              |                                    | 248,613                            |
| Affiliates payable                      | 1,054,954                            |                                    | 1,054,954                          |
| CGA liabilities                         | 1,436                                |                                    | 1,436                              |
| Other current liabilities               | 442,400                              |                                    | 442,400                            |
| Long-term liabilities                   | 1,242,579                            |                                    | 1,242,579                          |
| <b>Total Liabilities</b>                | <b><u>3,189,697</u></b>              | <b><u>0</u></b>                    | <b><u>3,189,697</u></b>            |
| <b>Net Assets</b>                       |                                      |                                    |                                    |
| Unrestricted                            | 2,648,533                            | 0                                  | 2,648,533                          |
| Temporarily restricted                  | 75,456                               |                                    | 75,456                             |
| Permanently restricted                  | 14,354                               |                                    | 14,354                             |
| <b>Total Net Assets</b>                 | <b><u>2,738,343</u></b>              | <b><u>0</u></b>                    | <b><u>2,738,343</u></b>            |
| <b>Total Liabilities and Net Assets</b> | <b><u>\$5,928,040</u></b>            | <b><u>\$0</u></b>                  | <b><u>\$5,928,040</u></b>          |

**Providence Health & Services-WA**  
**Statement of Activities and Changes in Net Assets**  
**For the Year Ended December 31, 2012**  
(In Thousands)

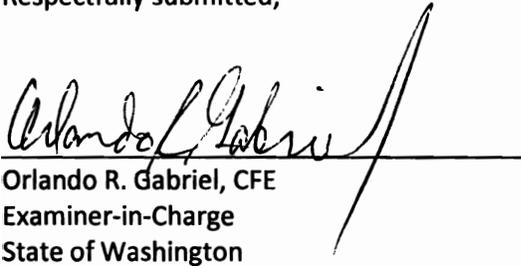
|                                   | <u>Balance Per<br/>Annual Report</u> | <u>Examination<br/>Adjustments</u> | <u>Balance Per<br/>Examination</u> |
|-----------------------------------|--------------------------------------|------------------------------------|------------------------------------|
| Total revenues                    | \$4,425,042                          | \$0                                | \$4,425,042                        |
| Total expenses                    | <u>3,818,078</u>                     |                                    | <u>3,818,078</u>                   |
| Increase (decrease) in net assets | 606,964                              | 0                                  | 606,964                            |
| Other changes in net assets       | (383,469)                            |                                    | (383,469)                          |
| Net assets at beginning of year   | <u>2,514,848</u>                     |                                    | <u>2,514,848</u>                   |
| <b>Net assets at end of year</b>  | <b><u>\$2,738,343</u></b>            | <b><u>\$0</u></b>                  | <b><u>\$2,738,343</u></b>          |

**ACKNOWLEDGMENT**

Acknowledgment is hereby made of the cooperation extended to the examiners by the officers and employees of Providence Health & Services-WA 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,



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

