

STATE OF WASHINGTON
OFFICE OF THE INSURANCE COMMISSIONER



FINANCIAL EXAMINATION
OF THE CHARITABLE GIFT ANNUITY BUSINESS
OF
SWEDISH MEDICAL CENTER FOUNDATION
RENTON, WASHINGTON
DECEMBER 31, 2013

Order No. 15-17
Swedish Medical Center Foundation
Exhibit A

SALUTATION

Seattle, Washington
November 18 , 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:

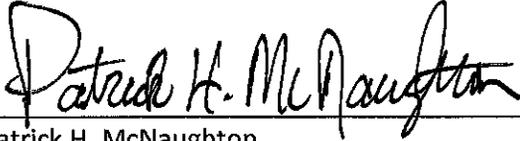
In accordance with your instructions and in compliance with the statutory requirements of Chapter 48.38 RCW, Charitable Gift Annuity Business, an examination was made of the corporate matters and financial records pertaining to the charitable gift annuity (CGA) business of

Swedish Medical Center Foundation
of
Renton, Washington

hereinafter referred to as "SMCF" at its office, 2001 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 SMCF as of December 31, 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 Swedish Medical Center Foundation of Renton, Washington. This report shows the financial condition of the CGA business and related corporate matters of Swedish Medical Center Foundation as of December 31, 2013.



Patrick H. McNaughton
Chief Examiner

1-6-15

Date

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SCOPE OF THE EXAMINATION

The examination covers the period January 1, 2009 through December 31, 2013. The scope of our examination focused only on the transactions and operations of the CGA business. SMCF'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.

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 SMCF by financial examiners from the state of Washington.

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

SMCF was incorporated on December 30, 1976. The purpose of SMCF is to provide fundraising to further the charitable, educational, health care, and scientific activities of Swedish Health Services (Swedish).

Territory and Plan of Operation

On November 29, 1989, the OIC granted Swedish Hospital Medical Center (SHMC) a Certificate of Exemption No. 28 to conduct a CGA business in the state of Washington. On March 23, 2005, the OIC amended Certificate of Exemption No. 28 to reflect the name change from SHMC to Swedish Medical Center Foundation. There were 13 in-force annuity contracts as of December 31, 2013.

Total Net Assets

SMCF's total net assets as of December 31, 2013 were approximately \$66 million. This amount included unrestricted net assets of approximately \$18.2 million. The minimum unrestricted net assets requirement was satisfied pursuant to RCW 48.38.010(6).

Growth

The growth of SMCF 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>
2013	\$72,167	\$6,196	\$65,971	\$18,179	\$40,911	\$6,881
2012	71,325	7,472	63,853	20,738	36,992	6,123
2011	62,735	4,230	58,505	21,152	31,386	5,967
2010	70,055	5,001	65,054	22,247	36,850	5,957
2009	59,722	4,483	55,239	22,626	26,727	5,886

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	\$19,615	\$19,806	\$6,853	\$7,691	\$15,628
Total expenses	<u>17,496</u>	<u>14,453</u>	<u>4,949</u>	<u>4,776</u>	<u>6,115</u>
Increase (decrease) in net assets	2,119	5,353	1,904	2,915	9,513
Other changes in net assets	(1)	(5)	(8,453)	6,900	5,134
Net assets at beginning of year	<u>63,853</u>	<u>58,505</u>	<u>65,054</u>	<u>55,239</u>	<u>40,592</u>
Net assets at end of year	<u>\$65,971</u>	<u>\$63,853</u>	<u>\$58,505</u>	<u>\$65,054</u>	<u>\$55,239</u>
Number of gift annuity contracts in force	13	13	12	14	15

AFFILIATED ORGANIZATIONS

Swedish is the parent company of SMCF. Swedish operates acute care hospitals and various healthcare programs and services.

MANAGEMENT AND CONTROL

Management

According to the restated Bylaws, SMCF is governed by a Board of Governors (BOG) consisting of not less than 15 members. The officers of SMCF consist of a chairperson, a vice chairperson, a president, a secretary, and a treasurer. The president has general control oversight of the business affairs and policies of SMCF.

Board of Governors

Governors as of December 31, 2013:

Lucius Andrew
Anthony Armada
Nancy Auer

Rae Lembersky
Charles Lytle
Molly McCullough

Anita Braker
Barbara Buchman
Lida Buckner
Sarah Everitt
Tom Gores
Cheryl Gossman
Scott Harrison
Jessica Hughes
Gwendolyn Johnson
Lorna Kneeland
William Krippaehne
Todd Lee

Kirby McDonald
Michael Melancon
Tracy Morris
Molly Otter
Michael Peters
John Petersen
Brad Root
Diane Sabey
Janet True
Jane Uhlir
John Vassall
Jean Viereck

Officers

Officers as of December 31, 2013:

Lida Buckner, Chair
Scott Harrison, Vice Chair
Don Theophilus, President
Betsy Vo, Secretary
Dan Harris, Treasurer

Tax Status

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

Conflict of Interest

According to the BOG Conflict of Interest Policy, each board member has an obligation to complete and sign a Conflict of Interest Questionnaire on an annual basis to disclose all actual, apparent, or potential conflict of interest. The executive committee reviews all conflict of interest questionnaires; makes a finding as to whether a conflict of interest exists; and makes recommendations as to how the conflict of interest should be addressed. No exceptions were noted.

ORGANIZATION RECORDS

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

SEPARATE RESERVE FUND

SMCF'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 SMCF, 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, SMCF was in compliance with RCW 48.38.020(3)(c) which requires SMCF 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 SMCF between the examination date and the last day of our field work.

FOLLOW UP ON PREVIOUS EXAMINATION FINDINGS

All previous report instructions have been addressed and corrected.

ACCOUNTING RECORDS AND PROCEDURES

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

FINANCIAL STATEMENTS

The following financial statements show the financial condition of SMCF as of December 31, 2013:

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

Swedish Medical Center Foundation
Statement of Financial Position
December 31, 2013
(In Thousands)

	<u>Balance Per Annual Report</u>	<u>Examination Adjustments</u>	<u>Balance Per Examination</u>
Assets			
Cash and cash equivalents	\$19,581	\$0	\$19,581
CGA investments	1,352		1,352
Other investments	39,266		39,266
Other assets	11,968		11,968
Total Assets	<u>\$72,167</u>	<u>\$0</u>	<u>\$72,167</u>
Liabilities and Net Assets			
CGA liabilities	\$1,119	\$0	\$1,119
Other liabilities	5,077		5,077
Total Liabilities	<u>6,196</u>	<u>0</u>	<u>6,196</u>
Net Assets			
Unrestricted	18,179	0	18,179
Temporarily restricted	40,911		40,911
Permanently restricted	6,881		6,881
Total Net Assets	<u>65,971</u>	<u>0</u>	<u>65,971</u>
Total Liabilities and Net Assets	<u>\$72,167</u>	<u>\$0</u>	<u>\$72,167</u>

Swedish Medical Center Foundation
Statement of Activities and Changes in Net Assets
For the Year Ended December 31, 2013
(In Thousands)

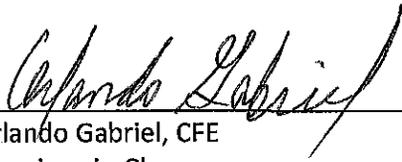
	<u>Balance Per Annual Report</u>	<u>Examination Adjustments</u>	<u>Balance Per Examination</u>
Total revenues	\$19,615	\$0	\$19,615
Total expenses	17,496		17,496
Increase (decrease) in net assets	2,119	0	2,119
Other changes in net assets	(1)		(1)
Net assets at beginning of year	63,853		63,853
Net assets at end of year	<u>\$65,971</u>	<u>\$0</u>	<u>\$65,971</u>

ACKNOWLEDGMENT

Acknowledgment is hereby made of the cooperation extended to the examiners by the officers and employees of Swedish Medical Center Foundation 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,

A handwritten signature in cursive script, reading "Orlando Gabriel", is written over a horizontal line.

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

