STATE OF WASHINGTON
OFFICE OF THE INSURANCE COMMISSIONER

FINANCIAL EXAMINATION

OF

GROUP HEALTH/KAISER PERMANENTE COMMUNITY FOUNDATION
Seattle, Washington

AS OF DECEMBER 31, 2002

CHIEF EXAMINER'S AFFIDAVIT

I hereby certify I have read the attached Report of Financial Examination of Group Health/Kaiser Permanente Community Foundation of Seattle, Washington. This report shows the financial condition and related corporate matters as of December 31, 2002.

Patrick H. McNaughton
Chief Examiner

November 10, 2004
Date

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SALUTATION

Seattle, Washington
October 28, 2004

The Honorable Mike Kreidler, Commissioner
Washington State Office of the Insurance
Commissioner (OIC)
Insurance 5000 Building
5000 Capital Blvd.
Tumwater, WA 98504-0255

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 has been made of the corporate affairs and financial records of

Group Health/Kaiser Permanente Community Foundation
of
Seattle, Washington

hereinafter referred to as the "Foundation" or "GHF", at its home office, located at 1730 Minor Avenue, Seattle, Washington 98101.

This report of examination is respectfully submitted showing the condition of the Foundation as of December 31, 2002.

SCOPE OF EXAMINATION

This examination covers the period from January 1, 1998 through December 31, 2002. The examination was conducted in accordance with statutory requirements contained in the Washington State Insurance Code and the guidelines recommended in the NAIC Financial Condition Examiners Handbook. The Foundation's operating procedures and financial records were reviewed and tested as considered necessary to ascertain the financial condition of the Foundation and its conformity with the related laws. These matters are discussed in this report. The examination was conducted at the Seattle office of the Foundation by examiners from the state of Washington.

The Foundation records along with various aspects of the organization's operating procedures and financial records were reviewed and tested during the course of this examination and are commented upon in the following sections of this report. In addition, the organization's Certified Public Accountant's report and work papers were reviewed and utilized, where possible, to facilitate efficiency in the examination;

INSTRUCTIONS

The examiners reviewed the organization's filed 2002 Annual Report as part of the statutory examination. This review was performed to determine if the organization completed the Annual Report in accordance with the Annual Report Instructions published by the OIC and to verify that the organization's accounts and records were prepared and maintained in accordance with Title 48 of the RCW.

The following summarized the exceptions noted while performing this review.

1. Annuities Payable/Reserves

The Foundation did not report the reserve amount calculated by its actuary, plus a surplus of ten percent of the calculated reserve amount, as required by RCW 48.38.020(3) as an annuities liability. The Foundation reported an annuities liability of $318,455 instead of the required statutory reserve amount of $445,078. This resulted in an understatement of the reported annuities liability by $126,623. Consequently, the understated liability resulted in the overstating of temporarily restricted net assets by $126,623.

RCW 48.38.020(3) states, "The amount of the separate reserve fund shall be: (a) For contracts issued prior to July 1, 1998, not less than an amount computed in accordance with the standard of valuation based on the 1971 individual annuity mortality table with six percent interest for single premium immediate annuity contracts and four percent interest for all other individual annuity contracts; (b) For contracts issued on or after July 1, 1998, in an amount not less than the aggregate reserves calculated according to the standards set forth in RCW 48.74.030 for other annuities with no cash settlement options; (c) Plus a surplus of ten percent of the combined amounts under (a) and (b) of this subsection."

The Foundation is instructed to report the statutory reserve amount on the consolidating information of Group Health Cooperative, Group Health Options, Inc., and the Foundation's (collectively, the Group) consolidated financial statements in compliance with RCW 48.38.020(3).

COMMENTS AND RECOMMENDATIONS

Annuity Contracts

We found instances wherein information in the annuity contracts, such as the present value of annuity and present value of gift, did not agree with the gifts annuity summary listing and gifts annuity program spreadsheets. The discrepancies did not affect the periodic payments to the particular annuitants; the periodic payments on the spreadsheets agreed with the amounts stipulated in the contracts.

It is recommended that the Foundation correct the spreadsheets and the particular annuitants' files or ledgers to reflect the proper annuity benefits payable, and to ensure that the annuities reserve amounts are correctly calculated. The Foundation has indicated the records have been corrected to date.

HISTORY

Group Health/Kaiser Permanente Community Foundation (the Foundation) is a Washington non-profit charitable corporation. It was created by its parent company, Group Health Cooperative (GHC), in November 1983. The Foundation is incorporated under the laws of the state of Washington and is authorized to accept gifts, bequests, contributions, and grants. It is organized exclusively to benefit, perform the functions of, and carry out the purposes of GHC and other affiliated tax-exempt organizations. It uses philanthropy, health education and training, research, and community partnerships to improve the health of children and adolescents and to promote diversity within health care. A Certificate of Exemption was issued to the Foundation by the OIC on September 30, 1991, granting it authority to conduct a charitable gift annuity business in the state of Washington. The first annuity contract was issued on May 29, 1992. Total outstanding annuity contracts as of December 31, 2002 were twenty-two, and all were issued to residents of Washington State.

GHC is a non-profit health maintenance organization and is headquartered in Seattle, Washington. It provides comprehensive pre-paid healthcare to enrolled members. GHC owned subsidiaries, Group Health Options, Inc., (GHO) and the Foundation, filed consolidated financial statements as of December 31, 2002. All significant inter-company transactions were eliminated.

The Foundation has an operating agreement subject to Chapter 48.31 RCW with GHC whereby certain personnel and other support services were contributed by GHC to the Foundation to assist the Foundation in its development and community service efforts.

MANAGEMENT

Responsibility for governing the Foundation is vested in a Board of Directors (BOD), who are appointed by the membership of the Foundation. There were twenty-three directors in 2002. Five of the 23 directors were GHC employees and the other 18 directors have no relationship with the Foundation.

The Finance Committee oversees the investment activities and also acts in the capacity as an Audit Committee. The management obtains and uses information to stay abreast of changes in the competitive, technological, and regulatory environments through Planned Giving Services, Bank of America, Association of Healthcare Philanthropy, Group Health Finance Services, and Group Health Legal Counsel.

The Foundation utilizes the services of the following vendors: Planned Giving Services, Milliman USA, and Bank of America. Planned Giving Services is involved in the Gift Annuity Contracts process. Milliman USA is the Foundation's actuary. Bank of America manages the assets of the separate annuity reserve fund.

Board of Directors

The membership of the Board, together with the title, committee assignment and principal business or professional affiliation of each member, were as follows:

Name/Title	Assignment/Principal Affiliation/Years of Service
Bob Watt, Chair Vice President	Executive, Gala Planning, Nominating Group Health Cooperative, 6 years
Simeon A. Rubenstein, MD Health Plan Medical Director	Gala Planning, Executive, Nominating Group Health Cooperative, 6 years
Jerry Campbell, Treasurer Trustee	Finance Group Health Cooperative, 2 years
Cheryl Scott, Secretary President and CEO	Executive Group Health Cooperative, Ongoing
Stephan Blanford Community Volunteer	Program Graduate Student, 3 years
Mary L. Durham, Ph.D. Director	Development Center for Health Research, Kaiser Permanente Northwest, 3 years
Sharon Fairchild Vice President	Nominating, Communications Sub-Committee Marketing & System Development, Providence Services Eastern WA, 2 years

Carver Gayton, Ph.D. Self Employed	Development, Executive, Finance Former Commissioner, WA Employment Security Department, 6 years
Barbara Gottas Director	Executive, Program Consumer Experience Strategies, Group Health Cooperative, 2 years
Cynthia Hoppner Senior Corporate Counsel	AT&T Wireless Services, Inc., 1 year
Dorothy Mann, Ph.D. Health Policy Consultant	Gala Planning University of Washington, 3 years
David O'Brien Chief Operations Officer	Finance Hope Heart Institute, 6 years
Carolyn Purnell Consultant	Development, Gala Planning, Executive 3 years of service
Robert Radford, PH.D. Trustee	Group Health Cooperative, 2 years
Jill A Ryan Director of Initiatives	Finance Nesholm Family Foundation, 2 years
Chang Mook Sohn, Ph.D Executive Director	Finance Office of the Forecast Council, State of Washington, 1 year
Andy Stergachis, Ph.D. Director of Pharmacy Services & Quality Assurance	Development, Gala Planning, Nominating Drugstore.com, 3 years
Hugh Straley, MD Associate Medical Director	Executive, Program Group Health Cooperative, 2 years
Atsuko Tamura Vice President, Finance	Finance Recreational Equipment, Inc., 1 year
Greg Tracy Vice President	Finance Wells Fargo, 3 years
Larry Vidrine, MD Medical Director	Development, Gala Planning Northwest Emergency Physicians, Inc., 3 years
Jennifer West President	Communications Sub-Committee Rockey West Public Relations, 1 year

Nancy Woods, Ph.D, RN, FAAN	Nominating Dean of Nursing University of Washington, 3 years

AFFILIATED COMPANIES

Group Health Cooperative owns the subsidiary, Group Health Options, Inc., and the controlled affiliate, the Foundation. GHC is a non-profit health maintenance organization and is domiciled in the state of Washington; headquartered in Seattle, Washington. It provides comprehensive pre-paid healthcare to enrolled members.

GHO is a Washington for-profit corporation registered and operating as a health care service contractor that provides health care coverage products.

CORPORATE RECORDS

Minutes

Minutes of the quarterly meetings of the board of directors and finance committee were prepared and retained. The minutes recorded the board of directors' and/or finance committee's review and approval of the Foundation's policies (e.g., Investment Policy, Gift Annuity Reserve Policy, Funding or Support of the Foundation's Activities Offered by Vendors Policy), financial statements, budgets, investment activities, meeting agendas, and minutes. No exceptions were noted.

Conflicts of Interest

The Foundation requires its key officers and managers to complete, sign, and submit conflict of interest disclosure statements annually. All GHC employees sign a Code of Conduct Acknowledgment and Agreement when hired. The Board of Directors sign Directors and Officers Disclosure Statements when they join the Board. No exceptions were noted.

Internal Policies and Controls

The Investment Policy and Gift Annuity Reserve Policy define asset allocation guidelines and the objectives of the Foundation's gift annuity and endowment funds. The policies establish clear authority parameters and restrictions for both the finance committee and the funds' investment managers. No exceptions were noted.

TERRITORY AND PLAN OF OPERATION

The Foundation is a Washington State non-profit charitable corporation. The Foundation is incorporated under the laws of the state of Washington and is authorized to accept gifts, bequests, contributions, and grants. The Foundation was granted a Certificate of Exemption Number 34 to conduct a Charitable Gift Annuity business in the state of Washington by the OIC

on September 26, 1991. All of the twenty-two in-force annuity contracts were issued to residents of the state of Washington. The twenty-two (22) contracts included: sixteen (16) One Life Single Annuities, Immediate Payments; one (1) One Life Single Annuity, Deferred Payments; and five (5) Two Lives joint Annuities, Immediate Payments.

INTERNAL SECURITY

External Audit Function

The firm of Deloitte & Touche LLP audited the consolidated financial statements of the Group and issued unqualified opinions for the years 2002 and 2001.

Internal Audit Function

The Foundation has an internal audit department and a finance committee which acts as an audit committee. The Foundation indicated that the charitable gift annuity activities and controls have not been audited due to immateriality.

Physical Security Systems

The annuity reserve securities are kept with the investment manager and custodian, Bank of America. No securities are kept on site.

GROWTH OF COMPANY

The growth of the Foundation for the past three years is reflected in the following exhibits. All information was compiled from the Foundation's filed financial statements.

Schedule 1

Year	Assets	Liabilities	Total Net Assets	Total Net Assets Allocated Into: Unrestricted	Temporarily Restricted	Permanently Restricted
2002	$9,604,171	$414,553	$9,189,618	$1,288,480	$2,030,236	$5,870,902
2001	9,907,596	175,412	9,732,184	2,067,994	2,063,003	5,601,187
2000	10,188,437	288,986	9,899,451	1,989,778	2,658,690	5,250,983

Schedule 2

	2002	2001	2000
Changes in unrestricted NA			
Revenues	$1,309,759	$1,935,151	$1,511,149
NA released from restrictions	787,652	1,031,871	738,226
Expenses	(2,876,925)	(2,888,806)	(2,124,158)
Increase (decrease) in unrestricted NA	(779,514)	78,216	125,217
Changes in temporarily restricted NA	(32,767)	(595,686)	(40,954)
Changes in permanently restricted NA	269,716	350,203	227,902
Increase (decrease) in net assets	(542,565)	(167,267)	312,165
Net assets at beginning of period	9,732,184	9,899,451	9,587,286
	$9,189,619	$9,732,184	$9,899,451
NA= Net Assets			
Number of Washington State gift annuity contracts at end of year	22	16	15

SUBSEQUENT EVENTS

There were no material events impacting the organization between the examination date and the last day of our field work.

FINANCIAL STATEMENTS
As of December 31, 2002

Balance Sheet

	Balance Per Company	Notes	Examination Adjustments	Balance Per Examination
ASSETS				
Cash and cash equivalents	$476,515			$476,515
Short-term marketable securities	1,612,735			1,612,735
Accounts receivable, net	73,310			73,310
Other current assets	29,544			29,544
Other assets – Pledges receivable	716,360			716,360
Long-term marketable securities	6,695,707			6,695,707
Total Assets	**$9,604,171**		**$0**	**$9,604,171**
LIABILITIES				
Liability to affiliate	$96,098			$96,098
Other – Annuities payable	318,455	1	$126,623	445,078
Total Liabilities	414,553			541,176
NET ASSETS				
Unrestricted	1,288,480			1,288,480
Temporarily restricted	2,030,236	1	($126,623)	1,903,613
Permanently restricted	5,870,902			5,870,902
Total Net Assets	9,189,618			9,062,995
Total Liabilities and Net Assets	**$9,604,171**		**$0**	**$9,604,171**

Adjustment Notes:
Note 1 – To recognize the proper statutory reserve amount. (See "INSTRUCTIONS" No. 1)

Summary of Operation

NA = Net Assets	Balance Per Company	Notes	Examination Adjustments	Balance Per Examination
Changes in unrestricted NA				
Total revenues	$1,309,759		$0	$1,309,759
NA released from restrictions	787,652			787,652
Total expenses	(2,876,925)		0	(2,876,925)
Decrease in unrestricted net assets	($779,514)			($779,514)
Changes in temporarily restricted NA	(32,768)			(32,768)
Changes in permanently restricted NA	269,716			269,716
Increase (decrease) in NA	($542,566)			($542,566)
Net assets at beginning of period	9,732,184			9,732,184
Changes in net assets per examination		2	(126,623)	(126,623)
Net assets at end of year	**$9,189,618**		**($126,623)**	**$9,062,995**

Adjustment Notes:
Note 2 – To recognize changes in net assets per examination (See Note 1 above).

ACKNOWLEDGEMENT

The cooperation and assistance of the officers and employees of the Foundation and GHC during the examination are hereby acknowledged.

Orlando R. Gabriel, AFE, Examiner-in-Charge, and Michael V. Jordan, CPA, CFE, MHP, Assistant Chief Examiner, 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

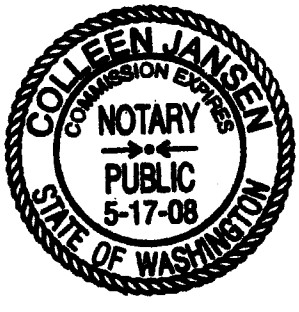
AFFIDAVIT OF EXAMINER IN CHARGE

STATE OF WASHINGTON)
) ss
COUNTY OF KING)

Orlando R. Gabriel, being duly sworn, deposes and says that the foregoing report subscribed by him is true to the best of his knowledge and belief.

He attests that the examination of Group Health/Kaiser Permanente Community Foundation was performed in a manner consistent with the standards and procedures required or prescribed by the Washington State Office of the Insurance Commissioner (OIC) and the National Association of Insurance Commissioners (NAIC).

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

Subscribed and sworn to before me on this 9th day of November, 2004.

Notary Public in and for the
State of Washington
Residing at Seattle