STATE OF WASHINGTON
OFFICE OF THE INSURANCE COMMISSIONER

FINANCIAL EXAMINATION

of the Charitable Gift Annuity Business

of

MultiCare Health System
Tacoma, Washington

DECEMBER 31, 2004

Exhibit A
Order No G 06-21
MultiCare Health System

SALUTATION

Seattle, Washington
April 24, 2006

The Honorable Mike Kreidler, Commissioner
Washington State Office of the Insurance Commissioner (OIC)
Insurance Building–Capitol Campus
302–14th Avenue SW
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 (CGAB), an examination was made of the corporate affairs and financial records of the CGAB of

MultiCare Health System

of

Tacoma, Washington

hereinafter referred to as "MultiCare" at its office, 737 South Fawcett Street, Tacoma, WA 98415.

This report of examination is respectfully submitted showing the condition of the CGAB of MultiCare as of December 31, 2004.

CHIEF EXAMINER'S AFFIDAVIT

I hereby certify I have read the attached Report of the Financial Examination of the Charitable Gift Annuity Business of MultiCare Health System of Tacoma, Washington. This report shows the financial condition of the Charitable Gift Annuity Business and related corporate matters of MultiCare Health System as of December 31, 2004.

Patrick H. McNaughton
Chief Examiner

April 24, 2006
Date

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SCOPE OF THE EXAMINATION

This examination covers the period January 1, 2000 through December 31, 2004. The financial statements are presented on a consolidated basis for MultiCare and its affiliates. However, the scope of our examination focused only on the transactions and operations of the CGAB. MultiCare 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 its CGAB reporting. The results of the examination are commented upon in the various sections of this report. In addition, MultiCare's certified public accountant's (CPA's) reports were reviewed and utilized, where possible, to facilitate efficiency in the examination.

The examination was conducted in accordance with 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 Tacoma office of MultiCare by examiners from the state of Washington.

INSTRUCTIONS

The examiners reviewed MultiCare's CGAB Annual Reports as part of the statutory examination. This review was performed to determine if MultiCare completed the Annual Reports in accordance with the Annual Report Instructions published by the OIC and to verify that MultiCare's accounts and records were prepared and maintained in accordance with Chapter 48.38 RCW.

The following summarizes the exceptions noted while performing this review.

1. Reporting Requirements

The total of net assets stated in the December 31, 2004 Annual Report was inaccurate. Reported amounts for unrestricted and temporarily restricted net assets did not agree with MultiCare's accounting records. Adjustments (i.e., decrease in total assets of $544,000; decrease in total liabilities of $484,000; and decrease in total nets assets of $59,000) were made by MultiCare after the report was submitted to the OIC. Those adjustments were not accounted for in the Annual Report. MultiCare was not in compliance with the accounting and reporting principles or practices prescribed or permitted by the OIC.

RCW 48.38.010 states that: "The commissioner may grant a certificate of exemption to any insurer or educational, religious, charitable, or scientific institution conducting a charitable gift annuity business: (10) Which: (a) Files with the insurance commissioner on or before March 1 of each year a copy of its annual statement prepared pursuant to the laws of its state of domicile, as well as such other financial material as may be requested, . . ."

MultiCare is instructed, pursuant to Chapter 48.38 RCW, to develop a system for accounting and reporting of its charitable gift annuity business to ensure its compliance with the principles or practices prescribed or permitted by the OIC. The system should include procedures for appropriate review, by staff other than the report preparer, to assure the completeness and accuracy of the Annual Report.

COMMENTS AND RECOMMENDATIONS

There were no comments or recommendations made in this examination report.

ORGANIZATION PROFILE

History: MultiCare, a Washington not-for-profit corporation, was created in 1980. MultiCare is affiliated with Mary Bridge Children's Foundation, MultiCare Home Health and MultiCare Health Foundation. MultiCare also consists of MultiCare Hospital Division (which includes Tacoma General Hospital, Mary Bridge Children's Hospital and Allenmore Hospital); Medical Group Division (which includes MultiCare Clinics, MultiCare Medical Group and Urgent Care Centers); and its wholly-owned subsidiary, Medis Corporation. MultiCare serves the primary and acute health care needs of residents of Pierce and south King counties and of the southwest Washington region through its three acute care hospitals. The services include inpatient and outpatient care, physician services and home health services.

Territory and Plan of Operation: On March 22, 1994, the OIC granted MultiCare a Certificate of Exemption to conduct a CGAB in the state of Washington. There were 22 in-force annuity contracts as of December 31, 2004. All of the 22 annuity contracts were issued to residents of the state of Washington.

Total Net Assets: MultiCare's total net assets as of December 31, 2004 were $438,600,000. This amount included unrestricted net assets of $397,581,000. The minimum unrestricted net asset requirement as of December 31, 2004 was satisfied pursuant to RCW 48.38.010(6).

Growth: The growth of MultiCare for the past five years is reflected in the following schedules. All information was compiled from MultiCare's audited consolidated financial statements as of calendar years ending December 31.

Schedule 1- Statement of Financial Position
(In thousands)

Year End	Assets	Liabilities	Total Net Assets	Total Net Assets Allocated Into: Unrestricted	Temporarily Restricted	Permanently Restricted
* 2004	$854,210	$415,610	$438,600	$397,581	$7,692	$33,327
2003	725,960	327,627	398,333	356,173	10,047	32,113
2002	604,546	282,978	321,568	281,507	12,957	27,104
2001	577,865	260,440	317,425	275,901	12,555	28,969
2000	581,401	257,167	324,234	284,420	11,454	28,360

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

	* 2004	2003	2002	2001	2000
Total revenues	$651,195	$601,867	$493,796	$460,844	$450,265
Total expenses	610,869	525,102	489,653	467,653	455,990
Increase (decrease) in net assets	40,326	76,765	4,143	(6,809)	(5,725)
Changes in net assets per examination	(59)				
Net assets at beginning of period	398,333	321,568	317,425	324,234	329,959
Net assets at end of year	**$438,600**	**$398,333**	**$321,568**	**$317,425**	**$324,234**
Number of gift annuity contracts at end of year	22	20	18	11	6

* The 2004 balances include examination adjustments (See FINANCIAL STATEMENTS)

AFFILIATED ORGANIZATIONS

The financial statements of MultiCare include MultiCare Health System; wholly-owned subsidiary, Medis, Inc.; and affiliated not-for-profit corporations: Mary Bridge Children's Foundation, MultiCare Home Health and MultiCare Health Foundation. The financial statements have been presented on a consolidated basis and transactions between these entities are eliminated upon consolidation.

MANAGEMENT AND CONTROL

Management: The affairs of MultiCare are managed by the Board of Directors (BOD). Directors are selected by the Nominating Committee and elected by the BOD. MultiCare Bylaws may be altered, amended, or repealed by the affirmative vote of a majority of the directors at any annual or special meeting of the board.

Board of Directors: The BOD and the Board members' committee memberships are:

John Folson – Board Chair, Audit, Nominating and Compensation Committee
Sally Leighton – Professional Activities and Nominating Committee
Karen Lynch, R.N. – Board Secretary and Professional Activities Committee

W. W. Philip – Audit and Compensation Committee
Rob Roth, M.D. – Board Vice Chair, Professional Activities and Nominating Committee
L. Dale Sowell – Audit and Compensation Committee
Graham A. Tash, Jr. – Audit Committee
John S. Wiborg – Board Treasurer, Audit and Compensation Committee
Stephen Kramp, M.D. – MultiCare Medical Group
Diane Cecchettini, R.N., Pres. and CEO of MultiCare – Audit, Nominating and Compensation Committee

Officers: The Officers of MultiCare are:

Diane Cecchettini, R.N., President and Chief Executive Officer
Lois Bernstein, Vice President, Community Services
George Brown, M.D., Vice President and Chief Operating Officer
Sarah Horsman, Vice President, Human Potential
Erik Rasmussen, Vice President and General Counsel
Vince Schmitz, Vice President and Chief Financial Officer
Smokey Stover, M.D., Vice President, MultiCare Medical Associates
Sally Watkins, R.N., Vice President and Chief Nurse Executive
Carroll Wilt, Vice President and Chief Information Officer

Tax Status: MultiCare is a Washington State not-for-profit corporation and is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, except for unrelated business income tax.

Conflict of Interest: The Conflict of Interest Policy and Procedure requires that senior leadership, management staff and others in key or specified roles, including purchasing agents and contractors in management roles, should, prior to assuming their positions, complete a Declaration of Compliance with the Conflict of Interest Standard form to acknowledge, in writing, their knowledge of the standard and either affirm that they have no interest, direct or indirect, in conflict with MultiCare interest, or identify any interests that have potential or actual conflict. Also, it is the responsibility of the individual to immediately disclose any changes to the annual written declaration by completing and submitting a revised Declaration of Compliance and Disclosure Form. The declarations are reviewed annually by the BOD and the Compliance and Internal Audit Department. There were no exceptions noted.

CORPORATE RECORDS

The BOD met twelve times in 2004 to discuss business which is pertinent to MultiCare. Minutes of meetings of directors approve and support MultiCare's transactions and events. No exceptions were noted.

STATEMENT OF ACTUARIAL OPINION

A consulting actuary with Milliman USA determined the adequacy of the annuity reserves. In the Statement of Actuarial Opinion, the actuary affirmed he is a member of the American Academy of Actuaries and meets the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion. His opinion indicates that MultiCare's annuity contract reserves meet the requirements of RCW 48.38.020(3) of the Washington Insurance Code.

ANNUITY ASSETS CUSTODIAL FUNCTION

The assets of the separate reserve fund were physically segregated from the other assets of MultiCare. Total annuity investments as of December 31, 2004 were $2,867,478, and consisted of cash accounts and mutual funds. Investments were recorded at fair value.

SUBSEQUENT EVENTS

There were no material events which impacted MultiCare's CGAB between the examination date and the last day of our field work.

ACCOUNTING RECORDS AND PROCEDURES

The records and source documentation did not support the data and amounts presented in the annual report for the year ended December 31, 2004 (See INSTRUCTION No. 1). The records and source documents did support MultiCare's financial statements and examination adjustments were made to correct the annual report information.

FINANCIAL INFORMATION

The following financial information summarizes the consolidated financial statements of MultiCare and its affiliates as of December 31, 2004:

Statement of Financial Position **(In thousands)**

	Balance Per Annual Report	Adj.	Examination Adjustments	Adjusted Balance
ASSETS				
Cash and cash equivalents	$10,556			$10,556
Investments	244,452			244,452
CGA assets	2,867			2,867
Other assets	596,879	A 1	(544)	596,335
Total Assets	**$854,754**		**$(544)**	**$854,210**
LIABILITIES				
CGA reserves	$1,817			$1,817
Other liabilities	414,278	A 1	(485)	413,793
Total Liabilities	416,095		(485)	415,610
NET ASSETS				
Unrestricted	397,610	A 1	(29)	397,581
Temporarily restricted	7,722	A 1	(30)	7,692
Permanently restricted	33,327			33,327
Total Net Assets	438,659		(59)	438,600
Total Liabilities and Net Assets	**$854,754**		**$(544)**	**$854,210**

Statement of Financial Activity and Changes in Net Assets (In thousands)

	Balance Per Annual Report	Adj.	Examination Adjustments	Adjusted Balance
Total revenues	$651,195		$0	$651,195
Total expenses	610,869		0	610,869
Increase (decrease) in net assets	40,326		0	40,326
Net assets at beginning of year	398,333		0	398,333
Changes in net assets per examination		A 1	(59)	(59)
Net assets at end of year	**$438,659**		**$(59)**	**$438,600**

Examination Adjustments:

A 1 To recognize the adjustments made by MultiCare subsequent to submission of the annual report to the OIC. The examination adjustments bring the Annual Report into agreement with MultiCare's financial statements. (See INSTRUCTION No. 1)

ACKNOWLEDGMENT

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

In addition to the undersigned, Michael V. Jordan, CPA, CFE, MHP, Assistant Chief Examiner; and John Gaynard, CPA, CFE, FLMI, Life and Disability Field Supervising 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

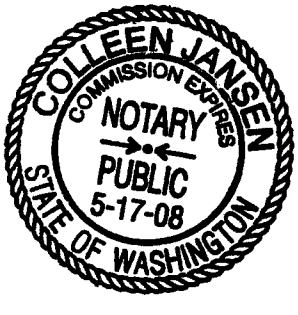
AFFIDAVIT

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 MultiCare's CGAB 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 (NAIC).

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

Subscribed and sworn to before me on this 24th day of April, 2006.

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