GROUP HEALTH COOPERATIVE
AND SUBSIDIARIES

Consolidated Financial Statements
and Supplemental Information

December 31, 2011 and 2010

(With Independent Auditors' Report Thereon)

GROUP HEALTH COOPERATIVE
AND SUBSIDIARIES

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KPMG LLP
Suite 900
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Seattle, WA 98104

Independent Auditors' Report

The Board of Trustees
Group Health Cooperative and Subsidiaries
Seattle, Washington:

We have audited the accompanying consolidated balance sheets of Group Health Cooperative and subsidiaries (the Group) as of December 31, 2011 and 2010, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Group as of December 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information included on pages 44 through 47 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

KPMG LLP

April 13, 2012

GROUP HEALTH COOPERATIVE
AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2011 and 2010

(In thousands)

Assets		**2011**		**2010**
Current assets:				
Cash and cash equivalents	$	358,116	$	80,147
Short-term marketable securities		37,588		91,000
Accounts receivable – net		146,177		125,740
Inventories		23,720		23,063
Other		28,250		28,512
Total current assets		593,851		348,462
Long-term marketable securities		714,988		843,721
Funds held by trustee		8,848		8,848
Land, buildings, and equipment:				
Land		26,766		26,811
Buildings and improvements		585,664		579,977
Equipment		452,668		424,052
Construction in progress		21,835		3,896
Total land, buildings, and equipment		1,086,933		1,034,736
Less accumulated depreciation		(666,845)		(613,708)
Land, buildings, and equipment – net		420,088		421,028
Other assets		40,742		32,901
Total	$	1,778,517	$	1,654,960

(Continued)

GROUP HEALTH COOPERATIVE
AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2011 and 2010

(In thousands)

Liabilities and Net Assets		**2011**		**2010**
Current liabilities:				
Accounts payable	$	256,096	$	78,290
External delivery services payable		254,058		231,667
Unearned premiums and deposits		61,104		51,818
Accrued employee compensation		53,117		56,353
Accrued taxes and interest		18,138		14,372
Short-term borrowings		8,998		40,977
Current portion of long-term debt		4,850		4,655
Current portion of reserve for self-insurance		16,369		17,335
Current portion of retiree medical benefits		4,240		4,635
Total current liabilities		676,970		500,102
Noncurrent liabilities:				
Long-term debt		139,903		144,748
Self-insurance		44,461		41,505
Retiree medical benefits		40,171		41,631
Pension		162,220		72,651
Other		31,076		34,935
Total noncurrent liabilities		417,831		335,470
Total liabilities		1,094,801		835,572
Commitments and contingencies (note 11)				
Net assets:				
Unrestricted		671,466		806,696
Temporarily restricted		4,173		5,026
Permanently restricted		8,077		7,666
Total net assets		683,716		819,388
Total	$	1,778,517	$	1,654,960

See accompanying notes to consolidated financial statements.

GROUP HEALTH COOPERATIVE
AND SUBSIDIARIES

Consolidated Statements of Operations and Changes in Net Assets

Years ended December 31, 2011 and 2010

(In thousands)

	2011	2010
Revenues:		
Premiums	$ 3,156,389	$ 2,883,510
Clinical services	234,648	223,456
Other	103,265	89,976
Total operating revenues	3,494,302	3,196,942
Expenses:		
External delivery services	1,879,743	1,694,863
Employee compensation	624,280	590,959
Group Health Permanente expense	323,833	295,945
Medical and operating supplies	284,485	263,512
Other expenses	264,271	245,131
Services purchased	141,592	104,963
Depreciation	57,292	56,534
Total operating expenses	3,575,496	3,251,907
Operating loss	(81,194)	(54,965)
Nonoperating income (expense):		
Investment income	73,806	50,154
Interest expense	2,032	(8,182)
Total other income	75,838	41,972
Deficit of revenues over expenses	(5,356)	(12,993)
Change in net unrealized investment gains and losses	(41,195)	18,750
Change in defined benefit pension and other postretirement plans	(88,531)	(1,834)
Other	(148)	(184)
Change in unrestricted net assets	(135,230)	3,739
Change in temporarily restricted net assets	(853)	799
Change in permanently restricted net assets	411	102
Change in net assets	(135,672)	4,640
Net assets:		
Beginning of year	819,388	814,748
End of year	$ 683,716	$ 819,388

See accompanying notes to consolidated financial statements.

GROUP HEALTH COOPERATIVE
AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended December 31, 2011 and 2010

(In thousands)

		2011		2010
Cash flows from operating activities:				
Change in net assets	$	(135,672)	$	4,640
Adjustments to reconcile change in net assets to net cash provided by operating activities:				
Depreciation		57,292		56,534
Provision for self-insurance		13,953		16,633
Change in realized and unrealized investments gains and losses		(5,660)		(42,559)
Change in fair value of interest rate swap		(6,959)		300
Recognized other-than-temporary impairment losses		—		3
Change in deferred gain on sale – leaseback		(2,917)		(2,917)
Other		738		2,121
Cash provided by operating assets and liabilities:				
Accounts receivable – net		(20,538)		(20,951)
Inventories		(657)		(795)
Other current and noncurrent assets		(2,445)		145
Accounts payable		18,342		2,157
External delivery services payable		22,391		27,386
Accrued employee compensation		(3,236)		12,356
Self-insurance		(11,962)		(19,577)
Accrued taxes and interest		3,766		1,095
Unearned premiums and deposits		12,203		15,600
Pension		89,569		10,551
Retiree medical benefits		(1,855)		(18,487)
Other noncurrent liabilities		(4,008)		(3,307)
Net cash provided by operating activities		22,345		40,928
Cash flows from investing activities:				
Payments for land, buildings, and equipment		(52,749)		(36,655)
Proceeds from disposal of land, buildings, and equipment		5		82
Proceeds from sale of marketable securities		1,276,235		755,921
Purchases of marketable securities		(933,556)		(826,967)
Distribution from equity investments		2,185		1,594
Net cash provided by (used in) investing activities		292,120		(106,025)
Cash flows from financing activities:				
Repayment of long-term debt		(4,370)		(45,154)
Net short-term borrowings		(31,978)		40,977
Other		(148)		(184)
Net cash used in financing activities		(36,496)		(4,361)
Net increase (decrease) in cash and cash equivalents		277,969		(69,458)
Cash and cash equivalents :				
Beginning of year		80,147		149,605
End of year	$	358,116	$	80,147
Supplemental disclosure of cash flow information:				
Cash paid during the year for:				
Interest	$	5,201	$	8,241
Income taxes		5,729		4,288

See accompanying notes to consolidated financial statements.

(1) Organization

The accompanying consolidated financial statements include the accounts of Group Health Cooperative (GHC), GHC's wholly owned subsidiary, Group Health Options, Inc. (GHO), and controlled affiliates, KPS Health Plans (KPS), Group Health Foundation (the Foundation), Columbia Medical Associates, LLC (CMA), and Auxiliary of Group Health Cooperative (the Auxiliary), (collectively, the Group).

GHC is a Washington nonprofit corporation registered as a health maintenance organization headquartered in Seattle, Washington. GHC offers comprehensive, coordinated health care to an enrolled membership for a fixed prepaid fee through its owned and leased facilities, employed providers, and contracted providers, in addition to providing certain health care services on a fee-for-service basis to both enrollees and nonenrollees.

GHO is a Washington for-profit corporation registered and operating as a health care services contractor headquartered in Seattle, Washington. GHO provides health care coverage products that feature increased customer choice, including a point of service plan benefit. It is also registered in Idaho as a Disability, Including Managed Care Carrier, operating in two counties.

KPS is a Washington taxable nonprofit corporation registered and operating as a health care service contractor headquartered in Bremerton, Washington. KPS provides health care services through contracts with participating physicians and hospitals.

The Foundation is a Washington nonprofit corporation. It is organized exclusively to benefit, perform the functions of, and carry out the purposes of GHC and other affiliated tax-exempt organizations. It supports research, health careers, training, health education, GHC programs, and other projects that promote high quality health care. Grants are awarded to qualified health-related community organizations, extending the internal resources of GHC to the community. The Foundation's operations are largely a function of the level of donations it receives.

CMA is a Washington limited liability company headquartered in Spokane, Washington. CMA provides medical services to families and individuals within the greater Spokane area. Effective July 31, 2011, GHC acquired control of CMA. (See note 15).

The Auxiliary is an unincorporated association. It is organized for the purpose of promoting and advancing the welfare of GHC through fund-raising in order to provide services and gifts to the medical centers, specialty centers, and health-related programs of GHC and its patients.

(2) Summary of Significant Accounting Policies

(a) Principles of Consolidation

The consolidated financial statements include those of GHC, its wholly owned subsidiaries and controlled affiliates. All significant intercompany accounts and transactions have been eliminated in these consolidated financial statements.

The Group has prepared the accompanying consolidated financial statements in accordance with U.S. generally accepted accounting principles (GAAP).

(b) Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements. Significant estimates and assumptions are used in the recording of external delivery services payable, asset valuation, allowances for uncollectible accounts, self-insurance reserves, pension liabilities, retiree medical liabilities, and the evaluation of contingencies and litigation. Changes in these estimates and assumptions may have a material impact on the financial statements.

(c) Cash and Cash Equivalents

Cash and cash equivalents consist of liquid investments with original or remaining maturities of three months or less at the date of purchase and approximate fair value. Cash equivalents generally consist of money market funds and repurchase agreements.

The Group is potentially subject to a concentration of credit risk related to financial instruments such as funds held at high credit quality financial institutions and at times such balances with any one financial institution may exceed the Federal Deposit Insurance Corporation's (FDIC) insured limits. From December 31, 2010 through December 31, 2012, the Dodd-Frank Wall Street Reform and Consumer Protection Act provides temporary unlimited coverage for noninterest-bearing transaction accounts, which is separate from and in addition to, coverage provided by the FDIC. Certain interest bearing accounts remain at risk.

(d) Marketable Securities

Marketable securities are readily convertible to cash and are carried at fair value. The Group considers securities that will mature within one year as short-term investments. All marketable securities are classified as available-for-sale securities and reported at fair value. The change in unrealized gains and losses is recorded as a separate component of net assets for GHC, GHO, and KPS. The Foundation records the change in unrealized gains and losses to investment income in the statements of operations and changes in net assets. The cost of debt securities is adjusted for amortization of premiums and accretion of discounts to maturity or, in the case of mortgage-backed securities, over the estimated life of the security. The discount or premium is amortized using the effective-yield method. Such amortization and accretion are included in investment income. Realized gains or losses on sale are calculated using the first-in first-out (FIFO) method. The Group's investment transactions are recorded on a trade-date basis.

(e) Other-Than-Temporary Impairment (OTTI)

An investment is impaired if the fair value of the investment is less than its book or amortized cost, resulting in an unrealized loss position. Impaired securities are assessed to determine if the impairment is other-than-temporary. The Group evaluates investment securities for OTTI based on qualitative and quantitative factors. If the Group has the intent to sell, or it is more likely than not that it will sell the security before recovery, OTTI is recorded in income equal to the entire difference between the security's book or amortized cost basis and its fair value at the balance sheet date.

For debt securities, if the Group does not intend to sell or it is more likely than not it will be required to sell the security before recovery, OTTI is separated into the amount representing the credit loss and the amount related to all other factors. The credit component of the OTTI is recognized in income and the noncredit component is recognized as a component of net assets. The credit component of OTTI is determined by comparing the present value of projected future cash flows with the amortized cost basis of the fixed income security. The present value is calculated by discounting the projected future cash flows at the effective interest rate implicit in the fixed income maturity at the date of acquisition. For mortgage-backed and asset-backed securities, cash flow estimates are based on assumptions regarding the underlying collateral including prepayment speeds, type of underlying assets, geographic concentrations, default rates, recoveries, and changes in value. For all other debt securities, cash flow estimates are driven by assumptions regarding probability of default, including changes in credit ratings, and estimates regarding timing and amount of recoveries associated with a default. Unrealized losses caused by noncredit related factors related to debt securities, for which the Group expects to fully recover the amortized cost basis, continue to be recognized as a component of net assets.

(f) Accounts Receivable

Accounts receivable are primarily comprised of premiums, receivables for noncovered health care services, copays and deductibles, and receivables for fee-for-service clinical services provided to nonenrollees. The Group records a reduction in the related premium revenues for an estimate of amounts related to retroactive enrollment changes. Provisions for contractual adjustments are recorded on an accrual basis and are deducted from gross revenues. Bad debts related to services provided are recorded as operating expenses in the consolidated statements of operations.

(g) Provision for Uncollectible Accounts and Retroactivity

The Group provides an allowance for potential uncollectible accounts receivable whereby such receivables are reduced to their estimated net realizable value. The Group estimates this allowance based on the aging of accounts receivable, historical collection experience, enrollment retroactivity and other relevant factors. There are various factors that can impact the collection trends and the estimation process, such as changes in the economy, the increased burden of copays and deductibles to be made by enrollees and business practices related to collection efforts. The allowance for uncollectible accounts and retroactivity was $9,791,000 and $12,622,000 as of December 31, 2011 and 2010, respectively.

(h) Inventories

Inventories consist of pharmaceuticals, medical and operating supplies, and are stated at the lower of weighted average cost or market.

(i) Funds Held by Trustee

Funds held by trustee are assets restricted as to use pursuant to terms and conditions of the revenue bonds (see note 6).

The Series 2006 revenue bonds require a debt service reserve fund for the benefit of the bond owners, which shall be maintained as long as any Series 2006 bonds remain outstanding. The amount of the debt service reserve fund is $8,848,000 for December 31, 2011 and 2010.

(j) Charitable Gift Annuities

As of December 31, 2011 and 2010, the Foundation had a charitable gift annuities liability of $1,220,000 and $1,224,000, respectively, which is recorded as a component of other noncurrent liabilities in the accompanying consolidated balance sheets. Investments held for the charitable gift annuities are $2,146,000 and $2,240,000 as of December 31, 2011 and 2010, respectively, and are recorded as a component of other assets in the accompanying consolidated balance sheets.

(k) Land, Buildings, and Equipment

Land, buildings and improvements, and equipment are recorded at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets or, for leasehold improvements, over the term of the related lease, whichever is shorter. When assets are sold or retired, their cost and related accumulated depreciation are removed from the accounts and any related gain or loss is reflected in operations. The estimated useful lives of buildings, improvements, and leasehold improvements are 5 to 40 years, and the estimated useful life of equipment is 2 to 20 years.

(l) Construction in Progress

Construction in progress (CIP) projects include costs incurred while preparing assets for their intended use. CIP projects typically consist of major computer system installations, the construction or remodel of buildings, or the installation of major equipment. The Group capitalizes interest costs on borrowings incurred during construction or development of qualifying assets. Capitalized interest is added to the cost of the underlying assets and is depreciated or amortized over the useful lives of the assets.

(m) Long-Lived Assets

In accounting for its long-lived assets, the Group makes estimates about the expected useful lives of the assets, the expected residual values of the assets, and the potential for impairment based on the fair value of the assets and the cash flows they generate. Factors indicating potential impairment include, but are not limited to, significant decreases in the market value of the long-lived assets, a significant change in the long-lived assets' condition, and operating cash flow losses associated with the use of the long-lived assets.

There is inherent risk in estimating the future cash flows used in the impairment test. If cash flows do not materialize as estimated, there is a risk the impairment charges recognized to date may be inaccurate, or further impairment charges may be necessary in the future.

(n) Intangible Assets

Intangible assets are recorded at fair value and those that are subject to amortization are amortized on a straight-line basis over their estimated useful lives, of 3 to 15 years. As of December 31, 2011 and

(Continued)

2010, the net carrying amount was $1,730,000 and zero, respectfully, and is a component of other assets in the accompanying consolidated balance sheets.

(o) Other Current Assets and Other Assets

Other current assets and other assets consist of interest receivable, deferred financing costs, interest rate swap, deposits and prepaid assets.

(p) Self-Insurance

The Group is partially self-insured for professional liability and industrial accident claims and fully self-insured for unemployment benefits. Professional liability and industrial accident claims liabilities are determined using case-based estimates for reported claims and actuarial estimates for incurred but not reported claims. These estimates are based on historical information along with certain assumptions about future events. Changes in assumptions related to expected claims development as well as changes in actual experience could cause these estimates to change. At December 31, 2011 and 2010, the estimated liability for professional liability claims was $51,123,000 and $50,962,000, respectively. At December 31, 2011 and 2010, the estimated liability for industrial accident claims was $6,483,000 and $7,118,000, respectively. At December 31, 2011 and 2010, the estimated liability for unemployment claims was $3,224,000 and $759,000, respectively.

(q) Reinsurance

The Group limits certain exposure to claims loss by ceding reinsurance to other insurance companies. GHC maintains reinsurance on a claims-made basis for professional liability and industrial accident claims. Retention levels for professional liability are $10,000,000 per claim with a $50,000,000 annual aggregate in 2011 and 2010. Retention levels for industrial accident claims are $500,000 and $450,000 in 2011 and 2010, respectively, per claim and in aggregate. KPS purchases reinsurance to limit its exposure on all of its insured contracts except the Federal Employees Health Benefit Plan and Medicare Supplemental products. A retention level of $500,000 per claim with a coinsurance level of 10% was held in 2011 and 2010, by KPS.

Reinsurance contracts do not relieve the Group from its obligations to claimants. Failure of reinsurers to honor their obligations could result in losses to the Group. The Group had recorded prepaid reinsurance premiums of $866,000 and $903,000 as of December 31, 2011 and 2010, respectively, as a component of other current assets, and reinsurance receivables of $458,000 and $146,000 as of December 31, 2011 and 2010, respectively, as a component of accounts receivable.

(r) Derivatives

In certain instances, the Group enters into derivative instruments to hedge specific assets and liabilities. Prior to entering into a derivative contract designated as a hedge, the relationship between the hedging instruments and the hedged items, as well as its risk management objective and strategy, is formally documented. On the date the Group enters into a derivative contract utilized as a hedge, the derivative instrument is designated as either a hedge of the fair value of a recognized asset or liability of an unrecognized firm commitment (known as a fair value hedge) or a hedge of the variability in expected future cash flows associated with an existing recognized asset or liability or a forecasted transaction (known as a cash flow hedge).

(s) Revenues

Revenues are derived principally from health care premiums and clinical service billings, net of charity care and contractual adjustments. Premiums received in advance of the coverage period are deferred, and revenues are recognized in the period in which services are covered. Group contracts cover employee groups and are entered into with employers or union trusts. Clinical service revenues are generated through the provision of certain medical and pharmacy services not fully covered under existing benefit policies and from services provided to nonenrollees who receive care at the Group's facilities.

GHC participates in the Medicare Advantage program and offers both Medicare Advantage (MA) and Medicare Advantage Prescription Drug (MA-PD) plans. MA plans offer Part C Medicare benefits to members and GHC receives capitated revenue from the Centers for Medicare and Medicaid Services (CMS), as well as supplemental premiums from the member. MA-PD plans offer Part C and Part D Medicare benefits to members and GHC receives capitated revenue from CMS, as well as supplemental premiums from the member. GHO offers MA-PD plans to its Medicare eligible members.

The capitated revenue from CMS for Part C and Part D is based on a Risk Adjustment model, where the demographic and health status (i.e. risk score) of the member is a factor used in determining payment. The other major factor of the capitated payment is the member's county of residence. Capitated payments from CMS are received monthly and are prospective. Adjustments for enrollment and certain member status updates are made to the payments. Various accruals related to Part C and Part D revenue as a result of the risk-sharing arrangement, as well as federal reinsurance, and low-income cost-sharing subsidies are recognized as well. Final settlements of data are made after the end of the fiscal year.

The Medicare and Medicaid Electronic Health Records (EHR) Incentive Program provides incentive payments to eligible professionals and hospitals as they adopt, implement, upgrade and demonstrate meaningful use of certified EHR technology. GHC has eligible professionals, as well as an eligible hospital participating in the program. Incentives earned through this program are recognized in other revenues and was $11,746,000 for the year ended December 31, 2011.

Other revenues include grants awarded to the Group Health Research Institute, a division of GHC, and optical sales. Also included in other revenues are self-funded administrative service fees generated by the Group and unconditional promises to donate cash and other assets to the Foundation, which are reported at fair value at the date the promise is received. The Foundation reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the time and purpose of the donated assets. When a donor restriction expires (when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets.

As a result of the recently enacted law, the Patient Protection and Affordable Care Act, as well as the Health Care and Education Reconciliation Act of 2010, or collectively, Health Care Reform, significant changes to the current U.S. health care system are anticipated. Health Care Reform includes numerous provisions affecting the delivery of health care services, the financing of health care costs, payments to health care providers and the legal obligation of health insurers, providers and employers. Health Care Reform is intended to expand access to health insurance coverage over time by increasing the eligibility thresholds for most state Medicaid programs and providing certain other individuals and small businesses with tax credits to subsidize a portion of the cost of health insurance coverage. These provisions are currently slated to take effect at the specified times over the next decade.

The table below presents the balances of the significant operating revenue types for the years ended December 31, 2011 and 2010 (in thousands):

	2011	2010
Premiums:		
Group	$ 2,167,825	$ 2,006,942
Medicare	762,346	686,876
Individual and family	185,300	148,919
Medicaid	40,918	40,773
Total premiums	3,156,389	2,883,510
Clinical services	234,648	223,456
Other revenue:		
Grants	45,141	42,520
Other	42,690	32,677
Sales	15,434	14,779
Total other	103,265	89,976
Total operating revenues	$ 3,494,302	$ 3,196,942

(t) Premium Deficiencies

A premium deficiency reserve is recognized when the expected future claims payments and administrative costs of a grouping of existing contracts exceed the premiums to be collected for the remainder of a contract period. Deficiencies in one grouping of contracts are not offset by anticipated surpluses in other groupings. The Group considers anticipated investment income in determining if a premium deficiency exists. Reserves are regularly reviewed and adjusted as experience develops or new information becomes known. Such adjustments would be included in current operations. No reserve was considered necessary at December 31, 2011 and 2010.

(u) Charity Care

Charity care represents medically necessary hospital-based care to patients who have demonstrated an inability to pay and receive care at a Group facility. Only the portion of a patient’s account that meets the Group's criteria is recognized as charity care. The cost of charity care is estimated at $869,000 and $520,000 for the years ended December 31, 2011 and 2010, respectively.

(v) External Delivery Services

External delivery services represent health care expenses incurred by GHC, GHO, and KPS for care provided by contracted and noncontracted health care facilities and practitioners. The liability reflected on the consolidated balance sheets is determined using actuarial estimates. These estimates are based on historical information along with certain assumptions about future events. Changes in assumptions, as well as changes in actual experience, could materially impact these estimates. In 2011, the Group made improvements to its method of estimating external delivery services payable. Under the Group's prior method, development of prior years' liabilities had shown that such liabilities were consistently redundant. These improvements should provide a more accurate and reliable estimate of external delivery services at the end of each reporting period. Upon implementation of these improvements, the external delivery services payable and expense were reduced by approximately $16,775,000, which was not material to the consolidated financial statements.

(w) Group Health Permanente Expense

Group Health Permanente P.C. is an independent medical group with an exclusive contract to provide medical services at the Group's facilities providing primary, specialty, and inpatient care. The Group's net liability to Group Health Permanente was $24,898,000 and $24,435,000 as of December 31, 2011 and 2010, respectively, which is a component of accounts payable in the accompanying consolidated balance sheets.

(x) Advertising

Advertising costs are expensed as incurred and are recorded within other expenses in the statements of operations and changes in net assets. The Group recorded advertising expense of $4,896,000 and $7,851,000 for the years ended December 31, 2011 and 2010, respectively.

(y) Leases

Rent revenue and expense is recorded on a straight-line basis over the term of the respective leases. Lease incentives are amortized ratably over the lease term (see note 11).

(z) Income Taxes

GHO and KPS are subject to federal income taxes. These companies file federal tax returns and are not subject to any state income tax filing requirements. GHC is exempt from federal income taxes under Section 501(a) of the Internal Revenue Code (the Code) as a charitable organization under Section 501(c)(3) of the Code, except for unrelated business income tax. The Foundation has received a determination letter from the Internal Revenue Service (IRS) that it is a tax-exempt public foundation in accordance with Section 501(c)(3) and a public charity in accordance with Section 170(b)(1)(A)(vi) of the Code. The Auxiliary has received a determination letter from the IRS that it is a tax-exempt organization in accordance with Sections 501(c)(3) and 509(a)(2) of the Code.

CMA is considered a disregarded entity for federal tax purposes and would be included with any GHC federal income tax filing.

GHO and KPS recognize deferred income taxes for the tax consequences in future years of the differences between the tax basis of assets and liabilities and their financial reporting amounts at each year-end based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to reverse. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities (including the impact of available carryback and carryforward periods), projected future taxable income, and tax planning strategies in making this assessment. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized. Interest and penalties, if any, are recognized as other expense in the period in which the interest would be accruing according to tax law or in the period the tax position is initially taken.

(aa) Net Assets

Unrestricted net assets result from operations and unrestricted contributions income. Temporarily and permanently restricted net assets are accounted for within the Foundation. Temporarily restricted net assets account for funds restricted by donors for specific time and purposes, unappropriated earnings on permanent endowments and are available to support the Foundation in carrying out its missions.

Temporarily restricted net assets are available for the following purposes as of December 31, 2011 and 2010 (in thousands):

		2011		2010
Health care services	$	2,775	$	3,186
Health education		694		1,075
Health care research and development		627		700
Other		77		65
Total temporarily restricted net assets	$	4,173	$	5,026

When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets. Permanently restricted net assets as of December 31, 2011 and 2010 are contributions restricted by the donor to be invested in perpetuity.

The change in temporarily restricted net assets is comprised of $1,469,000 and $1,060,000 of contributions, $(1,783,000) and $(1,292,000) of release from restrictions, and investment (loss) income of $(539,000) and $1,031,000, for the years ended December 31, 2011 and 2010, respectively.

(Continued)

(bb) Reclassifications

Certain reclassifications have been made to the 2010 consolidated financial statements to conform to the 2011 consolidated financial statement presentation.

(cc) Accounting Changes

In August 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2010-24, *Health Care Entities – Presentation of Insurance Claims and Related Insurance Recoveries*, which clarifies that insurance recoveries should not be netted against a related claim liability. The claim liability amount should be calculated without consideration of insurance recoveries. This standard is effective for the Group's 2011 calendar year. The adoption of this standard did not have a material impact on the Group's consolidated financial statements.

In August 2010, the FASB issued ASU No. 2010-23, *Health Care Entities – Measuring Charity Care for Disclosure*, which requires a standardized process be used by health care entities that provide charity care to determine the measurement basis. Cost will be used as the measurement basis for the Group. This standard is effective for the Group's 2011 calendar year. The adoption of this standard required additional disclosures (see footnote 2) and did not have a material impact on the Group's consolidated financial statements.

(dd) New Accounting Pronouncements

In December 2011, the FASB issued ASU No. 2011-11, *Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities*. ASU 2011-11 requires an entity to disclose information about offsetting and related arrangements to enable users of financial statements to understand the effect of those arrangements on its financial position, and to allow investors to better compare financial statements prepared under U.S. GAAP with financial statements prepared under International Financial Reporting Standards (IFRS). This standard will be effective for the Group's 2013 calendar year. Management has yet to determine whether this standard will have a material impact on the Group's consolidated financial statements.

In September 2011, the FASB issued ASU No. 2011-09, *Compensation – Retirement Benefits – Multiemployer Plans (Subtopic 715-80): Disclosures about an Employer's Participation in a Multiemployer Plan.* ASU 2011-09 increases the quantitative and qualitative disclosures an employer is required to provide about its participation in significant multiemployer plans that offer pension or other postretirement benefits. This standard will be effective for the Group's 2012 calendar year. Management has yet to determine whether this standard will have a material impact on the Group's consolidated financial statements.

In July 2011, the FASB issued ASU No. 2011-07, *Health Care Entities (Topic 954): Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities (a consensus of the FASB Emerging Issues Task Force)*, which requires that the provisions for bad debts associated with patient service revenue be presented on a separate line as a deduction from patient service revenue (net of contractual allowances and discounts) in the statement of operations. This standard will be effective for the Group's 2012 calendar year. The adoption of this standard will not have a material impact on the Group's consolidated financial statements.

In July 2011, the FASB issued ASU No. 2011-06, *Other Expenses (Topic 720): Fees Paid to the Federal Government by Health Insurers (a consensus of the FASB Emerging Issues Task Force),* which requires fees imposed on health insurers mandated by the Patient Protection and Affordable Care Act as amended by the Health Care and Education Reconciliation Act (the Acts), be estimated and recorded in full once the entity provides qualifying health insurance in the applicable calendar year in which the fee is payable. There should be a corresponding deferred cost that is amortized to expense using a straight-line method of allocation, unless a better method of allocating the fee over the year is available. This standard will be effective for the Group's 2014 calendar year. Management has yet to determine whether this standard will have a material impact on the Group's consolidated financial statements.

In May 2011, the FASB issued ASU No. 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*, which results in convergence between U.S. GAAP and IFRS requirements for measurement of and disclosures about fair value. The amendments are not expected to have a significant impact on companies applying U.S. GAAP. This standard will be effective for the Group's 2012 calendar year. The adoption of this standard will not have a material impact on the Group's consolidated financial statements.

(3) Marketable Securities

Marketable securities as of December 31, 2011 and 2010 consist of the following (in thousands):

	2011			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Debt:				
U.S. government securities	$ 79,324	$ 643	$ (12)	$ 79,955
Municipals	24,290	908	(7)	25,191
Commercial paper	500	—	—	500
International government	10,058	7	(18)	10,047
Corporate debt securities	305,492	2,414	(3,005)	304,901
Mortgage-backed securities	133,778	1,718	(17)	135,479
Asset-backed securities	7,366	4	(58)	7,312
Collateralized mortgage obligations	31,239	388	(134)	31,493
Domestic equity securities:				
Mutual funds:				
Large blend	56,164	625	(2,573)	54,216
Large value	23,791	318	(564)	23,545
Medium growth	11,040	122	(1,039)	10,123
Small blend	8,001	43	(504)	7,540
Small value	18,624	23	(569)	18,078
Investment grade bonds	2,386	41	(3)	2,424
U.S. Treasury	717	54	—	771
Other	5,065	121	(623)	4,563
Foreign equity securities:				
Mutual funds:				
Large blend	31,435	201	(2,581)	29,055
Large value	8,529	—	(1,155)	7,374
Other	9	—	—	9
Total	$ 757,808	$ 7,630	$ (12,862)	$ 752,576

	2010			
	Amortized cost	**Gross unrealized gains**	**Gross unrealized losses**	**Fair value**
Debt:				
U.S. government securities	$ 122,159	$ 2,623	$ (2,091)	$ 122,691
Municipals	18,945	156	(333)	18,768
Commercial paper	4,251	—	(11)	4,240
International government	19,502	229	(10)	19,721
Corporate debt securities	305,621	11,426	(1,050)	315,997
Mortgage-backed securities	142,659	2,366	(1,109)	143,916
Asset-backed securities	8,760	45	(12)	8,793
Collateralized mortgage obligations	58,387	1,772	(336)	59,823
Domestic equity securities:				
Mutual funds:				
Large blend	70,176	8,640	(253)	78,563
Large value	50,558	4,463	—	55,021
Medium growth	14,950	3,330	—	18,280
Small blend	4,956	805	—	5,761
Small value	18,686	1,642	(11)	20,317
Investment grade bonds	2,491	37	(2)	2,526
U.S. Treasury	5,218	30	(5)	5,243
Other	3,346	265	(33)	3,578
Foreign equity securities:				
Mutual funds:				
Large blend	38,961	3,838	(550)	42,249
Large value	8,529	338	(99)	8,768
Other	454	—	(3)	451
Other	15	—	—	15
Total	$ 898,624	$ 42,005	$ (5,908)	$ 934,721

Contractual maturities of debt securities held as of December 31, 2011 include the following (in thousands):

	Fair value				
	Within 1 year	**After 1 year through 5 years**	**After 5 years through 10 years**	**After 10 years**	**Total fair value**
Debt:					
U.S. government securities	$ 3,275	$ 30,643	$ 44,055	$ 1,982	$ 79,955
Municipals	1,655	7,689	8,277	7,570	25,191
Commercial paper	500	—	—	—	500
International government	5,100	4,850	97	—	10,047
Corporate debt securities	27,058	186,190	84,668	6,985	304,901
Mortgage-backed securities	37,038	260	7,400	90,781	135,479
Asset-backed securities	—	1,630	4,903	779	7,312
Collateralized mortgage obligations	—	1,900	9,383	20,210	31,493
Total	$ 74,626	$ 233,162	$ 158,783	$ 128,307	$ 594,878

Securities not due at a single maturity date are reflected in the table above by its final maturity date.

Unsettled trade receivables are $17,000 and $118,000 as of December 31, 2011 and 2010, respectively, and are a component of accounts receivable on the accompanying consolidated balance sheets. Unsettled trade payables are $160,020,000 and $4,065,000 as of December 31, 2011 and 2010, respectively, and are a component of accounts payable on the accompanying consolidated balance sheets.

The Group records investment income net of related expenses and consists of the following as of December 31, 2011 and 2010 (in thousands):

	2011	**2010**
Interest	$ 30,762	$ 29,135
Realized gains on sale	49,722	20,180
Realized losses on sale	(3,836)	(1,072)
Dividends and capital gains	4,635	7,734
Amortization, accretion, and other	(7,477)	(5,820)
OTTI	—	(3)
Total investment income	$ 73,806	$ 50,154

The Group evaluates investment securities for OTTI losses based on qualitative and quantitative factors. The amount of the credit component of OTTI losses on fixed income securities recognized in income was zero and $3,000 in 2011 and 2010, respectively. The portion of the OTTI losses from noncredit-related factors was zero in 2011 and 2010.

The following tables show the gross unrealized losses and fair value of the Group's investments with unrealized losses. These securities are aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2011 and 2010 (in thousands):

	Less than 12 months		12 months or greater		Total	
2011	**Fair value**	**Unrealized losses**	**Fair value**	**Unrealized losses**	**Fair value**	**Unrealized losses**
Debt:						
U.S. government securities	$ 12,207	$ (12)	$ —	$ —	$ 12,207	$ (12)
Municipals	1,952	(7)	—	—	1,952	(7)
International government	9,847	(18)	—	—	9,847	(18)
Corporate debt securities	139,226	(2,954)	1,133	(51)	140,359	(3,005)
Mortgage-backed securities	4,051	(17)	—	—	4,051	(17)
Asset-backed securities	5,649	(55)	243	(3)	5,892	(58)
Collateralized mortgage obligations	13,177	(129)	79	(5)	13,256	(134)
Domestic equity securities:						
Mutual funds:						
Large blend	47,347	(2,315)	569	(258)	47,916	(2,573)
Large value	7,226	(564)	—	—	7,226	(564)
Medium growth	8,001	(1,039)	—	—	8,001	(1,039)
Small blend	5,497	(504)	—	—	5,497	(504)
Small value	14,925	(557)	47	(12)	14,972	(569)
Investment grade bonds	177	(2)	26	(1)	203	(3)
Other	1,629	(623)	2	—	1,631	(623)
Foreign equity securities:						
Mutual funds:						
Large blend	26,978	(2,116)	661	(465)	27,639	(2,581)
Large value	7,374	(1,155)	—	—	7,374	(1,155)
Total	$ 305,263	$ (12,067)	$ 2,760	$ (795)	$ 308,023	$ (12,862)

2010	Less than 12 months Fair value	Less than 12 months Unrealized losses	12 months or greater Fair value	12 months or greater Unrealized losses	Total Fair value	Total Unrealized losses
Debt:						
U.S. government securities	$ 56,815	$ (2,091)	$ —	$ —	$ 56,815	$ (2,091)
Municipals	9,222	(333)	—	—	9,222	(333)
Commercial paper	3,741	(11)	—	—	3,741	(11)
International government	6,589	(10)	—	—	6,589	(10)
Corporate debt securities	91,990	(1,023)	823	(27)	92,813	(1,050)
Mortgage-backed securities	64,360	(1,109)	—	—	64,360	(1,109)
Asset-backed securities	3,444	(6)	176	(6)	3,620	(12)
Collateralized mortgage obligations	10,907	(333)	105	(3)	11,012	(336)
Domestic equity securities:						
Mutual funds:						
Large blend	4	—	814	(253)	818	(253)
Small value	—	—	190	(11)	190	(11)
Investment grade bonds	123	(2)	—	—	123	(2)
U.S. Treasury	190	(5)	—	—	190	(5)
Other	13	(1)	144	(32)	157	(33)
Foreign equity securities:						
Mutual funds:						
Large blend	507	(158)	987	(392)	1,494	(550)
Large value	3,904	(99)	—	—	3,904	(99)
Other	430	(3)	—	—	430	(3)
Total	$ 252,239	$ (5,184)	$ 3,239	$ (724)	$ 255,478	$ (5,908)

The unrealized losses in the Group's investments in 2011 were due primarily to declines in the values of U.S. and international equity markets as a majority of the Group's equity investments are in managed equity index mutual funds and exchange traded funds. The unrealized losses in corporate debt securities was primarily due to markets favoring low risk fixed income securities such as U.S. Treasury bonds more than credit spread fixed income securities, such as corporate debt securities. The majority of debt security positions are investment grade and rated high quality, AA, or higher by Standard & Poor's rating agency. Securities with contractual payments are current and no payments were missed in 2011. The Group has the ability and intent to hold these investments until a recovery of fair value, which may be maturity, and considers these investments to be temporarily impaired.

(4) External Delivery Services Payable

Activity in the external delivery services payable for unpaid claims and claim adjustment expenses is summarized as follows (in thousands):

	2011	2010
Balances at January 1	$ 231,667	$ 200,216
Incurred related to:		
Current year	1,885,808	1,698,294
Prior years	(6,065)	(3,431)
Total incurred	1,879,743	1,694,863
Paid related to:		
Current year	1,641,238	1,492,643
Prior years	216,114	170,769
Total paid	1,857,352	1,663,412
Balances at December 31	$ 254,058	$ 231,667

Amounts incurred related to prior years vary from previously estimated liabilities as the claims are ultimately adjudicated and paid. Liabilities at any year end are continually reviewed and re-estimated as information regarding actual claims payments becomes known. This information is compared to the originally established year end liability. Amounts reported for incurred related to prior years result from claims being adjudicated and paid for amounts different than originally estimated. In 2011, as discussed in Note 2, the Group made improvements to its method of estimating external delivery services payable.

(5) Medical Loss Ratio

Effective January 1, 2011, as part of the Patient Protection and Affordable Care Act (Health Care Reform), minimum medical loss ratios (MLR) were mandated for all commercial fully insured medical plans with annual rebates owed to policyholders if the actual loss ratios, calculated in a manner prescribed by the U.S. Department of Health and Human Services (HHS), fall below certain targets (85% for large employer groups and 80% for small employer groups and individuals). HHS issued guidance specifying the types of costs that should be included in benefit expense for purposes of calculating medical loss ratios. The Group’s medical loss ratios were above the minimum target levels and no liability for rebates was recorded in 2011.

(6) Borrowing Arrangements

GHC issued new borrowings to refinance certain indebtedness and for its general corporate purposes in April 2010. The Series 2010 taxable commercial paper notes were offered as part of a commercial paper financing program under which notes may be issued from time to time up to the aggregate face amount of $75,000,000. The notes may be sold at a discount from the par amount to reflect an interest component to the maturity date. The maturity date of the notes will be 1 to 270 days and the notes are not subject to redemption prior to the maturity date. The notes are secured by GHC’s gross receivables, certain equipment, and a lien on certain real property. The issued notes outstanding are shown as short-term borrowings on the consolidated balance sheets.

Revenue bonds were issued through the Washington Health Care Facilities Authority (the Authority). As security for the repayment of the bonds, GHC has granted the Authority a security interest in its gross receivables, bond funds, and liens against certain facilities and equipment. The loan agreements for the revenue bonds require, among other restrictions, that GHC achieve certain minimum debt service coverage ratios. Management believes GHC was in compliance with all debt covenants at December 31, 2011 and 2010.

Long-term debt at December 31, 2011 and 2010 consists of the following (in thousands):

	Years of maturity	**2011**	**2010**
Revenue bonds:			
Series 2001, 4.00% to 5-3/8%, plus bond premium of $616 and $812 in 2011 and 2010, respectively	2011 – 2019	$ 45,182	$ 49,748
Series 2006, 4-1/2% to 5.00%, plus bond premium of $1,602 and $1,686 in 2011 and 2010, respectively	2022 – 2036	99,567	99,651
Other		4	4
Subtotal		144,753	149,403
Less current portion		(4,850)	(4,655)
Total long-term debt		$ 139,903	$ 144,748

Future annual principal payments on long-term debt for each of the next five years and thereafter at December 31, 2011 are as follows (in thousands):

Years ending December 31:	
2012	$ 4,595
2013	4,815
2014	5,075
2015	5,400
2016	5,690
Thereafter	116,960
Subtotal	142,535
Add unamortized premium and discount, net	2,218
Total	$ 144,753

(Continued)

Interest paid during 2011 and 2010 was $5,201,000 and $8,241,000, respectively. Interest expense was $(2,032,000) and $8,182,000 during 2011 and 2010, respectively, and the amount of interest capitalized was $271,000 and $147,000 in 2011 and 2010, respectively. The effect of the interest rate swap decreased interest expense by $9,874,000 and $2,539,000 in 2011 and 2010, respectively.

(7) Derivative Financial Instruments

GHC is exposed to the effects of changing interest rates. This exposure is managed, in part, with the use of derivatives. In January 2007, GHC entered into an interest rate swap with Citigroup on the 2006 Series bonds as part of the effort to rebalance the mix of variable and fixed rate exposure. The swap entitles GHC to receive payments based on a fixed rate and pay a variable rate based on the Securities Industry and Financial Markets Association Municipal Swap Index. The terms include a provision to cap the market value of the swap at $22,500,000, and a par termination option with a term to match the call provision of the 2006 Series bonds. GHC has elected to account for the swap as a free standing derivative; therefore, changes in the fair value are recorded in earnings. The notional amount of this derivative is $75,000,000.

(8) Disclosure about Fair Value of Financial Instruments

Assets and liabilities that are recorded at fair value are required to be grouped in three levels, based on the markets in which the assets and liabilities are traded and the observability of the inputs used to determine fair value. The three levels are:

- Level 1 – Valuation is based upon quoted prices for identical instruments traded in active markets. At December 31, 2011, Level 1 securities include primarily U.S. government bonds and mutual funds.
- Level 2 – Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market. At December 31, 2011, Level 2 securities include primarily U.S. government and international government bonds, municipal bonds, commercial paper, corporate bonds, asset-backed and mortgage-backed securities, and collateralized mortgage obligations.
- Level 3 – Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect the Group's estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of discounted cash flow models and similar techniques. At December 31, 2011, Level 3 instruments include primarily a guaranteed investment contract, an interest rate swap, and real estate.

Fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Group maximizes the use of observable inputs and minimizes the use of unobservable inputs when developing fair value measurements. Fair value measurements for assets and liabilities where there is limited or no observable market data and, therefore, are based primarily upon estimates calculated by the Group, based on the economic and competitive environment, the characteristics of the asset or liability, and other factors. Therefore, the results cannot be determined with precision and may not be realized upon an actual settlement of the asset or liability. There may be inherent weaknesses in any calculation technique, and changes in the underlying assumptions used, including discount rates and estimates of future cash flows, that could significantly affect the results of the current or future values.

Following is a description of valuation methods and assumptions used for assets and liabilities recorded at fair value and for estimating fair value for financial instruments not recorded at fair value but required to be disclosed:

(a) Assets and Liabilities

The carrying amounts reported in the balance sheets for cash and cash equivalents, accounts receivable – net, accounts payable, external delivery services payable, accrued employee compensation, accrued taxes and interest, and short-term borrowings approximate fair value.

(b) Long-Term Debt

Long-term debt is carried at amortized cost; however, accounting standards require the Group to disclose the fair value. The fair value of the Group's long-term debt is based on quoted market prices in markets that are not active, which are Level 2 inputs. The fair value of the long-term debt was $132,693,000 and $133,005,000 as of December 31, 2011 and 2010, respectively.

(c) Marketable Securities, Funds Held by Trustee, and Interest Rate Swap

The table below presents the balances of assets and liabilities measured at fair value on a recurring basis as of December 31, 2011 and 2010 (in thousands):

	Fair value measurements at December 31, 2011 using			
	Fair value	**Quoted prices in active markets for identical assets (Level 1)**	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
Available-for-sale securities:				
Debt:				
U.S. government securities	$ 79,955	$ 58,122	$ 21,833	$ —
Municipals	25,191	—	25,191	—
Commercial paper	500	—	500	—
International government	10,047	—	10,047	—
Corporate debt securities	304,901	—	304,901	—
Mortgage-backed securities	135,479	—	135,479	—
Asset-backed securities	7,312	—	7,312	—
Collateralized mortgage obligations	31,493	—	31,493	—
Domestic equity securities:				
Mutual funds:				
Large blend	54,216	54,216	—	—
Large value	23,545	23,545	—	—
Medium growth	10,123	10,123	—	—
Small blend	7,540	7,540	—	—
Small value	18,078	18,078	—	—
Investment grade bonds	2,424	2,424	—	—
U.S. Treasury	771	771	—	—
Other	4,563	4,563	—	—
Foreign equity securities:				
Mutual funds:				
Large blend	29,055	29,055	—	—
Large value	7,374	7,374	—	—
Other	9	—	—	9
Total available-for-sale securities	$ 752,576	$ 215,811	$ 536,756	$ 9
Funds held by trustee:				
Guaranteed investment contract	$ 8,848	$ —	$ —	$ 8,848
Total funds held by trustee	$ 8,848	$ —	$ —	$ 8,848
Interest rate swap	$ 6,910	$ —	$ —	$ 6,910

	Fair value measurements at December 31, 2010 using			
	Fair value	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Available-for-sale securities:				
Debt:				
U.S. government securities	$ 122,691	$ 86,145	$ 36,546	$ —
Municipals	18,768	—	18,768	—
Commercial paper	4,240	—	4,240	—
International government	19,721	—	19,721	—
Corporate debt securities	315,997	—	315,997	—
Mortgage-backed securities	143,916	—	143,916	—
Asset-backed securities	8,793	—	8,793	—
Collateralized mortgage obligations	59,823	—	59,823	—
Domestic equity securities:				
Mutual funds:				
Large blend	78,563	78,563	—	—
Large value	55,021	55,021	—	—
Medium growth	18,280	18,280	—	—
Small blend	5,761	5,761	—	—
Small value	20,317	20,317	—	—
Investment grade bonds	2,526	2,526	—	—
U.S. Treasury	5,243	5,243	—	—
Other	3,578	3,578	—	—
Foreign equity securities:				
Mutual funds:				
Large blend	42,249	42,249	—	—
Large value	8,768	8,768	—	—
Other	451	451	—	—
Other	15	6	—	9
Total available-for-sale securities	$ 934,721	$ 326,908	$ 607,804	$ 9
Funds held by trustee:				
Guaranteed investment contract	$ 8,848	$ —	$ —	$ 8,848
Total funds held by trustee	$ 8,848	$ —	$ —	$ 8,848
Interest rate swap	$ (49)	$ —	$ —	$ (49)

The changes in Level 3 assets and liabilities measured at fair value on a recurring basis are summarized as follows (in thousands):

	Fair value measurements using significant unobservable inputs (Level 3)			
	Available-for-sale securities	**Funds held by trustee**	**Interest rate swap**	**Total**
Beginning balance at January 1, 2010	$ 9	$ 8,848	$ 251	$ 9,108
Total unrealized losses included in changes in net assets	—	—	(300)	(300)
Ending balance at December 31, 2010	9	8,848	(49)	8,808
Total unrealized gains included in changes in net assets	—	—	6,959	6,959
Ending balance at December 31, 2011	$ 9	$ 8,848	$ 6,910	$ 15,767

There were no significant transfers between assets with inputs with quoted prices in active markets for identical assets (Level 1) and assets with inputs with significant other observable inputs (Level 2) during the years ended December 31, 2011 and 2010.

(9) Pension Plans

The Group sponsors two defined benefit plans (the Plans), a defined contribution plan, three 401(k) plans, a 403(b) plan, and contributes to several union negotiated plans that collectively cover substantially all of its employees. The Group's policy is to fund pension costs for the Plans based on actuarially determined funding requirements, thereby accumulating funds adequate to provide for all accrued benefits. Contributions for the defined contribution plan are based on a percentage of covered employees' salaries. Matching contributions to the 401(k) and 403(b) plans are based on a percentage of participants' contributions as set forth in the plan agreement. The total expense for the defined benefit plans was $22,848,000 and $25,497,000 in 2011 and 2010, respectively, and the total expense for the other plans was $25,278,000 and $23,920,000 in 2011 and 2010, respectively.

KPS amended its defined benefit pension plan to freeze benefits in 2009. As a result, each active participant's pension benefit was determined based on the participant's compensation and duration of employment. The most significant financial effect is that no new benefits are being accrued after the date of freeze.

For the defined benefit plans, the actuarial cost method used in determining the net periodic pension cost is the projected unit credit cost method. At December 31, 2011 and 2010, net periodic pension expense related to the Group's participation in the Plans for 2011 and 2010 included the following components (in thousands):

	2011	2010
Service cost	$ 21,977	$ 20,715
Interest cost on projected benefits	28,860	27,734
Expected return on plan assets	(39,922)	(34,414)
Amortization of net loss	11,933	11,462
Net periodic benefit cost	$ 22,848	$ 25,497
Discount rate (preretirement)	5.40% – 6.00%	5.90% – 6.00%
Discount rate (postretirement)	5.60 – 6.00	5.90 – 6.00
Rate of increase in compensation levels	4.00	5.00
Expected return on plan assets	7.25 – 8.50	7.25 – 8.50

The Plans' funded status and amounts included in unrestricted net assets to be recognized as a component of net periodic pension cost as of December 31, 2011 and 2010 are shown in the following table (in thousands):

	2011	2010
Change in projected benefit obligation:		
Projected benefit obligation – beginning of year	$ 554,528	$ 486,504
Service cost	21,977	20,715
Interest cost	28,860	27,734
Actuarial loss	53,960	35,321
Employee contributions	2,057	1,998
Benefits paid	(20,430)	(17,744)
Projected benefit obligation – end of year	640,952	554,528
Change in plan assets:		
Fair value of plan assets – beginning of year	481,877	424,404
Actual return on plan assets	(5,972)	50,844
Employer contributions	21,200	22,375
Employee contributions	2,057	1,998
Benefits paid	(20,430)	(17,744)
Fair value of plan assets – end of year	478,732	481,877
Funded status	$ (162,220)	$ (72,651)
Amounts recognized in unrestricted net assets consist of:		
Net actuarial loss	$ 222,199	$ 134,278
Accumulated benefit obligation – end of year	601,120	516,617
Discount rate (preretirement)	4.80% – 5.05%	5.40% – 5.50%
Discount rate (postretirement)	4.75 – 4.80	5.50 – 5.60
Rate of increase in compensation levels	0.00 – 4.00	0.00 – 4.00

The funded status is recorded as a component of noncurrent liabilities as of December 31, 2011 and 2010 in the consolidated balance sheets.

Certain of the Group's employees are covered by union-sponsored, collectively bargained, multi-employer defined benefit plans. Contributions are determined in accordance with the provisions of negotiated labor contracts.

(a) Investment Policies and Strategies

The Group has adopted investment policies for its defined benefit plans that incorporate a strategic, long-term asset allocation mix designed to best meet its long-term pension obligations. Plan fiduciaries set the investment policies and strategies for the pension trust. This includes the following:

- Selecting investment managers
- Setting long-term and short-term target asset allocations
- Periodic review of the target asset allocations, and, if necessary, to make adjustments based on changing economic and market conditions
- Monitoring the actual asset allocations, and, when necessary, rebalancing to the current target allocation.

As of December 31, 2011 and 2010, the following table summarizes the target allocation range defined in the investment policies compared to the actual allocations of the Group's plan assets:

	2011		2010	
	Target allocation	Actual allocation	Target allocation	Actual allocation
Equity securities	33% – 57%	43%	30% – 60%	58%
Debt securities	18 – 60	52	20 – 50	36
Cash equivalents	0 – 5	—	0 – 5	1
Other investments	0 – 10	5	0 – 10	5

The investment policy emphasizes the following key objectives:

- Maintain a diversified portfolio among various asset classes and investment managers
- Invest in a prudent manner for the exclusive benefit of plan participants
- Preserve the funded status of the plan
- Balance between acceptable level of risk and maximizing returns
- Maintain adequate control over administrative costs
- Maintain adequate liquidity to meet expected benefit payments.

(b) Expected Long-Term Rate of Return on Assets

The Group uses a "building block" approach to determine the expected rate of return on plan assets assumption for the Plans. This approach analyzes historical long-term rates of return for various investment categories, as measured by appropriate indexes. The rates of return on these indexes are then weighted based upon the percentage of plan assets in each applicable category to determine a composite expected return. The Group reviews its expected rate of return assumption annually. However, this is considered to be a long-term assumption and hence not anticipated to change annually, unless there are significant changes in economic and market conditions.

There are required employer contributions expected to be made to the Plans in 2012 of $40,300,000.

Expected amounts to be recognized as components of 2012 net periodic pension cost are as follows (in thousands):

Service cost	$	25,186
Interest cost on projected benefits		31,052
Expected return on plan assets		(41,565)
Amortization of net loss		21,496
Net periodic pension cost	$	36,169

The estimated net loss amount will be amortized from unrestricted net assets into net periodic benefit cost.

The benefits expected to be paid in each of the next five years, and in the aggregate for the five fiscal years thereafter, as of December 31, 2011 are as follows (in thousands):

Years ending December 31:		
2012	$	49,836
2013		47,408
2014		48,799
2015		48,180
2016		50,284
2017 – 2021		244,797
Total	$	489,304

(c) Fair Value of Pension Assets

The Group's pension assets are reported at fair value and are required to be grouped in three levels, based on the markets in which they are traded and the observability of the inputs used to determine fair value. The three levels are:

- Level 1 – Valuation is based upon quoted prices for identical instruments traded in active markets. At December 31, 2011, Level 1 securities include primarily common stocks, corporate bonds, and mutual funds.
- Level 2 – Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market. At December 31, 2011, Level 2 securities include primarily commingled trusts and trust index funds.
- Level 3 – Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect the Group's estimates of assumptions that market participants would use in pricing the asset. Valuation techniques include use of discounted cash flow models and similar techniques. At December 31, 2011, Level 3 securities include commingled trusts, a limited partnership and private equity.

The table below presents the balances of plan assets measured at fair value on a recurring basis as of December 31, 2011 and 2010 (in thousands):

	Fair value measurements at December 31, 2011 using			
	Fair value	**Quoted prices in active markets for identical assets (Level 1)**	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
Plan assets:				
Cash and cash equivalents	$ 4,552	$ 4,552	$ —	$ —
Commingled trusts	157,162	—	140,554	16,608
Common stocks	161,056	161,056	—	—
Limited partnership	47,306	—	—	47,306
Private equity	1,833	—	—	1,833
Trust index fund	12,323	—	12,323	—
Mutual funds:				
Domestic equities:				
Large blend	11,671	11,671	—	—
Long-term bond	11,857	11,857	—	—
Intermediate-term bond	68,621	68,621	—	—
Foreign equities:				
Large blend	2,351	2,351	—	—
Total plan assets	$ 478,732	$ 260,108	$ 152,877	$ 65,747

	Fair value measurements at December 31, 2010 using			
	Fair value	**Quoted prices in active markets for identical assets (Level 1)**	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
Plan assets:				
Cash and cash equivalents	$ 10,288	$ 10,285	$ 3	$ —
Commingled trusts	121,128	—	110,935	10,193
Common stocks	206,732	206,732	—	—
Limited partnership	20,687	—	—	20,687
Limited liability corporation	20,495	—	20,495	—
Trust index fund	10,920	—	10,920	—
Mutual funds:				
Domestic equities:				
Large blend	12,739	12,739	—	—
Long-term bond	4,099	4,099	—	—
Intermediate-term bond	72,644	72,644	—	—
Foreign equities:				
Large blend	2,145	2,145	—	—
Total plan assets	$ 481,877	$ 308,644	$ 142,353	$ 30,880

The changes in Level 3 plan assets measured at fair value on a recurring basis are summarized as follows (in thousands):

	Fair value measurements using significant unobservable inputs (Level 3)				
	Commingled trust	Common collective trust	Limited partnership	Private equity	Total
Beginning balance at January 1, 2010	$ 31,740	$ 43,179	$ 36,459	$ —	$ 111,378
Purchases, sales, and settlements	(21,694)	(44,715)	20,000	—	(46,409)
Level transfers	—	(288)	(36,459)	—	(36,747)
Total gains (realized/unrealized)	147	1,824	687	—	2,658
Ending balance at December 31, 2010	10,193	—	20,687	—	30,880
Purchases, sales, and settlements	8,197	—	24,652	1,845	34,694
Level transfers	—	—	—	—	—
Total gains (realized/unrealized)	(1,782)	—	1,967	(12)	173
Ending balance at December 31, 2011	$ 16,608	$ —	$ 47,306	$ 1,833	$ 65,747
Net unrealized gains relating to assets held at December 31, 2010	$ 147	$ —	$ 687	$ —	$ 834
Net unrealized gains (losses) relating to assets held at December 31, 2011	$ (1,783)	$ —	$ 1,967	$ (11)	$ 173

There were no significant transfers between assets with inputs with quoted prices in active markets for identical assets (Level 1) and assets with inputs with significant other observable inputs (Level 2) during the years ended December 31, 2011 and 2010.

(d) Pension Net Asset Valuation

Alternative investments held in the Plans that are reported at net asset value as a practical expedient for fair value are presented by major category (in thousands):

		Fair value	**Redemption frequency**	**Redemption notice period**
Commingled trust (a)	$	157,162	Daily, Semi-monthly, Monthly	1 – 15 days
Limited partnership (b)		47,306	Monthly, Quarterly	15 days
Trust index fund (c)		12,323	Monthly	10 days
Private equity (d)		1,833	—	—
Total	$	218,624		

a. This category is comprised of five different fund strategies: 1) An index fund that invests in treasury inflation protected securities. 2) An index fund that invests in U.S. investment grade bonds. 3) An index fund that invests in non-U.S. global equities. 4) An actively managed fund that invests in non-U.S. developed markets equities (Europe, Australia, Asia and Far East) employing a long-term value approach to stock selection. 5) An actively managed fund that invests in emerging market local debt employing a long-term strategy focused on income and capital appreciation.

b. This category is comprised of an actively managed fund that invests in noninvestment grade bonds employing a long-term strategy focused on income and capital appreciation.

c. This category is comprised of an index fund that invests in commodity futures.

d. Private equity investments include both U.S. and foreign investments with strategies that can include debt, venture capital, buyout, real estate, natural resources, and infrastructure. Fair values have been estimated by using either the net asset value per share or the net asset value of GHC’s ownership interest in the partners’ capital. These funds do not allow GHC to submit redemption requests. Distributions from these funds will be received as the underlying invests are liquidated. Based on the expiration dates of the funds, it is estimated that the underlying assets will be liquidated over the next 3 to 10 years.

At December 31, 2011 and 2010, the Plans have outstanding funding commitments totaling $17,825,000 and $0, respectively.

(10) Retiree Medical Plans

GHC provides certain medical benefits for eligible retired employees. Employees became eligible for these benefits upon retirement, attainment of a specified age, and upon completion of a certain number of years of service.

In 2009, GHC completed the curtailment of this benefit. The contribution to the premiums for collective bargaining active employees was discontinued. This resulted in the final phase out of the benefit. In 2008, the phase out of the benefit occurred for the nonunion active employees.

At December 31, 2011 and 2010, net periodic postretirement benefit cost is comprised of interest costs on accumulated benefit obligation of $2,098,000 and $2,311,000, respectively.

Amounts recognized in unrestricted net assets consisted of net actuarial losses of $2,688,000 and $1,991,000 at December 31, 2011 and 2010, respectively.

GHC's accumulated postretirement benefit obligation (APBO) is unfunded. The APBO is included in the components of the retiree medical benefits liability on the consolidated balance sheets at December 31, 2011 and 2010, and comprises the following components (in thousands):

		2011		2010
Change in accumulated postretirement benefit obligation:				
Accumulated postretirement benefit obligation – beginning of year	$	46,266	$	64,753
Interest cost		2,098		2,311
Plan amendments/curtailment		(355)		(11,483)
Actuarial loss (gain)		697		(4,993)
Benefits paid		(4,295)		(4,322)
Accumulated postretirement benefit obligation – end of year	$	44,411	$	46,266
Change in plan assets:				
Employer contributions	$	4,295	$	4,322
Benefits paid		(4,295)		(4,322)

Future benefit costs were estimated assuming medical costs would increase at a 6.90% annual rate. A 1.00% increase in this annual trend rate would have increased the APBO at December 31, 2011, by $3,420,000 and the sum of service cost and interest cost for 2011 by $168,000. A 1.00% decrease in this annual trend rate would have decreased the APBO at December 31, 2011 by $3,020,000 and the sum of service cost and interest cost for 2011 by $151,000.

The weighted average discount rate used in determining the APBO was 4.70% in 2011 and 2010. The assumptions used to determine the APBO are measured at year-end. The weighted average discount rate used in determining the net periodic postretirement benefit cost was 4.75% in 2011 and 5.30% in 2010, and is based on beginning of year assumptions.

Expected amounts to be recognized as components of 2012 net periodic postretirement benefit cost are interest cost on projected benefits of $2,009,000.

GHC funds the plan as benefit payments are required. The expected benefit payments to be paid, and contributions to be made, in each of the next five years, and in the aggregate for the five fiscal years thereafter, as of December 31, 2011, are as follows (in thousands):

Years ending December 31:		
2012	$	4,240
2013		4,159
2014		4,068
2015		3,974
2016		3,863
2017 – 2021		17,382
Total	$	37,686

The 2010 national Health Care legislation does not have a material impact on the retiree medical plan.

(11) Commitments and Contingencies

(a) Leases

The Group has various operating leases for land, buildings, and equipment. Total rent expense was \$21,180,000 and \$20,008,000 on these leases in 2011 and 2010, respectively. Total sublease rental revenue was \$3,806,000 and \$2,504,000 in 2011 and 2010, respectively, and is recorded as a component of other revenue. Future minimum rental payments and future minimum sublease rental receipts under noncancelable operating lease and sublease agreements as of December 31, 2011 are as follows (in thousands):

		Minimum sublease rental receipts		Minimum rental payments
Years ending December 31:				
2012	$	2,802	$	22,740
2013		2,605		24,200
2014		1,240		21,765
2015		922		19,558
2016		785		21,307
Thereafter		586		33,815
Total	$	8,940	$	143,385

GHC entered into a sale-leaseback transaction in 2006 involving the sale of its administrative main building located in Tukwila, Washington, and then entered into a 10-year operating lease with the purchaser. The gain on sale was deferred and is being amortized over 120 months with the amortization recorded in other expense in the consolidated statements of operations and changes in net assets. The deferred gain is a component of unearned premiums and deposits and other noncurrent liabilities in the consolidated balance sheets in the amount of $13,370,000 and $16,288,000 as of December 31, 2011 and 2010, respectively.

(b) Labor

Approximately 62% of GHC's employees are covered under collective bargaining agreements. These employees provide nursing and other technical services to GHC. Approximately 45% of the collective bargaining agreements expire in one year. Bargaining disputes could adversely affect GHC.

(c) Litigation

The Group is involved in litigation and regulatory investigations arising in the normal course of business. After consultation with legal counsel, management estimates accruals, if any, that are necessary related to these matters. Management believes the recorded amounts are adequate and the ultimate outcome of the matters will not have a material adverse effect on the Group's consolidated financial position or results of operations.

(d) Government Contracts

The Group's Medicare business primarily consists of products covered under MA and MA-PD contracts with the federal government. CMS performs coding audits to validate the supporting documentation maintained by health plans and their care providers. These coding audits may result in retrospective payment adjustments to health plans.

(e) Guarantees

In December 2005, GHC signed a joint venture agreement with City Investors V LLC, a real estate development company controlled by the Vulcan Corporation, to form Westlake Terry LLC. GHC has a 50% ownership interest in Westlake Terry LLC in the amount of $3,052,000 and $4,227,000 as of December 31, 2011 and 2010, respectively. Under the agreement, the joint venture developed two adjacent buildings totaling 319,000 square feet located in Seattle, Washington, with GHC a major tenant of the facility with a 10-year operating lease agreement. GHC, GHO, and the Foundation moved their administrative headquarters to this site in August 2007.

In May 2006, GHC and City Investors V LLC entered into loan guarantees with Westlake Terry, LLC's lenders, relating to its construction and long-term financing. In May 2008, the construction guarantees were eliminated. Management believes the likelihood of performance on the remaining guarantees to be remote and, therefore, has not recorded a related liability.

GHC's guaranty to the lender is now fully nonrecourse, absent fraud or default under certain loan obligations, in which event GHC and City Investors V LLC remain jointly and severally liable for repayment of the loan in full, until the loan has been satisfied.

(Continued)

(f) Contingencies

GHC contracts with the Office of Personnel Management (OPM) as a community–rated carrier under the Federal Employee Health Benefits Program (FEHBP). During 2009, a regularly scheduled audit was conducted by the Office of Inspector General (OIG) on behalf of OPM. In September 2010, GHC received the OIG's audit report with its findings and recommendations that included a defective pricing claim that is estimated at approximately $31,000,000 plus interest. The audit issues were resolved in April 2012 without a material effect on the Group's consolidated financial statements.

(12) Federal Income Taxes

The components of income tax expense for GHO and KPS related to continuing operations and the change in unrestricted net assets for the years ended December 31, 2011 and 2010 are summarized as follows (in thousands):

	2011	2010
Federal income tax expense on operations	$ 5,684	$ 3,245
Federal income tax (benefit) included in the change in unrestricted net assets	(963)	(216)
Federal income tax expense	$ 4,721	$ 3,029

Federal income tax expense on operations is recognized as a component of other expenses in the consolidated statements of operations and changes in net assets. Federal income tax (benefit) included in the change in unrestricted net assets is recognized as a component of changes in net unrealized investment gains and losses and the change in defined benefit pension and other postretirement plans in the consolidated statements of operations and changes in net assets.

The deferred tax asset is recorded within other current assets and noncurrent assets and the deferred tax liability is recorded as a component of accrued taxes and interest and in other noncurrent liabilities in the accompanying consolidated balance sheets in the following amounts (in thousands):

	2011	2010
Deferred tax asset	$ 9,526	$ 10,843
Deferred tax liability	(2,031)	(1,089)
Valuation allowance	(5,915)	(4,917)
Net deferred tax asset	$ 1,580	$ 4,837

Deferred tax assets primarily relate to the tax effects of temporary differences associated with pension liabilities, buildings and improvements, postretirement accruals and capital and net operating loss carryforwards. The deferred tax liability results primarily from temporary differences in unrealized investment gains and pension accruals. A valuation allowance has been provided for the net deferred tax asset as management believes it is more likely than not that the entire amount will not be realized.

(Continued)

At December 31, 2011, the Group has net operating loss carryforwards for federal income tax purposes of $12,719,000, which expire between 2019 through 2030.

(13) Endowments

Endowment funds held at the Foundation consist of approximately 40 individual funds established for a variety of purposes and are all donor-restricted. The change in net assets associated with the endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. Donor-restricted endowment assets were $10,117,000 and $10,497,000 at December 31, 2011 and 2010, respectively, and are recorded in temporary and permanent restricted net assets.

The State of Washington Uniform Prudent Management of Institutional Funds Act of 2009 (the Act) requires the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result, the Foundation classifies as permanently restricted net assets, the original value of gifts donated to the permanent endowment funds, the original value of subsequent gifts to the permanent endowment fund, and accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation was added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by the Act, unless otherwise stipulated by the donor. In accordance with the Act, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the endowment funds
- The purposes of the Foundation and the endowment funds
- General economic conditions
- The possible effect of inflation or deflation
- The expected total return from income and the appreciation of investments
- Other resources of GHC and the Foundation
- The investment policy of the Foundation.

The Foundation has adopted spending and investment policies for endowment assets that are consistent with the provisions of the Act.

The Foundation policy limits spending in any calendar year to 5% of the fair market value of the endowments' three-year moving average. The Foundation may in any year choose to spend less than 5%. The Foundation may also choose to charge up to 1% of the endowment market value as an annual management fee. Total annual spending, including both management fee and spending allocations, cannot exceed the 5% limit. Newly received and named endowment funds are invested for one year before disbursements are made.

Under the investment policy, a diversified asset allocation is used consisting of equity securities and cash equivalents.

(14) Statutory Net Worth

GHC, GHO, and KPS (the Companies) are required to periodically file financial statements with regulatory agencies in accordance with statutory accounting and reporting practices. The Companies must comply with the minimum regulatory net worth requirements under the regulations of the Washington State Office of the Insurance Commissioner. Such requirements are generally based on 100% risk-based capital. The regulatory net worth, so defined, at December 2011 and 2010 was $611,054,000 and $728,162,000, respectively. These balances exceed the minimum regulatory requirements at December 31, 2011 and 2011 by approximately $574,848,000 and $691,281,000, respectively.

(15) Columbia Medical Associates Acquisition

Effective July 31, 2011, GHC acquired control of CMA. GHC acquired CMA in order to provide a broader integrated system of medical care in the Spokane, Washington market. The transaction was accounted for under the acquisition method of accounting which resulted in a bargain purchase gain of $1,434,000 and is recorded as a component of other revenue in the consolidated statement of operations and changes in net assets. The fair value of the assets acquired and liabilities assumed at the date of the CMA acquisition was $3,747,000.

There were two transactions that were recognized separately from the acquisition. Estimated future payments of $4,284,000 will be made to the prior owners along with a forgiveness of a loan balance of $2,653,000. These payments are contingent on post-acquisition services in which the consideration payments and loan forgiveness are automatically forfeited if employment terminates.

(16) Subsequent Events

Subsequent events are events or transactions that occur after the consolidated balance sheet date but before financial statements are issued that provide additional evidence about conditions that existed at the date of the balance sheet. The Group has evaluated subsequent events for recognition or disclosure through April 13, 2012, the date these consolidated financial statements were issued.

SUPPLEMENTAL INFORMATION

GROUP HEALTH COOPERATIVE
AND SUBSIDIARIES

Supplemental Consolidating Balance Sheet

December 31, 2011

(In thousands)

Assets	GHC & Auxiliary Consolidated	GHO	Foundation	KPS	CMA	Eliminations	Total
Current assets:							
Cash and cash equivalents	$ 331,522	$ 23,497	$ 744	$ 2,353	$ —	$ —	$ 358,116
Short-term marketable securities	25,499	8,274	—	3,815	—	—	37,588
Accounts receivable – net	116,552	10,791	15	20,120	1,454	(2,755)	146,177
Receivable from affiliate	2,046	2,440	—	21	—	(4,507)	—
Inventories	23,720	—	—	—	—	—	23,720
Other	22,875	4,238	—	1,074	63	—	28,250
Total current assets	522,214	49,240	759	27,383	1,517	(7,262)	593,851
Long-term marketable securities	531,100	153,763	16,396	13,729	—	—	714,988
Funds held by trustee	8,848	—	—	—	—	—	8,848
Land, buildings, and equipment:							
Land	26,553	—	—	213	—	—	26,766
Buildings and improvements	576,738	—	—	7,495	1,431	—	585,664
Equipment	444,198	—	—	8,058	412	—	452,668
Construction in progress	21,835	—	—	—	—	—	21,835
Total land, buildings, and equipment	1,069,324	—	—	15,766	1,843	—	1,086,933
Less accumulated depreciation	(651,419)	—	—	(15,230)	(196)	—	(666,845)
Land, buildings, and equipment – net	417,905	—	—	536	1,647	—	420,088
Other assets	185,626	1,046	2,220	4,043	1,945	(154,138)	40,742
Total	$ 1,665,693	$ 204,049	$ 19,375	$ 45,691	$ 5,109	$ (161,400)	$ 1,778,517

(Continued)

GROUP HEALTH COOPERATIVE
AND SUBSIDIARIES

Supplemental Consolidating Balance Sheet

December 31, 2011

(In thousands)

Liabilities and Net Assets	GHC & Auxiliary Consolidated	GHO	Foundation	KPS	CMA	Eliminations	Total
Current liabilities:							
Accounts payable	$ 235,780	$ 4,072	$ 538	$ 14,709	$ 997	$ —	$ 256,096
External delivery services payable	199,943	45,639	—	12,092	—	(3,616)	254,058
Unearned premiums and deposits	33,678	25,070	—	2,356	—	—	61,104
Accrued employee compensation	51,282	89	—	1,273	473	—	53,117
Accrued taxes and interest	11,948	5,889	—	301	—	—	18,138
Short-term borrowings	8,998	—	—	—	—	—	8,998
Current portion of long-term debt	4,846	—	—	4	—	—	4,850
Current portion of reserve for self-insurance	16,369	—	—	—	—	—	16,369
Current portion of retiree medical benefits	4,240	—	—	—	—	—	4,240
Liability to affiliate	2,461	—	981	111	—	(3,553)	—
Total current liabilities	569,545	80,759	1,519	30,846	1,470	(7,169)	676,970
Noncurrent liabilities:							
Long-term debt	139,903	—	—	—	—	—	139,903
Self-insurance	44,461	—	—	—	—	—	44,461
Retiree medical benefits	40,171	—	—	—	—	—	40,171
Pension	158,756	—	—	3,464	—	—	162,220
Other	29,141	—	1,313	715	—	(93)	31,076
Total noncurrent liabilities	412,432	—	1,313	4,179	—	(93)	417,831
Total liabilities	981,977	80,759	2,832	35,025	1,470	(7,262)	1,094,801
Commitments and contingencies (note 11)							
Net assets:							
Unrestricted	671,436	123,290	4,263	10,666	3,639	(141,828)	671,466
Temporarily restricted	4,173	—	4,173	—	—	(4,173)	4,173
Permanently restricted	8,107	—	8,107	—	—	(8,137)	8,077
Total net assets	683,716	123,290	16,543	10,666	3,639	(154,138)	683,716
Total	$ 1,665,693	$ 204,049	$ 19,375	$ 45,691	$ 5,109	$ (161,400)	$ 1,778,517

See accompanying independent auditors' report.

GROUP HEALTH COOPERATIVE
AND SUBSIDIARIES

Supplemental Consolidating Statement of Operations and Changes in Net Assets

Year ended December 31, 2011

(In thousands)

	GHC & Auxiliary Consolidated	GHO	Foundation	KPS	CMA	Eliminations	Total
Revenues:							
Premium revenue	$ 2,022,554	$ 1,015,870	$ —	$ 126,780	$ —	$ (8,815)	$ 3,156,389
Clinical services	245,934	—	—	—	6,704	(17,990)	234,648
Other	757,501	6,862	5,597	8,872	250	(675,817)	103,265
Total operating revenues	3,025,989	1,022,732	5,597	135,652	6,954	(702,622)	3,494,302
Expenses:							
External delivery services	1,491,164	873,746	—	117,495	—	(602,662)	1,879,743
Employee compensation	624,072	781	75	6,936	3,279	(10,863)	624,280
Group Health Permanente expense	321,511	—	—	—	2,322	—	323,833
Medical and operating supplies	283,961	54	33	54	393	(10)	284,485
Other expenses	195,564	59,064	4,231	6,207	1,625	(2,420)	264,271
Services purchased	137,178	86,088	908	3,385	700	(86,667)	141,592
Depreciation	56,808	—	—	190	294	—	57,292
Total operating expenses	3,110,258	1,019,733	5,247	134,267	8,613	(702,622)	3,575,496
Operating income (loss)	(84,269)	2,999	350	1,385	(1,659)	—	(81,194)
Nonoperating income (expense):							
Investment income (loss)	76,900	4,767	(165)	443	—	(8,139)	73,806
Interest income (expense)	2,013	(6)	—	25	—	—	2,032
Total other income (expense)	78,913	4,761	(165)	468	—	(8,139)	75,838
(Deficit) excess of revenues over expenses	$ (5,356)	$ 7,760	$ 185	$ 1,853	$ (1,659)	$ (8,139)	$ (5,356)

GROUP HEALTH COOPERATIVE
AND SUBSIDIARIES

Supplemental Consolidating Statement of Operations and Changes in Net Assets

Year ended December 31, 2011

(In thousands)

	GHC & Auxiliary Consolidated	GHO	Foundation	KPS	CMA	Eliminations	Total
(Deficit) excess of revenues over expenses	$ (5,356)	$ 7,760	$ 185	$ 1,853	$ (1,659)	$ (8,139)	$ (5,356)
Change in net unrealized investment gains and losses	(41,195)	1,857	—	(196)	—	(1,661)	(41,195)
Change in defined benefit pension and other pos retirement plans	(88,531)	—	—	(2,642)	—	2,642	(88,531)
Capital contributions	—	—	—	—	5,298	(5,298)	—
Other	(148)	—	—	—	—	—	(148)
Change in unrestricted net assets	(135,230)	9,617	185	(985)	3,639	(12,456)	(135,230)
Change in temporarily restricted net assets	(853)	—	(853)	—	—	853	(853)
Change in permanently restricted net assets	411	—	411	—	—	(411)	411
Change in net assets	(135,672)	9,617	(257)	(985)	3,639	(12,014)	(135,672)
Net assets:							
Beginning of year	819,388	113,673	16,800	11,651	—	(142,124)	819,388
End of year	$ 683,716	$ 123,290	$ 16,543	$ 10,666	$ 3,639	$ (154,138)	$ 683,716

See accompanying independent auditors' report.