



**GROUP HEALTH COOPERATIVE
AND SUBSIDIARIES**

Consolidated Financial Statements

December 31, 2012 and 2011

(With Independent Auditors' Report Thereon)

**GROUP HEALTH COOPERATIVE
AND SUBSIDIARIES**

Table of Contents

	Page(s)
Independent Auditors' Report	1 – 2
Consolidated Financial Statements:	
Balance Sheets	3 – 4
Statements of Operations and Changes in Net Assets	5
Statements of Cash Flows	6
Notes to Consolidated Financial Statements	7 – 48
Supplemental Information	
Consolidating Balance Sheet	49 – 50
Consolidating Statement of Operations and Changes in Net Assets	51 – 52



KPMG LLP
Suite 2900
1918 Eighth Avenue
Seattle, WA 98101

Independent Auditors' Report

The Board of Trustees
Group Health Cooperative and Subsidiaries:

We have audited the accompanying consolidated financial statements of Group Health Cooperative and Subsidiaries (the Group), which comprise the consolidated balance sheets as of December 31, 2012 and 2011, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended, and the related consolidated notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly in all material respects, the financial position of Group Health Cooperative and Subsidiaries as of December 31, 2012 and 2011, and the results of its operations, and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.



Other Matter

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information included on pages 49 through 52 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 audit 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

Seattle, Washington
April 24, 2013

**GROUP HEALTH COOPERATIVE
AND SUBSIDIARIES**

Consolidated Balance Sheets

December 31, 2012 and 2011

(In thousands)

Assets	2012	2011
Current assets:		
Cash and cash equivalents	\$ 71,272	358,116
Short-term marketable securities	20,211	37,588
Accounts receivable – net	135,025	146,177
Inventories	17,957	23,720
Other	32,501	28,250
Total current assets	<u>276,966</u>	<u>593,851</u>
Long-term marketable securities	832,178	714,988
Funds held by trustee	8,848	8,848
Land, buildings, and equipment:		
Land	23,275	26,766
Buildings and improvements	557,388	585,664
Equipment	471,548	452,668
Construction in progress	21,995	21,835
Total land, buildings, and equipment	<u>1,074,206</u>	<u>1,086,933</u>
Less accumulated depreciation	<u>(655,353)</u>	<u>(666,845)</u>
Land, buildings, and equipment – net	418,853	420,088
Other assets	<u>60,551</u>	<u>40,742</u>
Total	<u>\$ 1,597,396</u>	<u>1,778,517</u>

**GROUP HEALTH COOPERATIVE
AND SUBSIDIARIES**

Consolidated Balance Sheets

December 31, 2012 and 2011

(In thousands)

Liabilities and Net Assets	2012	2011
Current liabilities:		
Accounts payable	\$ 100,891	256,096
External delivery services payable	240,199	254,058
Unearned premiums and deposits	33,901	61,104
Accrued employee compensation	69,084	53,117
Accrued taxes and interest	9,404	18,138
Short-term borrowings	—	8,998
Current portion of long-term debt	5,045	4,850
Current portion of reserve for self-insurance	20,111	16,369
Current portion of retiree medical benefits	4,506	4,240
Total current liabilities	483,141	676,970
Noncurrent liabilities:		
Long-term debt	134,859	139,903
Self-insurance	49,436	44,461
Retiree medical benefits	45,510	40,171
Pension	219,361	162,220
Other	33,467	31,076
Total noncurrent liabilities	482,633	417,831
Total liabilities	965,774	1,094,801
Net assets:		
Unrestricted	617,898	671,466
Temporarily restricted	5,568	4,173
Permanently restricted	8,156	8,077
Total net assets	631,622	683,716
Total	\$ 1,597,396	1,778,517

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, 2012 and 2011

(In thousands)

	2012	2011
Revenues:		
Premiums	\$ 3,269,263	3,156,389
Clinical services, net	254,963	234,648
Other	104,930	103,265
	<u>3,629,156</u>	<u>3,494,302</u>
Total operating revenues		
Expenses:		
External delivery services	1,891,300	1,879,743
Employee compensation	678,213	624,280
Group Health Permanente expense	367,137	323,833
Medical and operating supplies	290,910	284,485
Other expenses	242,681	264,271
Services purchased	141,945	141,592
Depreciation and amortization	57,513	57,292
	<u>3,669,699</u>	<u>3,575,496</u>
Total operating expenses		
Operating loss	<u>(40,543)</u>	<u>(81,194)</u>
Nonoperating income (expense):		
Investment income	27,772	73,806
Interest expense	(1,083)	2,032
	<u>26,689</u>	<u>75,838</u>
Total other income		
Deficit of revenues over expenses	<u>(13,854)</u>	<u>(5,356)</u>
Change in net unrealized investment gains and losses	28,177	(41,195)
Change in defined benefit pension and other postretirement plans	(67,770)	(88,531)
Other	(121)	(148)
	<u>(53,568)</u>	<u>(135,230)</u>
Change in unrestricted net assets		
Change in temporarily restricted net assets	1,395	(853)
Change in permanently restricted net assets	79	411
	<u>(52,094)</u>	<u>(135,672)</u>
Change in net assets		
Net assets:		
Beginning of year	683,716	819,388
End of year	<u>\$ 631,622</u>	<u>683,716</u>

See accompanying notes to consolidated financial statements.

**GROUP HEALTH COOPERATIVE
AND SUBSIDIARIES**

Consolidated Statements of Cash Flows

Years ended December 31, 2012 and 2011

(In thousands)

	2012	2011
Cash flows from operating activities:		
Change in net assets	\$ (52,094)	(135,672)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	57,513	57,292
Provision for self-insurance	21,252	13,953
Change in realized and unrealized investments gains and losses	(35,502)	(5,660)
Change in fair value of interest rate swap	2,791	(6,959)
Recognized other-than-temporary impairment losses	385	—
Change in deferred gain on sale – leaseback	(2,917)	(2,917)
Other	(4,894)	738
Cash provided by (used in) operating assets and liabilities:		
Accounts receivable – net	11,142	(20,538)
Inventories	5,763	(657)
Other current and noncurrent assets	(27,644)	(2,445)
Accounts payable	4,467	18,342
External delivery services payable	(13,859)	22,391
Accrued employee compensation	15,967	(3,236)
Self-insurance	(12,535)	(11,962)
Accrued taxes and interest	(8,734)	3,766
Unearned premiums and deposits	(24,286)	12,203
Pension	57,141	89,569
Retiree medical benefits	5,605	(1,855)
Other noncurrent liabilities	1,622	(4,008)
Net cash provided by operating activities	1,183	22,345
Cash flows from investing activities:		
Payments for land, buildings, and equipment	(59,024)	(52,749)
Proceeds from disposal of land, buildings, and equipment	2,540	5
Proceeds from sale of marketable securities	514,009	1,276,235
Purchases of marketable securities	(733,073)	(933,556)
Distribution from equity investments	1,485	2,185
Purchases of equity investments	(250)	—
Net cash (used in) provided by investing activities	(274,313)	292,120
Cash flows from financing activities:		
Repayment of long-term debt	(4,595)	(4,370)
Net short-term borrowings	(8,998)	(31,978)
Other	(121)	(148)
Net cash used in financing activities	(13,714)	(36,496)
Net (decrease) increase in cash and cash equivalents	(286,844)	277,969
Cash and cash equivalents :		
Beginning of year	358,116	80,147
End of year	\$ 71,272	358,116
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest	\$ 4,224	5,201
Income taxes	2,782	5,729

See accompanying notes to consolidated financial statements.

GROUP HEALTH COOPERATIVE AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

(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. The Auxiliary discontinued operations as an unincorporated association at December 31, 2012. At dissolution, the assets of the Auxiliary were transferred to GHC. The fundraising efforts conducted by the former Auxiliary continue under the direct management of GHC. The discontinuance of the Auxiliary did not have a material impact on the Group's consolidated financial statements.

**GROUP HEALTH COOPERATIVE
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

(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, fair value, 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 consolidated 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 provided 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, are carried at fair value, and are classified as available-for-sale securities. The Group considers securities that will mature within one year as short-term investments. 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 consolidated 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.

**GROUP HEALTH COOPERATIVE
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

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

An investment is impaired if the fair value of the investment is less than its book value 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 the changes in 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 clinical services revenue are deducted from gross revenues.

(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. 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 Group estimates the allowance for receivables of noncovered health care services, fee-for-service clinical services, and other receivables based on the aging of accounts receivable, historical collection experience, and other relevant factors. The allowance for uncollectible accounts

**GROUP HEALTH COOPERATIVE
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

decreased from \$5,234,000 at December 31, 2011 to \$4,093,000 at December 31, 2012. The Group's bad debt decreased due to improved collection efforts resulting in a lower allowance for doubtful accounts.

The allowance for receivables of premiums is based on aging of accounts receivable and historical experience of enrollment retroactive changes. The allowance for retroactivity was \$2,600,000 and \$4,557,000 as of December 31, 2012 and 2011, 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, 2012 and 2011.

(j) Charitable Gift Annuities

As of December 31, 2012 and 2011, the Foundation had a charitable gift annuities liability of \$1,195,000 and \$1,220,000, 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 \$2,432,000 and \$2,146,000 as of December 31, 2012 and 2011, 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 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.

**GROUP HEALTH COOPERATIVE
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

(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.

In 2008, GHC closed its Eastside Campus, which housed an inpatient hospital facility, a specialty center, and primary care clinic. GHC relocated its primary care clinic to Redmond and its specialty center to Bellevue, adjacent to Overlake Hospital Medical Center where certain GHC enrollees receive hospital care. Group Health actively marketed Eastside Campus and anticipated a sale to likely occur, resulting in the assets of this facility classified as held-for-sale in 2012 and is a component of other assets. In March 2013, Eastside Campus was sold.

Management periodically performs an evaluation of the book value of the Eastside Campus assets compared to fair value less cost to sell. No impairment loss was incurred in 2012 or 2011.

(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, 2012 and 2011, the net carrying amount was \$860,000 and \$1,730,000, respectively, and is a component of other assets in the accompanying consolidated balance sheets.

The Group performs an impairment review annually or when a triggering event occurs between annual impairment tests. For 2012, the Group performed an impairment review of intangible assets and determined that it was more likely than not that the fair value of certain intangible assets is less than the carrying amounts. Accordingly, an impairment loss of \$647,000 was recorded in 2012 as a component of depreciation and amortization expense.

(o) Other Current Assets and Other Assets

Other current assets and other assets consist of interest receivable, deferred financing costs, held for sale assets, interest rate swap, deposits, prepaid assets, deferred tax assets and federal tax receivable.

(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

**GROUP HEALTH COOPERATIVE
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

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, 2012 and 2011, the estimated liability for professional liability claims was \$57,703,000 and \$51,123,000, respectively. At December 31, 2012 and 2011, the estimated liability for industrial accident claims was \$8,075,000 and \$6,483,000, respectively. At December 31, 2012 and 2011, the estimated liability for unemployment claims was \$3,769,000 and \$3,224,000, respectively. Reinsurance receivables for 2012 and 2011 are \$1,631,000 and zero, respectively, and are a component of other assets.

(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 2012 and 2011. Retention levels for industrial accident claims in 2012 and 2011 are \$500,000, 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 2012 and 2011, 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 \$824,000 and \$866,000 as of December 31, 2012 and 2011, respectively, as a component of other current assets, and reinsurance receivables of \$11,000 and \$458,000 as of December 31, 2012 and 2011, respectively, as a component of accounts receivable.

(r) Derivatives

In certain instances, the Group enters into derivative instruments to hedge specific assets and liabilities, which are carried at fair value. 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, contractual adjustments and bad debts. 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.

**GROUP HEALTH COOPERATIVE
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

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. GHC 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. The Group has eligible professionals, as well as an eligible hospital participating in the program. Incentives earned through this program are recognized in other revenues and were \$6,921,000 and \$11,746,000 for the years ended December 31, 2012 and 2011, respectively.

In July 2012, GHC stopped participating as a health plan serving Medicaid patients. The care of Medicaid patients continues through a contractual arrangement with another health plan. Revenue for this care is a component of clinical services revenue.

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.

**GROUP HEALTH COOPERATIVE
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

The table below presents the balances of the significant operating revenue types for the years ended December 31, 2012 and 2011 (in thousands):

	<u>2012</u>	<u>2011</u>
Premiums:		
Group	\$ 2,153,999	2,167,825
Medicare	907,564	762,346
Individual and family	183,857	185,300
Medicaid	<u>23,843</u>	<u>40,918</u>
Total premiums	<u>3,269,263</u>	<u>3,156,389</u>
Clinical services revenue, net of contractual allowances and discounts and discounts	264,828	234,648
Less provision for bad debt	<u>(9,865)</u>	<u>(11,413)</u>
Clinical services revenue, net	<u>254,963</u>	<u>223,235</u>
Other revenue:		
Grants	46,573	45,141
Other	41,833	42,690
Sales	<u>16,524</u>	<u>15,434</u>
Total other	<u>104,930</u>	<u>103,265</u>
Total operating revenues	<u>\$ 3,629,156</u>	<u>3,482,889</u>

The Group has agreements with third-party payors that provide for payments of amounts different from established charges. The Group's clinical services revenue, net of contractual allowances and discounts, came from the following major payor sources:

	<u>2012</u>	<u>2011</u>
Private	52%	56%
Commercial/other	42	37
Medicare	4	5
Medicaid	<u>2</u>	<u>2</u>
Total	<u>100%</u>	<u>100%</u>

**GROUP HEALTH COOPERATIVE
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

There is a corresponding significant concentration of credit risk in net accounts receivable balances at December 31, 2012 and 2011:

	2012	2011
Private	54%	46%
Commercial/other	42	43
Medicare	3	7
Medicaid	1	4
Total	100%	100%

The private accounts receivable represents noncovered health care services, copays and deductibles from enrollees, and receivables from nonenrollees receiving fee-for-services clinical services.

The Group has entered into payment agreements with certain commercial insurance carriers including employer groups under self-funded plans. The basis for payment to the Group under these agreements includes prospectively determined rates per unit of service and discounts from established charges. Most arrangements provide for payment or reimbursement to the Group at amounts different from established rates. Contractual discounts represent the difference between established rates for services and amounts paid or reimbursed by these third-party payors.

The Group has estimated payments for services rendered to Medicare and Medicaid fee-for-service patients during the year by applying the payment principles of the applicable governmental agencies and believes that an adequate provision has been made in the accompanying consolidated financial statements for final settlement.

Reimbursement for inpatient services rendered to Medicare recipients has been made principally under a prospective pricing system based on diagnosis-related groups. Most outpatient services provided to Medicare patients are reimbursed based on prospectively determined rates. Medicaid patients are also reimbursed based on a combination of prospectively determined rates and cost reimbursement methodology. Continuation of these reimbursement programs at the present level, and on the present basis, is dependent upon future policies of the federal and state governmental agencies.

(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, 2012 and 2011.

**GROUP HEALTH COOPERATIVE
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

(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. Patients must have income at or less than 200% of the Federal Poverty Level. Only the portion of a patient's account that meets the Group's criteria is recognized as charity care. The method to estimate costs associated with charity care involves a ratio of gross charges. The cost of charity care is estimated at \$1,078,000 and \$869,000 for the years ended December 31, 2012 and 2011, 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.

(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 \$25,339,000 and \$24,898,000 as of December 31, 2012 and 2011, 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 services purchased in the consolidated statements of operations and changes in net assets. The Group recorded advertising expense of \$1,736,000 and \$4,896,000 for the years ended December 31, 2012 and 2011, 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).

The Group is obligated under capital leases covering certain equipment that expire at various dates during the next four years. Amortization of assets held under capital leases is included with depreciation.

(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

**GROUP HEALTH COOPERATIVE
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

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

Changes in unrestricted net assets result from the excess (deficit) of revenues over expenses and the changes in net unrealized investment gains (losses) as well as pension and other post retirement plan changes. 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, 2012 and 2011 (in thousands):

	2012	2011
Health care services	\$ 3,734	2,775
Health education	1,115	694
Health care research and development	640	627
Time restricted	79	77
Total temporarily restricted net assets	\$ 5,568	4,173

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, 2012 and 2011 are contributions restricted by the donor to be invested in perpetuity.

**GROUP HEALTH COOPERATIVE
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

The change in temporarily restricted net assets is comprised of \$1,563,000 and \$1,469,000 of contributions, \$(1,582,000) and \$(1,783,000) of release from restrictions, and investment income (loss) of \$1,414,000 and \$(539,000), for the years ended December 31, 2012 and 2011, respectively.

(bb) Accounting Changes

In September 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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 was effective for the Group’s 2012 financial statements. The adoption of this standard required additional disclosures (see note 9) and did not 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 also requires additional disclosures on allowance and bad debt. This standard was effective for the Group’s 2012 consolidated financial statements. The adoption of this standard did not 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 (see note 8). This standard was effective for the Group’s 2012 consolidated financial statements. The adoption of this standard did not have a material impact on the Group’s consolidated financial statements.

(cc) New Accounting Pronouncements

In October 2012, the FASB issued ASU No. 2012-05, *Statement of Cash Flows (Topic 230): Not-for-Profit Entities: Classification of the Sale Proceeds of Donated Financial Assets in the Statement of Cash Flows*. ASU 2012-05 requires all cash receipts from the sale of donated financial assets to be classified as cash flows from investing activities with two exceptions related to donor limitations and restrictions. This standard will be effective for the Group’s 2013 consolidated financial statements. The adoption of this standard is not expected to have a material impact on the Group’s consolidated financial statements.

In October 2012, the FASB issued ASU No. 2012-04, *Technical Corrections and Improvements – An Amendment of the FASB Accounting Standards Codification*. The purpose of ASU 2012-04 is to update and clarify codification and correct unintended application of guidance. The amendments are not intended to have significant impact on current account practice. FASB specifically identified

**GROUP HEALTH COOPERATIVE
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

amendments to Topics 815 – *Derivatives and Hedging*, 962 – *Plan Accounting-Defined Contribution Pension Plans* and 965 – *Plan Accounting-Health and Welfare Benefit Plans*, which may result in changes to current practices. This standard will be effective for the Group's 2013 financial statements. The adoption of this standard is not expected to have a material impact on the Group's consolidated financial statements.

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 consolidated financial statements. 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. 2011-06, *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 consolidated financial statements. Management is evaluating the impact this standard will have on the Group's consolidated financial statements.

**GROUP HEALTH COOPERATIVE
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

(3) Marketable Securities

Marketable securities as of December 31, 2012 and 2011 consist of the following (in thousands):

	2012			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Debt:				
U.S. government securities	\$ 144,167	2,350	(151)	146,366
Municipals	46,020	2,015	(62)	47,973
International government	2,349	44	—	2,393
Corporate debt securities	315,802	9,562	(272)	325,092
Mortgage-backed securities	126,292	3,048	(240)	129,100
Asset-backed securities	12,405	100	(11)	12,494
Collateralized mortgage obligations	24,559	546	(33)	25,072
Domestic equity securities:				
Mutual funds:				
Large blend	78,784	6,416	(346)	84,854
Large value	12,173	1,111	(140)	13,144
Large growth	1,936	526	—	2,462
Medium growth	10,919	308	(224)	11,003
Small blend	8,001	288	(151)	8,138
Small value	12,650	748	(14)	13,384
Small growth	243	139	—	382
Intermediate term	2,363	124	(1)	2,486
Other	4,829	96	(469)	4,456
Common stock:				
Communications	1,281	27	(9)	1,299
Consumer	4,084	87	(103)	4,068
Energy	1,483	17	(14)	1,486
Financial	2,709	135	(12)	2,832
Industrial	1,421	59	(4)	1,476
Technology	2,334	13	(88)	2,259
Other	1,713	66	(18)	1,761
Foreign equity securities:				
Mutual funds:				
Large value	8,266	169	(35)	8,400
Other	9	—	—	9
Total	\$ 826,792	27,994	(2,397)	852,389

**GROUP HEALTH COOPERATIVE
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

	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	\$ <u>757,808</u>	<u>7,630</u>	<u>(12,862)</u>	<u>752,576</u>

**GROUP HEALTH COOPERATIVE
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

Contractual maturities of debt securities held as of December 31, 2012 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	\$ 3,196	70,635	66,594	5,941	146,366
Municipals	1,413	11,518	13,657	21,385	47,973
International government	—	2,285	108	—	2,393
Corporate debt securities	15,602	212,207	84,654	12,629	325,092
Mortgage-backed securities	—	212	5,682	123,206	129,100
Asset-backed securities	—	4,335	7,431	728	12,494
Collateralized mortgage obligations	—	2,512	4,838	17,722	25,072
Total	\$ 20,211	303,704	182,964	181,611	688,490

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

Unsettled trade receivables are \$8,000 and \$17,000 as of December 31, 2012 and 2011, respectively, and are a component of accounts receivable on the accompanying consolidated balance sheets. Unsettled trade payables are \$3,900,000 and \$160,020,000 as of December 31, 2012 and 2011, 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, 2012 and 2011 (in thousands):

	2012	2011
Interest	\$ 23,743	30,762
Realized gains on sale	6,792	49,722
Realized losses on sale	(306)	(3,836)
Dividends and capital gains	4,336	4,635
Amortization, accretion, and other	(6,408)	(7,477)
OTTI	(385)	—
Total investment income	\$ 27,772	73,806

The Group evaluates investment securities for OTTI losses based on qualitative and quantitative factors. The amount of OTTI losses on fixed income securities recognized was zero in 2012 and 2011, respectively. OTTI losses on equity investments recognized in income was \$385,000 and zero in 2012 and 2011, respectively.

**GROUP HEALTH COOPERATIVE
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

The following tables show the fair value and gross unrealized losses 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, 2012 and 2011 (in thousands):

2012	Less than 12 months		12 months or greater		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Debt:						
U.S. government securities	\$ 16,250	(151)	—	—	16,250	(151)
Municipals	6,838	(62)	—	—	6,838	(62)
Corporate debt securities	34,585	(205)	1,629	(67)	36,214	(272)
Mortgage-backed securities	16,373	(216)	744	(24)	17,117	(240)
Asset-backed securities	3,619	(11)	—	—	3,619	(11)
Collateralized mortgage obligations	2,502	(28)	489	(5)	2,991	(33)
Domestic equity securities:						
Mutual funds:						
Large blend	272	(2)	802	(344)	1,074	(346)
Large value	4	—	568	(140)	572	(140)
Medium growth	6,776	(224)	—	—	6,776	(224)
Small blend	3,849	(151)	—	—	3,849	(151)
Small value	349	(8)	56	(6)	405	(14)
Intermediate term	72	(1)	4	—	76	(1)
Other	243	(1)	1,750	(468)	1,993	(469)
Common Stock:						
Communications	941	(9)	—	—	941	(9)
Consumer	2,202	(103)	—	—	2,202	(103)
Energy	673	(14)	—	—	673	(14)
Financial	335	(12)	—	—	335	(12)
Industrial	336	(4)	—	—	336	(4)
Technology	1,805	(88)	—	—	1,805	(88)
Other	544	(18)	—	—	544	(18)
Foreign equity securities:						
Mutual funds:						
Large value	—	—	2,471	(35)	2,471	(35)
Total	\$ 98,568	(1,308)	8,513	(1,089)	107,081	(2,397)

**GROUP HEALTH COOPERATIVE
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

2011	Less than 12 months		12 months or greater		Total	
	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	\$ <u>305,263</u>	<u>(12,067)</u>	<u>2,760</u>	<u>(795)</u>	<u>308,023</u>	<u>(12,862)</u>

The unrealized losses in the Group's investments in 2012 were due primarily to changes in interest rates. 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 2012. 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.

**GROUP HEALTH COOPERATIVE
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

(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):

	<u>2012</u>	<u>2011</u>
Balances at January 1	\$ 254,058	231,667
Incurred related to:		
Current year	1,903,569	1,885,808
Prior years	<u>(12,269)</u>	<u>(6,065)</u>
Total incurred	<u>1,891,300</u>	<u>1,879,743</u>
Paid related to:		
Current year	1,672,050	1,641,238
Prior years	<u>233,109</u>	<u>216,114</u>
Total paid	<u>1,905,159</u>	<u>1,857,352</u>
Balances at December 31	<u>\$ 240,199</u>	<u>254,058</u>

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 from originally estimated.

(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. Management believes the Group's medical loss ratios were above the minimum target levels and no liability for rebates was recorded in 2012 and 2011.

(6) Borrowing Arrangements

GHC has 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 were zero and \$8,998,000 under the program at December 31, 2012 and 2011, respectively.

**GROUP HEALTH COOPERATIVE
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

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, 2012 and 2011.

Long-term debt at December 31, 2012 and 2011 consists of the following (in thousands):

	Years of maturity	2012	2011
Revenue bonds:			
Series 2001, 4.00% to 5-3/8%, plus bond premium of \$446 and \$616 in 2012 and 2011, respectively	2012 – 2019	\$ 40,422	45,182
Series 2006, 4-1/2% to 5.00%, plus bond premium of \$1,518 and \$1,602 in 2012 and 2011, respectively	2022 – 2036	99,482	99,567
Other		—	4
Subtotal		139,904	144,753
Less current portion		(5,045)	(4,850)
Total long-term debt		\$ 134,859	139,903

Future annual principal payments on long-term debt for each of the next five years and thereafter at December 31, 2012 are as follows (in thousands):

Years ending December 31:		
2013	\$	4,815
2014		5,075
2015		5,400
2016		5,690
2017		6,005
Thereafter		110,955
Subtotal		137,940
Add unamortized premium net		1,964
Total	\$	139,904

Interest paid during 2012 and 2011 was \$4,224,000 and \$4,991,000, respectively. Interest expense was \$1,083,000 and \$(2,032,000) during 2012 and 2011, respectively, and the amount of interest capitalized was \$440,000 and \$271,000 in 2012 and 2011, respectively. The effect of the interest rate swap decreased interest expense by \$5,738,000 and \$9,874,000 in 2012 and 2011, respectively.

**GROUP HEALTH COOPERATIVE
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

(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, 2012, Level 1 securities include primarily mutual funds, common stocks, and certain U.S. government bonds.
- 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, 2012, Level 2 securities include primarily U.S. government and international government bonds, municipal bonds, 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, which included unobservable inputs of discount factor, forward rate, and credit risk of counterparty and GHC. At December 31, 2012, 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, are 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

**GROUP HEALTH COOPERATIVE
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

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 \$138,133,000 and \$132,693,000 as of December 31, 2012 and 2011, respectively.

**GROUP HEALTH COOPERATIVE
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

(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, 2012 and 2011 (in thousands):

	Fair value	Fair value measurements at December 31, 2012 using		
		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	\$ 146,366	90,103	56,263	—
Municipals	47,973	—	47,973	—
International government	2,393	—	2,393	—
Corporate debt securities	325,092	—	325,092	—
Mortgage-backed securities	129,100	—	129,100	—
Asset-backed securities	12,494	—	12,494	—
Collateralized mortgage obligations	25,072	—	25,072	—
Domestic equity securities:				
Mutual funds:				
Large blend	84,854	84,854	—	—
Large value	13,144	13,144	—	—
Large growth	2,462	2,462	—	—
Medium growth	11,003	11,003	—	—
Small blend	8,138	8,138	—	—
Small value	13,384	13,384	—	—
Small growth	382	382	—	—
Intermediate term	2,486	2,486	—	—
Other	4,456	4,456	—	—
Common Stock:				
Communications	1,299	1,299	—	—
Consumer	4,068	4,068	—	—
Energy	1,486	1,486	—	—
Financial	2,832	2,832	—	—
Industrial	1,476	1,476	—	—
Technology	2,259	2,259	—	—
Other	1,761	1,761	—	—

**GROUP HEALTH COOPERATIVE
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

		Fair value measurements at December 31, 2012 using			
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
		Fair value			
Foreign equity securities:					
Mutual funds:					
Large value	\$	8,400	8,400	—	—
Other		9	—	—	9
Total available-for-sale securities		<u>\$ 852,389</u>	<u>253,993</u>	<u>598,387</u>	<u>9</u>
Funds held by trustee:					
Guaranteed investment contract	\$	8,848	—	—	8,848
Total funds held by trustee		<u>\$ 8,848</u>	<u>—</u>	<u>—</u>	<u>8,848</u>
Interest rate swap	\$	9,701	—	—	9,701

		Fair value measurements at December 31, 2011 using			
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
		Fair value			
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	—

**GROUP HEALTH COOPERATIVE
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

	Fair value	Fair value measurements at December 31, 2011 using		
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
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

**GROUP HEALTH COOPERATIVE
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

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, 2011	\$ 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
Total unrealized gains included in changes in net assets	—	—	2,791	2,791
Ending balance at December 31, 2012	\$ 9	8,848	9,701	18,558

There were no transfers between assets with inputs with quoted prices in active markets for identical assets (Level 1) and assets with inputs with other observable inputs (Level 2) during the years ended December 31, 2012 and 2011.

(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 \$36,748,000 and \$22,848,000 in 2012 and 2011, respectively, and the total expense for the other plans was \$29,531,000 and \$25,278,000 in 2012 and 2011, 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.

**GROUP HEALTH COOPERATIVE
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

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, 2012 and 2011, net periodic pension expense related to the Group's participation in the Plans for 2012 and 2011 included the following components (in thousands):

	<u>2012</u>	<u>2011</u>
Service cost	\$ 24,778	21,977
Interest cost on projected benefits	31,522	28,860
Expected return on plan assets	(41,591)	(39,922)
Amortization of net loss	22,039	11,933
Net periodic benefit cost	<u>\$ 36,748</u>	<u>22,848</u>
Discount rate (preretirement)	4.80% – 5.05%	5.40% – 6.00%
Discount rate (postretirement)	4.75 – 4.80	5.60 – 6.00
Rate of increase in compensation levels	4.00	4.00
Expected return on plan assets	6.50 – 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, 2012 and 2011 are shown in the following table (in thousands):

	<u>2012</u>	<u>2011</u>
Change in projected benefit obligation:		
Projected benefit obligation – beginning of year	\$ 640,952	554,528
Service cost	24,778	21,977
Interest cost	31,522	28,860
Employee after tax account	(6,032)	—
Actuarial loss	95,542	53,960
Employee contributions	—	2,057
Benefits paid	(27,940)	(20,430)
Projected benefit obligation – end of year	<u>758,822</u>	<u>640,952</u>
Change in plan assets:		
Fair value of plan assets – beginning of year	478,732	481,877
Actual return on plan assets	54,701	(5,972)
Employee after tax account	(6,032)	—
Employer contributions	40,000	21,200
Employee contributions	—	2,057
Benefits paid	(27,940)	(20,430)
Fair value of plan assets – end of year	<u>539,461</u>	<u>478,732</u>
Funded status	<u>\$ (219,361)</u>	<u>(162,220)</u>

**GROUP HEALTH COOPERATIVE
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

	2012	2011
Amounts recognized in unrestricted net assets consist of:		
Net actuarial loss	\$ 282,591	222,199
Accumulated benefit obligation – end of year	709,700	601,120
Discount rate (preretirement)	4.15% – 4.20%	4.80% – 5.05%
Discount rate (postretirement)	4.10 – 4.20	4.75 – 4.80
Rate of increase in compensation levels	4.00	4.00

The funded status is recorded as a component of noncurrent liabilities as of December 31, 2012 and 2011 in the consolidated balance sheets.

Expected amounts to be recognized as components of 2013 net periodic pension cost are as follows (in thousands):

Service cost	\$	29,890
Interest cost on projected benefits		30,642
Expected return on plan assets		(45,357)
Amortization of net loss		27,298
Net periodic pension cost	\$	42,473

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, 2012 are as follows (in thousands):

Years ending December 31:		
2013	\$	41,555
2014		43,980
2015		46,703
2016		48,677
2017		50,432
2018 – 2022		263,993
Total	\$	495,340

The Group participates in a multiemployer defined benefit pension plan under the terms of collective-bargaining agreements that cover its union-represented employees. The risk of participating in this multiemployer plan is different from single-employer plans in the following aspects:

- a. Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of participating employers.

**GROUP HEALTH COOPERATIVE
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

- b. If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.
- c. If the Group chooses to stop participating in its multi-employer plan, the Group may be required to pay these plans an amount based on the underfunded status of the plan referred to as a withdrawal of money.

The Group participates in the Retail Clerks Pension Plan (Federal Identification Number 91-6069306), which includes Pharmacy and Optical employees under the United Food and Commercial Workers (UWFC) union. The collective bargaining agreement with Pharmacy employees expires June 30, 2013 and the Optical employees April 30, 2013. The most recent Pension Protection Act (PPA) zone status available is for the plan's year end of September 30, 2011. The zone status has been designated as red status. The zone status is based on information that the Group received from the plan and is certified by the plan's actuary. Among other factors, plans in the red zone are generally less than 65% funded, plans in the yellow zone are at least 80% funded, and plans in the green zone are 80% funded. The Plan has a financial improvement plan (FIP) or rehabilitation plan that is pending or has been implemented. The contributions to the plan were \$1,132,000 and \$1,157,000 for the years ended December 31, 2012 and 2011, respectively. The Group's contributions represent less than five percent of total contributions to the plan.

(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, 2012 and 2011, the following table summarizes the target allocation range defined in the investment policies compared to the actual allocations of the Group's plan assets:

	2012		2011	
	Target allocation	Actual allocation	Target allocation	Actual allocation
Equity securities	33% – 57%	46%	33% – 57%	43%
Debt securities	18 – 60	49	18 – 60	52
Cash equivalents	0 – 5	—	0 – 5	—
Other investments	0 – 10	5	0 – 10	5

**GROUP HEALTH COOPERATIVE
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

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 indices. The rates of return on these indices 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 2013 of \$22,000,000.

(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, 2012, 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, 2012, Level 2 securities include primarily commingled trusts, a limited partnership 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, 2012, Level 3 securities include limited partnerships and private equities.

**GROUP HEALTH COOPERATIVE
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

The table below presents the balances of plan assets measured at fair value on a recurring basis as of December 31, 2012 and 2011 (in thousands):

	Fair value	Fair value measurements at December 31, 2012 using		
		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	\$ 8,993	8,993	—	—
Commingled trusts	187,303	—	187,303	—
Common stocks	129,308	129,308	—	—
Limited partnership	104,150	—	74,420	29,730
Private equity	6,949	—	—	6,949
Trust index fund	11,130	—	11,130	—
Mutual funds:				
Domestic equities:				
Large blend	6,138	6,138	—	—
Long-term bond	12,850	12,850	—	—
Intermediate-term bond	69,989	69,989	—	—
Foreign equities:				
Large blend	2,651	2,651	—	—
Total plan assets	\$ 539,461	229,929	272,853	36,679

**GROUP HEALTH COOPERATIVE
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

		Fair value measurements at December 31, 2011 using		
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
		Fair value		
Plan assets:				
Cash and cash equivalents	\$	4,552	4,552	—
Commingled trusts		157,162	—	157,162
Common stocks		161,056	161,056	—
Limited partnership		47,306	—	20,712
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	\$	<u>478,732</u>	<u>260,108</u>	<u>190,197</u>
				<u>28,427</u>

**GROUP HEALTH COOPERATIVE
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

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)		
	Limited partnership	Private equity	Total
Beginning balance at January 1, 2011	\$ 20,687	—	20,687
Purchases, sales, and settlements	4,500	1,845	6,345
Level transfers	—	—	—
Total gains (realized/unrealized)	1,407	(12)	1,395
Ending balance at December 31, 2011	26,594	1,833	28,427
Purchases, sales, and settlements	—	4,891	4,891
Level transfers	—	—	—
Total gains (realized/unrealized)	3,136	225	3,361
Ending balance at December 31, 2012	\$ 29,730	6,949	36,679
Net unrealized gains (losses) relating to assets held at December 31, 2011	\$ 1,407	(11)	1,396
Net unrealized gains (losses) relating to assets held at December 31, 2012	\$ 3,136	225	3,361

There were no transfers between assets with inputs with quoted prices in active markets for identical assets (Level 1) and assets with inputs with other observable inputs (Level 2) during the years ended December 31, 2012 and 2011.

(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)	\$ 187,303	Daily, Semi-monthly, Monthly	1 – 15 days
Limited partnership (b)	104,150	Monthly, Quarterly	15 days
Private equity (c)	6,949	—	—
Trust index fund (d)	11,130	Monthly	10 days
Total	\$ 309,532		

**GROUP HEALTH COOPERATIVE
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

- a. This category is comprised of six 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) A global index fund that invests in equities in energy, materials and agriculture industries. 5) 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. 6) 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 three fund strategies: 1) An index fund that invests in Russell 3000 equities that meet a defined criteria related to quality, stability and income. 2) An actively managed fund that invests in noninvestment grade bonds employing a long-term strategy focused on income and capital appreciation. 3) An actively managed fund that invests in noninvestment grade bonds with average maturities of 1 to 3 years.
- c. 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
- d. This category is comprised of an index fund that invests in commodity futures.

At December 31, 2012 and 2011, the Plans have outstanding funding commitments totaling \$25,421,000 and \$17,825,000, respectively.

(10) Retiree Medical Plan

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, 2012 and 2011, net periodic postretirement benefit cost is comprised of interest costs on accumulated benefit obligation of \$2,326,000 and \$2,098,000, respectively.

Amounts recognized in unrestricted net assets consisted of net actuarial losses of \$10,551,000 and \$2,688,000 at December 31, 2012 and 2011, respectively.

**GROUP HEALTH COOPERATIVE
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

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, 2012 and 2011, and comprises the following components (in thousands):

	2012	2011
Change in accumulated postretirement benefit obligation:		
Accumulated postretirement benefit obligation – beginning of year	\$ 44,411	46,266
Interest cost	2,192	2,098
Plan amendments/curtailment	—	(355)
Actuarial loss	7,997	697
Benefits paid	(4,584)	(4,295)
Accumulated postretirement benefit obligation – end of year	\$ 50,016	44,411
Change in plan assets:		
Employer contributions	\$ 4,584	4,295
Benefits paid	(4,584)	(4,295)

Future benefit costs were estimated assuming medical costs would increase at a 7.30% annual rate. A 1.00% increase in this annual trend rate would have increased the APBO at December 31, 2012, by \$3,701,000 and the sum of service cost and interest cost for 2012 by \$171,000. A 1.00% decrease in this annual trend rate would have decreased the APBO at December 31, 2012 by \$3,301,000 and the sum of service cost and interest cost for 2012 by \$152,000.

The weighted average discount rate used in determining the APBO was 4.75% in 2012 and 4.70% in 2011. 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 3.50% in 2012 and 4.75% in 2011, and is based on beginning of year assumptions.

Expected amounts to be recognized as components of 2013 net periodic postretirement benefit cost are interest cost on projected benefits of \$1,743,000 and amortization of net loss of \$396,000.

**GROUP HEALTH COOPERATIVE
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

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, 2012, are as follows (in thousands):

Years ending December 31:		
2013	\$	4,506
2014		4,449
2015		4,356
2016		4,235
2017		4,102
2018 – 2022		18,237
Total	\$	39,885

Health Care Reform is not expected to have a material impact on the retiree medical plan.

(11) Commitments and Contingencies

(a) Leases

The Group is obligated under capital leases covering certain equipment that expires at various dates during the next four years. At December 31, 2012 and 2011, the gross amount of equipment and related accumulated amortization recorded under capital leases were as follows (in thousands):

		2012	2011
Equipment	\$	5,056	71
Less accumulated amortization		(254)	(40)
Net equipment under capital lease	\$	4,802	31

**GROUP HEALTH COOPERATIVE
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

The Group has various operating leases for land, buildings, and equipment. Total rent expense was \$22,981,000 and \$21,180,000 on these leases in 2012 and 2011, respectively. Total sublease rental revenue was \$3,648,000 and \$3,806,000 in 2012 and 2011, respectively, and is recorded as a component of other revenue. Future minimum rental payments, future minimum sublease rental receipts under noncancelable operating lease and sublease agreements, and future minimum capital lease payments as of December 31, 2012 are as follows (in thousands):

	<u>Operating lease rental payments</u>	<u>Operating sublease rental receipts</u>	<u>Capital lease payments</u>
Years ending December 31:			
2013	\$ 25,649	2,697	1,479
2014	24,853	1,274	1,465
2015	23,215	949	1,463
2016	19,874	805	1,463
2017	14,926	603	—
Thereafter	28,007	—	—
Total	<u>\$ 136,524</u>	<u>6,328</u>	5,870
Less amount representing interest (at rates ranging from 7.25% to 7.43%)			<u>(865)</u>
Present value of net minimum capital lease payments			5,005
Less current installments of obligations under capital leases			<u>(1,080)</u>
Obligations under capital leases, excluding current installments		\$	<u><u>3,925</u></u>

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 \$10,453,000 and \$13,370,000 as of December 31, 2012 and 2011, respectively.

(b) Labor

Approximately 59% of GHC's employees are covered under collective bargaining agreements. These employees provide nursing and other technical services to GHC. Approximately 12.5% 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

**GROUP HEALTH COOPERATIVE
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

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.

In February 2013, the Group received a subpoena from the United States Attorney's Office, Western District of New York, requesting information related to the Group's Medicare Advantage Risk Adjustment submissions made for payment years 2008 through 2012. The Group is in the process of responding to the request for information. No amounts have been accrued in the accompanying 2012 consolidated financial statements related to this matter as the investigation is in an early stage and it is not possible to estimate the possible loss or range of loss, if any.

(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 \$3,361,000 and \$3,052,000 as of December 31, 2012 and 2011, 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. In January 2013, Westlake Terry LLC sold the two adjacent buildings and the loan obligation was satisfied in full.

**GROUP HEALTH COOPERATIVE
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

(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, 2012 and 2011 are summarized as follows (in thousands):

	<u>2012</u>	<u>2011</u>
Federal income tax (benefit) expense on operations	\$ (8,359)	5,684
Federal income tax benefit included in the change in unrestricted net assets	<u>(340)</u>	<u>(963)</u>
Federal income tax (benefit) expense	<u>\$ (8,699)</u>	<u>4,721</u>

Federal income tax (benefit) 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):

	<u>2012</u>	<u>2011</u>
Deferred tax asset	\$ 7,557	9,526
Deferred tax liability	(2,503)	(2,031)
Valuation allowance	<u>—</u>	<u>(5,915)</u>
Net deferred tax asset	<u>\$ 5,054</u>	<u>1,580</u>

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.

In 2012, the valuation allowance on KPS prior year net operating losses was released as a result of the positive change in KPS operating performance. Management believes it is more likely than not that the entire amount of the net operating losses will be realized. This valuation allowance release is a significant item between expected and actual tax expense.

At December 31, 2012, the Group has net operating loss carryforwards for federal income tax purposes of \$10,442,000, which expire between 2019 and 2031.

**GROUP HEALTH COOPERATIVE
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

(13) Endowments

Endowment funds held at the Foundation consist of approximately 40 individual funds established for a variety of purposes and all are donor-restricted. The change in net assets associated with the endowment funds is classified and reported based on the existence or absence of donor-imposed restrictions. Donor-restricted endowment assets were \$11,355,000 and \$10,117,000 at December 31, 2012 and 2011, 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.

**GROUP HEALTH COOPERATIVE
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

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 31, 2012 and 2011 was \$555,751,000 and \$611,054,000, respectively. These balances exceed the minimum regulatory requirements at December 31, 2012 and 2011 by approximately \$518,340,000 and \$574,848,000, 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 statements 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.

In August 2012, based on post-acquisition services, GHC forgave debt of \$884,000 and made a consideration payment of \$747,000.

(16) Patient Protection and Affordable Care Act

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.

Health Care Reform requires public health exchanges be available in every state by January 1, 2014. Group Health Cooperative plans to offer individual products in the Washington State Health Benefit Exchange (WSHBE) in 2014. Group Health Cooperative and Group Health Options will also plan to offer products in the outside, non-Exchange market for both individuals and small groups. The impact to the Group as a result of the WHBE is not yet known. To deal with the potentially high-cost enrollees who will enter the

**GROUP HEALTH COOPERATIVE
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

market, Health Care Reform created a temporary reinsurance program for the individual market that will be in operation from 2014 to 2016. Health insurers are required to contribute to this program beginning in 2014, for which the Group is currently evaluating the financial impact.

Beginning in 2014, Health Care Reform imposes an annual fee on the health insurance sector of \$8 billion and growing to \$14.3 billion in 2018 that will be allocated to health insurers based on the written premium. The impact of this fee is being evaluated by the Group.

(17) 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 24, 2013, the date these consolidated financial statements were issued.

This page intentionally left blank

SUPPLEMENTAL INFORMATION

**GROUP HEALTH COOPERATIVE
AND SUBSIDIARIES**

Supplemental Consolidating Balance Sheet

December 31, 2012

(In thousands)

Assets	GHC & Auxiliary Consolidated	GHO	Foundation	KPS	CMA	Eliminations	Total
Current assets:							
Cash and cash equivalents	\$ 60,571	2,601	471	7,070	559	—	71,272
Short-term marketable securities	12,971	5,732	—	1,508	—	—	20,211
Accounts receivable – net	96,974	13,635	13	25,248	1,235	(2,080)	135,025
Receivable from affiliate	3,611	13,491	146	—	—	(17,248)	—
Inventories	17,957	—	—	—	—	—	17,957
Other	22,794	8,435	—	707	565	—	32,501
Total current assets	<u>214,878</u>	<u>43,894</u>	<u>630</u>	<u>34,533</u>	<u>2,359</u>	<u>(19,328)</u>	<u>276,966</u>
Long-term marketable securities	622,005	175,554	18,335	16,284	—	—	832,178
Funds held by trustee	8,848	—	—	—	—	—	8,848
Land, buildings, and equipment:							
Land	23,062	—	—	—	—	213	23,275
Buildings and improvements	548,412	—	—	—	1,481	7,495	557,388
Equipment	464,968	—	—	4,952	1,573	55	471,548
Construction in progress	21,995	—	—	—	—	—	21,995
Total land, buildings and equipment	<u>1,058,437</u>	<u>—</u>	<u>—</u>	<u>4,952</u>	<u>3,054</u>	<u>7,763</u>	<u>1,074,206</u>
Less accumulated depreciation	<u>(642,363)</u>	<u>—</u>	<u>—</u>	<u>(4,915)</u>	<u>(663)</u>	<u>(7,412)</u>	<u>(655,353)</u>
Land, buildings, and equipment-net	<u>416,074</u>	<u>—</u>	<u>—</u>	<u>37</u>	<u>2,391</u>	<u>351</u>	<u>418,853</u>
Other assets	205,176	2,985	2,511	8,358	1,076	(159,555)	60,551
Total	<u>\$ 1,466,981</u>	<u>222,433</u>	<u>21,476</u>	<u>59,212</u>	<u>5,826</u>	<u>(178,532)</u>	<u>1,597,396</u>

**GROUP HEALTH COOPERATIVE
AND SUBSIDIARIES**

Supplemental Consolidating Balance Sheet

December 31, 2012

(In thousands)

Liabilities and Net Assets	GHC & Auxiliary Consolidated	GHO	Foundation	KPS	CMA	Eliminations	Total
Current liabilities:							
Accounts payable	\$ 83,741	4,350	188	11,113	1,499	—	100,891
External delivery services payable	139,420	84,865	—	19,867	—	(3,953)	240,199
Unearned premiums and deposits	19,666	12,902	—	1,333	—	—	33,901
Accrued employee compensation	67,630	127	—	945	382	—	69,084
Accrued taxes and interest	5,447	3,770	—	150	37	—	9,404
Current portion of long-term debt	5,045	—	—	—	—	—	5,045
Current portion of reserve for self-insurance	20,111	—	—	—	—	—	20,111
Current portion of retiree medical benefits	4,506	—	—	—	—	—	4,506
Liability to affiliate	13,629	—	1,312	295	68	(15,304)	—
Total current liabilities	<u>359,195</u>	<u>106,014</u>	<u>1,500</u>	<u>33,703</u>	<u>1,986</u>	<u>(19,257)</u>	<u>483,141</u>
Noncurrent liabilities:							
Long-term debt	134,859	—	—	—	—	—	134,859
Self-insurance	49,436	—	—	—	—	—	49,436
Retiree medical benefits	45,510	—	—	—	—	—	45,510
Pension	214,635	—	—	4,726	—	—	219,361
Other	31,724	—	1,273	541	—	(71)	33,467
Total noncurrent liabilities	<u>476,164</u>	<u>—</u>	<u>1,273</u>	<u>5,267</u>	<u>—</u>	<u>(71)</u>	<u>482,633</u>
Total liabilities	<u>835,359</u>	<u>106,014</u>	<u>2,773</u>	<u>38,970</u>	<u>1,986</u>	<u>(19,328)</u>	<u>965,774</u>
Commitments and contingencies (note 11)							
Net assets:							
Unrestricted	617,868	116,419	4,949	20,242	3,840	(145,420)	617,898
Temporarily restricted	5,568	—	5,568	—	—	(5,568)	5,568
Permanently restricted	8,186	—	8,186	—	—	(8,216)	8,156
Total net assets	<u>631,622</u>	<u>116,419</u>	<u>18,703</u>	<u>20,242</u>	<u>3,840</u>	<u>(159,204)</u>	<u>631,622</u>
Total	<u>\$ 1,466,981</u>	<u>222,433</u>	<u>21,476</u>	<u>59,212</u>	<u>5,826</u>	<u>(178,532)</u>	<u>1,597,396</u>

See accompanying independent auditors' report.

**GROUP HEALTH COOPERATIVE
AND SUBSIDIARIES**

Supplemental Consolidating Statement of Operations and Changes in Net Assets

Period ended December 31, 2012

(In thousands)

	GHC & Auxiliary Consolidated	GHO	Foundation	KPS	CMA	Eliminations	Total
Revenues:							
Premium revenue	\$ 2,152,574	1,010,874	—	115,958	—	(10,143)	3,269,263
Clinical services, net	252,588	—	—	—	18,478	(16,103)	254,963
Other	386,156	8,348	5,503	8,777	1,178	(305,032)	104,930
Total operating revenues	<u>2,791,318</u>	<u>1,019,222</u>	<u>5,503</u>	<u>124,735</u>	<u>19,656</u>	<u>(331,278)</u>	<u>3,629,156</u>
Expenses:							
External delivery services	1,120,030	881,187	—	109,161	—	(219,078)	1,891,300
Employee compensation	674,440	850	57	5,438	9,806	(12,378)	678,213
Group health permanent expense	360,368	—	—	—	6,769	—	367,137
Medical and operating supplies	289,586	48	94	32	1,172	(22)	290,910
Other expenses	185,960	52,547	4,720	(1,359)	3,954	(3,141)	242,681
Services purchased	137,558	94,831	890	4,496	864	(96,694)	141,945
Depreciation and amortization	56,064	—	—	109	1,340	—	57,513
Total operating expenses	<u>2,824,006</u>	<u>1,029,463</u>	<u>5,761</u>	<u>117,877</u>	<u>23,905</u>	<u>(331,313)</u>	<u>3,669,699</u>
Operating loss	<u>(32,688)</u>	<u>(10,241)</u>	<u>(258)</u>	<u>6,858</u>	<u>(4,249)</u>	<u>35</u>	<u>(40,543)</u>
Nonoperating income (expense):							
Investment income (loss)	20,031	4,884	944	429	—	1,484	27,772
Interest expense	(1,197)	73	—	41	—	—	(1,083)
Total other income (expense)	<u>18,834</u>	<u>4,957</u>	<u>944</u>	<u>470</u>	<u>—</u>	<u>1,484</u>	<u>26,689</u>
(Deficit) excess of revenues over expenses	<u>\$ (13,854)</u>	<u>(5,284)</u>	<u>686</u>	<u>7,328</u>	<u>(4,249)</u>	<u>1,519</u>	<u>(13,854)</u>

**GROUP HEALTH COOPERATIVE
AND SUBSIDIARIES**

Supplemental Consolidating Statement of Operations and Changes in Net Assets

Period ended December 31, 2012

(In thousands)

	GHC & Auxiliary Consolidated	GHO	Foundation	KPS	CMA	Eliminations	Total
(Deficit) excess of revenues over expenses	\$ (13,854)	(5,284)	686	7,328	(4,249)	1,519	(13,854)
Change in net unrealized investment gains and losses	28,177	1,608	—	(5)	—	(1,603)	28,177
Change in defined benefit pension and other post retirement plans	(67,770)	—	—	(942)	—	942	(67,770)
Capital contributions	—	(3,195)	—	3,195	4,450	(4,450)	—
Other	(121)	—	—	—	—	—	(121)
Change in unrestricted net assets	(53,568)	(6,871)	686	9,576	201	(3,592)	(53,568)
Change in temporarily restricted net assets	1,395	—	1,395	—	—	(1,395)	1,395
Change in permanently restricted net assets	79	—	79	—	—	(79)	79
Change in net assets	(52,094)	(6,871)	2,160	9,576	201	(5,066)	(52,094)
Net assets:							
Beginning of year	683,716	123,290	16,543	10,666	3,639	(154,138)	683,716
End of period	\$ 631,622	116,419	18,703	20,242	3,840	(159,204)	631,622

See accompanying independent auditors' report.