GROUP HEALTH COOPERATIVE AND SUBSIDIARIES

Consolidated Financial Statements and Supplemental Information

December 31, 2015 and 2014

(With Independent Auditors' Report Thereon)

GROUP HEALTH COOPERATIVE AND SUBSIDIARIES

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KPMG LLP
Suite 2900
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Seattle, WA 98101

Independent Auditors' Report

The Board of Trustees
Group Health Cooperative and Subsidiaries:

Report on the Financial Statements

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, 2015 and 2014, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated 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, 2015 and 2014 and the results of their operations, and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplemental consolidating balance sheet information and supplemental consolidating statement of operations and changes in net assets information included on pages 50 through 52 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations of the individual companies, and are 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
March 30, 2016

GROUP HEALTH COOPERATIVE
AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2015 and 2014

(In thousands)

Assets		**2015**	**2014**
Current assets:			
Cash and cash equivalents	$	183,325	157,254
Short-term marketable securities		23,094	26,904
Accounts receivable - net		147,752	150,547
Inventories		18,072	16,764
Other		24,690	43,854
Total current assets		396,933	395,323
Long-term marketable securities		1,065,977	1,032,424
Long-term investments - other		69,055	58,365
Restricted assets		32,522	38,440
Land, buildings and equipment:			
Land		30,835	31,048
Buildings		603,169	597,368
Equipment		411,772	403,083
Construction in progress		31,656	33,139
Total land, buildings, and equipment		1,077,432	1,064,638
Less accumulated depreciation		(680,800)	(646,780)
Land, buildings, and equipment - net		396,632	417,858
Other assets		58,186	60,946
Total	$	2,019,305	2,003,356

(Continued)

GROUP HEALTH COOPERATIVE
AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2015 and 2014

(In thousands)

Liabilities and Net Assets		**2015**	**2014**
Current liabilities:			
Accounts payable	$	115,662	144,183
External delivery services payable		253,605	228,920
Unearned premiums and deposits		81,546	75,254
Accrued employee compensation		61,169	86,359
Accrued taxes and interest		41,482	48,775
Current portion of long-term debt		6,003	6,003
Current portion of reserve for self-insurance		16,945	18,622
Current portion of retiree medical benefits		4,369	4,475
Total current liabilities		580,781	612,591
Noncurrent liabilities:			
Long-term debt		116,898	122,901
Self-insurance		40,646	48,357
Retiree medical benefits		40,544	47,400
Pension		185,622	190,643
Other		16,089	22,371
Total noncurrent liabilities		399,799	431,672
Total liabilities		980,580	1,044,263
Commitments and contingencies (note 11)			
Net assets:			
Unrestricted		1,022,898	942,437
Temporarily restricted		6,218	7,208
Permanently restricted		9,609	9,448
Total net assets		1,038,725	959,093
Total	$	2,019,305	2,003,356

See accompanying notes to consolidated financial statements.

GROUP HEALTH COOPERATIVE
AND SUBSIDIARIES

Consolidated Statements of Operations and Changes in Net Assets

Period ended December 31, 2015 and 2014

(In thousands)

		2015	2014
Revenues:			
Premiums	$	3,222,452	3,236,544
Clinical services - net		325,431	326,843
Other		109,720	120,752
Total operating revenues		3,657,603	3,684,139
Expenses:			
External delivery services		1,846,401	1,829,984
Employee compensation		572,841	608,490
Group Health Physicians expense		352,194	380,090
Medical and operating supplies		358,573	315,453
Other expenses		169,437	176,018
Services purchased		119,733	115,965
Business taxes and insurance		107,011	121,742
Depreciation and amortization		56,737	56,222
Total operating expenses		3,582,927	3,603,964
Operating income		74,676	80,175
Nonoperating income (expense):			
Investment income - net		42,579	41,894
Interest expense		(3,506)	(1,228)
Total nonoperating income		39,073	40,666
Excess of revenues over expenses		113,749	120,841
Change in net unrealized investment gains and losses		(29,189)	15,224
Change in defined benefit pension and other postretirement plans		(3,982)	(147,253)
Other		(117)	(140)
Change in unrestricted net assets		80,461	(11,328)
Change in temporarily restricted net assets		(990)	(141)
Change in permanently restricted net assets		161	180
Change in net assets		79,632	(11,289)
Net assets:			
Beginning of year		959,093	970,382
End of period	$	1,038,725	959,093

See accompanying notes to consolidated financial statements.

GROUP HEALTH COOPERATIVE
AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Period ended December 31, 2015 and 2014

(In thousands)

		2015	2014
Cash flows from operating activities:			
Change in net assets	$	79,632	(11,289)
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Depreciation and amortization		56,737	56,222
Provision for self-insurance		11,770	11,391
Realized and change in unrealized investments losses and (gains), net		20,064	(21,502)
Change in fair value of interest rate swap		(1,069)	2,954
Gain on sale of land, buildings, and equipment		(790)	(15,374)
Income on equity method investees		(3,939)	(5,373)
Other		3,141	(1,227)
Cash provided by operating assets and liabilities:			
Accounts receivable - net		2,793	(30,333)
Inventories		(1,308)	(3,941)
Other current and noncurrent assets		(3,635)	6,007
Accounts payable		(21,354)	37,607
External delivery services payable		24,685	4,909
Accrued employee compensation		(25,190)	1,967
Self-insurance		(21,158)	(18,150)
Accrued taxes and interest		(7,293)	32,067
Unearned premiums and deposits		9,209	23,827
Pension		(5,021)	112,554
Retiree medical benefits		(6,962)	5,874
Other noncurrent liabilities		(6,367)	(20,915)
Net cash provided by operating activities		103,945	167,275
Cash flows from investing activities:			
Payments for land, buildings, and equipment		(39,294)	(29,843)
Proceeds from disposal of land, buildings, and equipment		1,120	13
Proceeds from sale of marketable securities		408,471	344,532
Purchases of marketable securities		(464,003)	(487,068)
Distribution from equity investments		1,476	4,828
Purchases of equity investments		(8,227)	(1,801)
Restricted assets		5,918	(29,592)
Collateralized security		22,700	(22,700)
Net cash used in investing activities		(71,839)	(221,631)
Cash flows from financing activities:			
Repayment of long-term debt		(5,918)	(30,578)
Long-term borrowings		—	30,085
Other		(117)	(141)
Net cash used in financing activities		(6,035)	(634)
Net increase (decrease) in cash and cash equivalents		26,071	(54,990)
Cash and cash equivalents:			
Beginning of year		157,254	212,244
End of period	$	183,325	157,254
Supplemental disclosure of cash flow information:			
Cash paid during the year for:			
Interest		2,009	3,711
Income taxes		13,397	6,388

See accompanying notes to consolidated financial statements.

(1) Organization

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

In 2015, a formal plan of reorganization was entered into by GHC, GHO, and KPS. The plan of reorganization set forth that GHC was to contribute its sole membership interest in KPS to GHO with a subsequent voluntary wind up of KPS, effective December 31, 2015. GHC contributed its sole membership interest in KPS to GHO on December 1, 2015. Assets and liabilities of KPS were transferred to GHO as of December 31, 2015. KPS's Certificate of Registration as a health care service contractor was surrendered by KPS and cancelled by the Washington State Office of the Insurance Commissioner effective December 31, 2015.

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 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 service contractor headquartered in Seattle, Washington. GHO provides health care coverage products that feature increased customer choice, including point of service and preferred provider organization plan benefits. It is also registered in Idaho as a Disability, Including Managed Care Carrier, operating in two counties.

KPS is a Washington taxable nonprofit corporation that was registered as and operating as a health care service contractor headquartered in Bremerton, Washington. KPS provided 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.

(2) Summary of Significant Accounting Policies

(a) Principles of Consolidation

The consolidated financial statements include those of GHC, its wholly owned subsidiary, 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 of financial instruments, 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 U.S. Treasury bills.

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.

(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 the change in net assets for GHC and GHO. The Foundation records the change in unrealized gains and losses in investment income. 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 is included in investment income. Realized gains or losses on sale are calculated using the first-in, first-out (FIFO) method and are recorded in investment income. The Group’s investment transactions are recorded on a trade-date basis.

(e) Repurchase Agreements

Repurchase agreements are used to obtain short-term use of funds. Under the terms of a repurchase agreement, the transferor (borrower) transfers a security to a transferee (lender) in exchange for cash and concurrently agrees to reacquire the security at a future date. If the transferor does not surrender control of the underlying security, the transaction is accounted for as a secured borrowing and reported as a receivable by the transferee. When the transferor does surrender control, the transaction is accounted for as a sale.

The Group enters into tri-party repurchase agreements where it lends cash and receives highly liquid, high quality securities, such as U.S. Treasuries, and are accounted for as secured borrowings. The Group requires a minimum of 102% of the fair value of securities purchased under repurchase agreements to be maintained as collateral and has accepted collateral that is permitted by contract or custom to sell or repledge. The fair value of the collateral held was zero and $23,197,000 as of December 31, 2015 and 2014, respectively, of which none has been sold or repledged. The carrying amount of the repurchase agreements held as of December 31, 2015 and 2014 was zero and $22,700,000, respectively, with remaining maturity of less than 30 days and is a component of current other assets.

(f) 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 consolidated 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.

(g) Accounts Receivable

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

(h) 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 was $2,403,000 and $3,086,000 at December 31, 2015 and 2014, respectively.

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 $15,120,000 and $7,136,000 as of December 31, 2015 and 2014, respectively.

(i) Inventories

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

(j) Long-Term Investments – Other

Long-term investments – other consists of equity and cost method investments.

(k) Fair Value Measurement for Alternative Investments

The Group may elect to measure the fair value of alternative instruments using the net asset value (NAV) or its equivalent as a practical expedient if there is no readily determinable fair value. No further adjustment is made unless it is probable that the investment fund will be sold at a value significantly less than NAV. The election will occur at inception and on an instrument-by-instrument basis.

(l) Restricted Assets

Restricted assets are assets restricted as to use pursuant to terms and conditions of the revenue bonds and bank loan agreement (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, 2015 and 2014.

The bank loan is secured by cash collateral maintained at all times in an amount not less than the outstanding principal balance of the loan. The amount of the cash collateral account is $23,674,000 and $29,592,000 as of December 31, 2015 and 2014, respectively.

(m) Charitable Gift Annuities

As of December 31, 2015 and 2014, the Foundation had a charitable gift annuities liability of $1,211,000 and $1,206,000, 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 $1,751,000 and $1,804,000 as of December 31, 2015 and 2014, respectively, and are recorded as a component of noncurrent other assets in the accompanying consolidated balance sheets.

(n) Land, Buildings, and Equipment

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.

Land, buildings, 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.

(o) Construction in Progress (CIP)

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 during construction and is depreciated or amortized over the useful lives of the assets.

(p) Notes Receivable

Notes receivable relate to long-term financing arrangements that exceed one year and bear interest at a market rate based on negotiated terms and are recorded at face value. Interest is recognized over the life of the note. The Group requires collateral for notes for real estate transactions. The Group does not intend to sell these receivables. Amounts collected on notes receivable are included in net cash provided by investing activities in the consolidated statements of cash flows. Notes receivable balance was $22,596,000 and $23,166,000 at December 31, 2015 and 2014, respectively, and is a component of noncurrent other assets. At December 31, 2015, future annual payments on notes receivable due within one year is zero and due in full by March 2020 is $22,596,000.

(q) Current Other Assets and Noncurrent Other Assets

Current other assets and noncurrent other assets consist of interest receivable, notes receivable, deferred financing costs, interest rate swap, deposits, prepaid assets, deferred tax assets, federal tax receivable, and repurchase agreements.

(r) Self-Insurance

The Group is self-insured for industrial accident claims and GHC is self-insured for professional liability claims and unemployment benefits. GHC purchases excess insurance coverage to limit its exposure for professional liability claims and industrial accident claims and maintains excess insurance on a claims-made basis. Retention levels for professional liability are $7,000,000 and $10,000,000 per claim with annual aggregates of $22,000,000 and $35,000,000 in 2015 and 2014, respectively. The annual excess policy limit was $40,000,000 for both 2015 and 2014. Retention levels for industrial accident claims are $750,000, per claim and in aggregate, in 2015 and 2014. Professional liability and industrial accident claims liability are determined using case-based estimates for reported claims and actuarial estimates for incurred but not reported claims. These estimates are based on historical information along with certain assumptions about future events. Changes in assumptions related to expected claims development as well as changes in actual experience could cause these estimates to change. At December 31, 2015 and 2014, the estimated liability for professional liability claims was $46,730,000 and $55,369,000, respectively. At December 31, 2015 and 2014, the estimated liability for industrial accident claims was $7,014,000 and $7,631,000, respectively. At December 31, 2015 and 2014, the estimated liability for unemployment claims was $3,847,000 and $3,979,000, respectively. Insurance recovery receivables for 2015 and 2014 are $2,049,000 and $1,854,000, respectively, and are a component of noncurrent other assets. GHC is a subscriber of and purchases its professional liability excess insurance coverage from a Risk Retention Group (RRG). As a subscriber of the RRG, GHC is also an owner granting it rights to its subscriber's equity in the RRG.

(s) Reinsurance

The Group limits certain exposure to claims loss by ceding reinsurance to other insurance companies. For each of its reinsurance contracts, the Group must determine if the contract provides indemnification against loss or liability related to insurance risk. Reinsurance contracts that have been determined to transfer risk record the premiums as revenue and claims payment as an expense. For those contracts that have been determined not to transfer risk, the Group records as a receivable or a liability, if applicable.

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.

(t) 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).

(u) Revenues

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

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

The capitated revenue from CMS for Part C and Part D is based on a risk adjustment model, where the demographic and health status (i.e., risk score) of the member is a factor used in determining payment. The other major factors of the capitated payment are the member's county of residence and the plan/product in which the member is enrolled. Capitated payments from CMS are received monthly and are prospective. Adjustments for enrollment and certain member status updates are made to the payments retrospectively. 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. Retrospective settlements of payment are made after the end of the calendar year.

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

		2015	2014
Premiums:			
Group	$	2,081,551	2,034,013
Medicare		955,535	998,221
Individual and family		185,366	204,310
Total premiums		3,222,452	3,236,544
Clinical services revenue, net of contractual allowances and discounts		335,057	335,092
Less provision for bad debt		(9,626)	(8,249)
Clinical services revenue-net		325,431	326,843
Other revenue:			
Grants		47,671	43,745
Other		17,786	33,301
Self-funded administrative service fees		28,581	26,980
Sales		15,682	16,726
Total other		109,720	120,752
Total operating revenues	$	3,657,603	3,684,139

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:

	2015	2014
Commercial	57%	56%
Private	38	39
Medicare	4	4
Medicaid	1	1
Total	100%	100%

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

	2015	2014
Commercial	52%	51%
Private	44	45
Medicare	3	3
Medicaid	1	1
Total	100%	100%

Commercial represents receivables from other insurance companies. The private accounts receivable represents noncovered health care services, copays and deductibles from enrollees as well as nonenrollees receiving fee-for-service 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 nonenrollee 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.

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.

Other revenues include grants awarded to the Group Health Research Institute, a division of GHC, optical sales, and self-funded administrative service fees. Also included in other revenues are 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.

(v) 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, 2015 and 2014.

(w) 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 was estimated at $398,000 and $719,000 for the years ended December 31, 2015 and 2014, respectively.

(x) External Delivery Services

External delivery services represent health care expenses incurred by the Group for care provided to their respective members by contracted and noncontracted health care facilities and practitioners, other than Group Health Physicians (note 2y). 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 related to expected claims development as well as changes in actual experience could cause these estimates to change.

(y) Group Health Physicians Expense

Group Health Permanente P.C., doing business as Group Health Physicians, is an independent medical group with an exclusive contract to provide medical services that includes primary, specialty, and inpatient care. The Group's net liability to Group Health Permanente P.C. was $36,924,000 and $40,744,000 as of December 31, 2015 and 2014, respectively, which is a component of accounts payable in the accompanying consolidated balance sheets.

(z) 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 $5,435,000 and $4,293,000 for the years ended December 31, 2015 and 2014, respectively.

(aa) 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 (note 11).

The Group is obligated under capital leases covering certain equipment that expire in 2016. Amortization of assets held under capital leases is included with depreciation.

(bb) Income Taxes

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

Deferred income taxes are recognized for the tax consequences in future years of the differences between the tax basis of assets and liabilities and the 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.

(cc) 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 postretirement 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 (in thousands):

		2015	2014
Health care services	$	4,076	4,696
Health education		1,574	1,861
Health care research and development		53	75
Time restricted		515	576
Total temporarily restricted net assets	$	6,218	7,208

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, 2015 and 2014 are contributions restricted by the donor to be invested in perpetuity.

The change in temporarily restricted net assets was comprised of $1,160,000 and $1,292,000 of contributions, $(1,629,000) and $(1,905,000) of release from restrictions, and investment (loss) income of $(521,000) and $472,000, for the years ended December 31, 2015 and 2014, respectively.

(dd) New Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU 2014-09 makes comprehensive changes to previous revenue recognition guidance and to revenue disclosures. In August 2015, the FASB issued ASU No. 2015-014, *Revenue from Contracts with Customers (Topic 606).* ASU 2015-14 defers the effective date of ASU 2014-09. ASU 2014-09 will be effective for the Group's 2018 consolidated financial statements. Management is evaluating the impact this standard will have on the Group's consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-03, *Interest – Imputation of Interest (Subtopic 835-30) Simplifying the Presentation of Debt Issuance Costs*. ASU 2015-03 requires debt issuance costs related to a recognized debt liability to be presented on the balance sheet as a deduction from the carrying amount of the debt, consistent with debt discounts. This standard will be effective for the Group's 2016 consolidated financial statements. The adoption of this standard is not expected to have a material impact on the Group's consolidated financial statements.

In May 2015, the FASB issued ASU No. 2015-07, *Fair Value Measurement (Topic 820) Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent)*. ASU 2015-07 eliminates the requirement to categorize investments valued using the net asset value per share expedient from the fair value (FV) hierarchy of financial instruments. This standard will be effective for the Group's 2017 consolidated financial statements. The adoption of this standard is not expected to have a material impact on the Group's consolidated financial statements.

In May 2015, the FASB issued ASU No. 2015-09, *Financial Services - Insurance (Topic 944) Disclosures about Short-Duration Contracts.* ASU 2015-09 establishes new disclosures for insurance entities. This standard will be effective for the Group's 2017 consolidated financial statements. The adoption of this standard is not expected to have a material impact on the Group's consolidated financial statements.

In November 2015, the FASB issued ASU No. 2015-17, *Income Taxes (Topic 740) Balance Sheet Classification of Deferred Taxes.* ASU 2015-17 requires classification of all deferred tax assets and deferred tax liabilities as non-current amounts on a classified balance sheet. This standard will be effective for the Group's 2018 consolidated financial statements. The adoption of this standard is not expected to have a material impact on the Group's consolidated financial statements.

In January 2016, the FASB issued ASU No. 2016-01, *Financial Instruments – Overall (Subtopic 825-10) Recognition and Measurement of Financial Assets and Liabilities.* ASU 2016-01 makes changes to equity investment reporting and disclosure. This standard will be effective for the Group's 2019 consolidated financial statements. Management is evaluating the impact this standard will have on the Group's consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842).* ASU 2016-02 creates a new topic specifically for leasing that addresses lease recognition, presentation and disclosures. This standard will be effective for the Group's 2019 consolidated financial statements. Management is evaluating the impact this standard will have on the Group's consolidated financial statements.

(3) Marketable Securities

Marketable securities as of December 31, 2015 and 2014 consist of the following (in thousands):

		2015			
		Amortized cost	Gross unrealized gains	Gross unrealized losses	Total Fair value
Debt securities:					
U.S. government	$	72,156	194	(876)	71,474
U.S. government agency		39,180	493	(35)	39,638
Municipal debt		53,538	1,465	(181)	54,822
International government		7,706	75	(14)	7,767
Corporate debt		412,860	3,032	(7,513)	408,379
Mortgage-backed		161,104	1,417	(1,221)	161,300
Asset-backed		29,933	158	(292)	29,799
Collateralized mortgage obligations		8,998	70	(94)	8,974
Domestic equity securities:					
Mutual funds:					
Large blend		69,591	27,661	(337)	96,915
Large value		10,570	3,423	(870)	13,123
Large growth		2,344	1,206	(20)	3,530
Small value		37,726	3,927	(1,417)	40,236
Small growth		6,367	278	(892)	5,753
Intermediate term		53,358	6	(4,229)	49,135
Short term		1,917	—	(21)	1,896
Other		2,107	—	(787)	1,320
Common stock:					
Communications		6,335	501	(748)	6,088
Consumer		30,918	4,022	(1,566)	33,374
Energy		6,033	89	(1,003)	5,119
Financial		19,231	2,271	(1,414)	20,088
Industrial		9,115	1,958	(425)	10,648
Technology		10,514	1,366	(544)	11,336
Utilities		5,181	488	(281)	5,388
Other		2,873	329	(233)	2,969
Total	$	1,059,655	54,429	(25,013)	1,089,071

	2014			
	Amortized cost	**Gross unrealized gains**	**Gross unrealized losses**	**Total Fair value**
Debt securities:				
U.S. government	$ 70,842	325	(655)	70,512
U.S. government agency	57,076	520	(37)	57,559
Municipal debt	46,754	2,207	(86)	48,875
International government	7,907	82	(10)	7,979
Corporate debt	416,371	5,738	(2,114)	419,995
Mortgage-backed	134,791	2,368	(678)	136,481
Asset-backed	30,750	325	(63)	31,012
Collateralized mortgage obligations	13,166	120	(115)	13,171
Domestic equity securities:				
Mutual funds:				
Large blend	74,876	32,616	(188)	107,304
Large value	14,492	6,415	(470)	20,437
Large growth	2,207	1,183	(13)	3,377
Medium growth	10,919	560	(2)	11,477
Small value	22,698	4,902	(55)	27,545
Small growth	8,244	297	(1,045)	7,496
Intermediate term	3,260	53	(3)	3,310
Short term	2,153	36	(14)	2,175
Other	2,067	5	(548)	1,524
Common stock:				
Communications	5,808	456	(219)	6,045
Consumer	23,771	3,924	(745)	26,950
Energy	6,128	226	(550)	5,804
Financial	18,151	2,649	(579)	20,221
Industrial	8,667	1,500	(153)	10,014
Technology	9,078	1,485	(295)	10,268
Utilities	4,917	843	(61)	5,699
Other	3,671	622	(195)	4,098
Total	$ 998,764	69,457	(8,893)	1,059,328

(Continued)

Contractual maturities of debt securities held as of December 31, 2015 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 securities:					
U.S. government	$ 4,512	23,890	37,837	5,235	71,474
U.S. government agency	2,515	24,303	12,820	—	39,638
Municipal debt	2,267	17,002	16,022	19,531	54,822
International government	—	6,669	1,098	—	7,767
Corporate debt	12,753	271,529	97,981	26,116	408,379
Mortgage-backed	—	715	11,601	148,984	161,300
Asset-backed	—	11,298	9,778	8,723	29,799
Collateralized mortgage obligations	1,047	982	323	6,622	8,974
Total	$ 23,094	356,388	187,460	215,211	782,153

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

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

	2015	**2014**
Interest	$ 28,602	27,189
Realized gains on sale	14,996	7,997
Realized losses on sale	(2,330)	(2,290)
Dividends and capital gains	11,271	13,072
Amortization, accretion, and other	(5,942)	(3,534)
OTTI	(4,018)	(540)
Total investment income	$ 42,579	41,894

The following tables show the fair value and gross unrealized losses of the Group's marketable securities 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, 2015 and 2014 (in thousands):

	Less than 12 months		12 months or greater		Total	
2015	**Fair value**	**Unrealized losses**	**Fair value**	**Unrealized losses**	**Fair value**	**Unrealized losses**
Debt securities:						
U.S. government	$ 52,446	(876)	—	—	52,446	(876)
U.S. government agency	8,298	(35)	—	—	8,298	(35)
Municipal debt	6,592	(164)	541	(17)	7,133	(181)
International government	2,529	(14)	—	—	2,529	(14)
Corporate debt	229,201	(5,704)	14,083	(1,809)	243,284	(7,513)
Mortgage-backed	77,236	(742)	13,703	(479)	90,939	(1,221)
Asset-backed	19,510	(256)	1,668	(36)	21,178	(292)
Collateralized mortgage obligations	2,426	(15)	2,411	(79)	4,837	(94)
Domestic equity securities:						
Mutual funds:						
Large blend	416	(48)	784	(289)	1,200	(337)
Large value	337	(86)	1,252	(784)	1,589	(870)
Large growth	320	(20)	—	—	320	(20)
Small value	23,661	(1,417)	—	—	23,661	(1,417)
Small growth	—	—	2,109	(892)	2,109	(892)
Intermediate term	48,036	(4,229)	—	—	48,036	(4,229)
Short term	1,648	(16)	246	(5)	1,894	(21)
Other	751	(20)	568	(767)	1,319	(787)
Common stock:						
Communications	3,062	(747)	1	(1)	3,063	(748)
Consumer	11,580	(1,482)	285	(84)	11,865	(1,566)
Energy	4,008	(772)	509	(231)	4,517	(1,003)
Financial	8,009	(1,376)	106	(38)	8,115	(1,414)
Industrial	2,764	(298)	393	(127)	3,157	(425)
Technology	3,190	(468)	169	(76)	3,359	(544)
Utilities	1,564	(126)	494	(155)	2,058	(281)
Other	1,213	(175)	201	(58)	1,414	(233)
Total	$ 508,797	(19,086)	39,523	(5,927)	548,320	(25,013)

2014	Less than 12 months		12 months or greater		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
Debt securities:						
U.S. government	$ 14,680	(45)	28,393	(610)	43,073	(655)
U.S. government agency	7,295	(24)	990	(13)	8,285	(37)
Municipal debt	1,989	(5)	6,361	(81)	8,350	(86)
International government	1,535	(10)	—	—	1,535	(10)
Corporate debt	143,280	(1,904)	10,210	(210)	153,490	(2,114)
Mortgage-backed	9,142	(67)	28,688	(611)	37,830	(678)
Asset-backed	16,234	(57)	494	(6)	16,728	(63)
Collateralized mortgage obligations	4,784	(106)	736	(9)	5,520	(115)
Domestic equity securities:						
Mutual funds:						
Large blend	354	(21)	882	(167)	1,236	(188)
Large value	951	(103)	947	(367)	1,898	(470)
Large growth	191	(13)	—	—	191	(13)
Medium growth	998	(2)	—	—	998	(2)
Small value	9,947	(55)	—	—	9,947	(55)
Small growth	6,956	(1,045)	—	—	6,956	(1,045)
Intermediate term	380	(3)	—	—	380	(3)
Short term	1,534	(10)	247	(4)	1,781	(14)
Other	550	(49)	553	(499)	1,103	(548)
Common stock:						
Communications	3,059	(219)	—	—	3,059	(219)
Consumer	7,435	(745)	—	—	7,435	(745)
Energy	2,682	(550)	—	—	2,682	(550)
Financial	6,652	(579)	—	—	6,652	(579)
Industrial	2,316	(153)	—	—	2,316	(153)
Technology	2,469	(295)	—	—	2,469	(295)
Utilities	1,058	(61)	—	—	1,058	(61)
Other	1,286	(195)	—	—	1,286	(195)
Total	$ 247,757	(6,316)	78,501	(2,577)	326,258	(8,893)

The unrealized losses in the Group's marketable securities in 2015 were due primarily to changes in interest rates and, in the case of equities, market price movements. 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 2015. The Group has the ability and intent to hold these investments until a recovery of fair value, which may be maturity, and considers these investments to be temporarily impaired.

(4) External Delivery Services Payable

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

		2015	2014
Balances at January 1	$	228,920	224,011
Incurred related to:			
Current year		1,891,047	1,851,147
Prior years		(14,535)	6,516
Total incurred		1,876,512	1,857,663
Paid related to:			
Current year		1,653,374	1,632,211
Prior years		198,453	220,543
Total paid		1,851,827	1,852,754
Balances at December 31	$	253,605	228,920

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 (MLR)

Effective January 1, 2011, as part of the Patient Protection and Affordable Care Act (Health Care Reform), minimum medical loss ratios 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). In the 2014 contract year, MA and MA-PD became subject to MLR requirements similar to the commercial fully insured medical plans. The target medical loss ratios for the Medicare plans is 85%. HHS issued guidance specifying the types of costs that should be included in benefit expense for purposes of calculating medical loss ratios. The Group’s medical loss ratios were above the minimum target levels and no liability for rebates was recorded in 2015 and 2014.

(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.

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, 2015 and 2014.

In 2014, GHC redeemed the Series 2001 revenue bonds and entered into a bank loan agreement for $30,085,000. The bank loan agreement has an interest rate of London Interbank Offered Rate (LIBOR) plus 0.80% and requires a cash collateral account for the same amount. The account is a component of restricted assets.

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

	Year(s) of maturity		2015	2014
Revenue bonds:				
Series 2006, 4-1/2% to 5.00%, plus bond premium of $1,263 and $1,348 in 2015 and 2014, respectively	2022–2036	$	99,227	99,312
Bank Loan, LIBOR plus 0.80%	2019		23,674	29,592
Subtotal			122,901	128,904
Less current portion			(6,003)	(6,003)
Total long-term debt		$	116,898	122,901

Future annual principal payments on long-term debt for each of the next five years, and in the aggregate thereafter, as of December 31, 2015 are as follows (in thousands):

Years ending December 31:		
2016	$	5,918
2017		5,918
2018		5,918
2019		5,918
2020		—
Thereafter		97,966
Subtotal		121,638
Add unamortized premium		1,263
Total	$	122,901

Interest paid during 2015 and 2014 was $2,009,000 and $3,711,000, respectively. Interest expense was $3,506,000 and $1,228,000 during 2015 and 2014, respectively, and the amount of interest capitalized was $106,000 and $234,000 in 2015 and 2014, respectively. The effect of the interest rate swap decreased interest expense by $1,966,000 and $5,976,000 in 2015 and 2014, respectively.

(Continued)

(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 interest expense. 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.
- 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.
- Level 3 – Valuation is generated from model-based techniques that use significant assumptions not observable in the market and net asset value. 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.

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 assumptions used, including discount rates and estimates of future cash flows, that could significantly affect the results of the current or future values.

(Continued)

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 consolidated balance sheets for cash and cash equivalents, accounts receivable – net, accounts payable, external delivery services payable, accrued employee compensation, and accrued taxes and interest approximate fair value.

(b) Notes Receivable

Long-term notes receivable are carried at face value; however, accounting standards require the Group to disclose the fair value. The fair value of the Group's long-term notes receivable is determined as the present value of future contractual cash flows discounted at an interest rate that reflects the risk inherent in those cash flows. The discount rate is 5% and approximates rates currently observed in publicly traded debt markets for debt of similar terms with companies with comparable credit risk. The fair value of the long-term notes receivable was $16,862,000 and $17,287,000 as of December 31, 2015 and 2014, respectively.

(c) 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 revenue bonds is based on quoted market prices in markets that are not active, which are Level 2 inputs. The fair value of the revenue bonds was $100,724,000 and $100,693,000 as of December 31, 2015 and 2014, respectively.

The fair value of the Group's bank loan is determined as the present value of future contractual cash flows discounted at an interest that reflects the risk inherent in those cash flows. This discount rate is 1.2275% and 0.97% at December 31, 2015 and 2014, respectively, and approximates rates observed in publicly traded debt markets for debt of similar terms. The fair value of the bank loan was $22,295,000 and $28,221,000 as of December 31, 2015 and 2014, respectively.

(Continued)

(d) Marketable Securities, Restricted Assets, Commingled Securities Trust, 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, 2015 and 2014 (in thousands):

			Fair value measurements at December 31, 2015 using		
		Fair value at December 31, 2015	**Quoted prices in active markets for identical assets (Level 1)**	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
Marketable securities:					
Debt securities:					
U.S. government	$	71,474	71,474	—	—
U.S. government agency		39,638	—	39,638	—
Municipal debt		54,822	—	54,822	—
International government		7,767	—	7,767	—
Corporate debt		408,379	—	408,379	—
Mortgage-backed		161,300	—	161,300	—
Asset-backed		29,799	—	29,799	—
Collateralized mortgage obligations		8,974	—	8,974	—
Domestic equity securities:					
Mutual funds:					
Large blend		96,915	96,915	—	—
Large value		13,123	13,123	—	—
Large growth		3,530	3,530	—	—
Small value		40,236	40,236	—	—
Small growth		5,753	5,753	—	—
Intermediate term		49,135	49,135	—	—
Short term		1,896	1,896	—	—
Other		1,320	1,320	—	—

	Fair value at December 31, 2015	Fair value measurements at December 31, 2015 using		
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Common stock:				
Communications	$ 6,088	6,088	—	—
Consumer	33,374	33,374	—	—
Energy	5,119	5,119	—	—
Financial	20,088	20,088	—	—
Industrial	10,648	10,648	—	—
Technology	11,336	11,336	—	—
Utilities	5,388	5,388	—	—
Other	2,969	2,969	—	—
Total marketable securities	$ 1,089,071	378,392	710,679	—
Restricted assets:				
Guaranteed investment contract	$ 8,848	—	—	8,848
Long-term investment – other:				
Commingled securities trust	$ 31,809	—	—	31,809
Other assets:				
Interest rate swap	5,388	—	—	5,388

	Fair value at December 31, 2014	Fair value measurements at December 31, 2014 using		
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Marketable securities:				
Debt securities:				
U.S. government	$ 70,512	70,512	—	—
U.S. government agency	57,559	—	57,559	—
Municipal debt	48,875	—	48,875	—
International government	7,979	—	7,979	—
Corporate debt	419,995	—	419,995	—
Mortgage-backed	31,012	—	31,012	—
Asset-backed	136,481	—	136,481	—
Collateralized mortgage obligations	13,171	—	13,171	—
Domestic equity securities:				
Mutual funds:				
Large blend	107,304	107,304	—	—
Large value	20,437	20,437	—	—
Large growth	3,377	3,377	—	—
Medium growth	11,477	11,477	—	—
Small value	27,545	27,545	—	—
Small growth	7,496	7,496	—	—
Intermediate term	3,310	3,310	—	—
Short term	2,175	2,175	—	—
Other	1,524	1,524	—	—

	Fair value at December 31, 2014	Fair value measurements at December 31, 2014 using: Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Common stock:				
Communications	$ 6,045	6,045	—	—
Consumer	26,950	26,950	—	—
Energy	5,804	5,804	—	—
Financial	20,221	20,221	—	—
Industrial	10,014	10,014	—	—
Technology	10,268	10,268	—	—
Utilities	5,699	5,699	—	—
Other	4,098	4,098	—	—
Total marketable securities	$ 1,059,328	344,256	715,072	—
Restricted assets:				
Guaranteed investment contract	$ 8,848	—	—	8,848
Long-term investment – other:				
Commingled securities trust	$ 31,182	—	—	31,182
Other assets:				
Interest rate swap	6,457	—	—	6,457

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)				
		Marketable securities	Commingled securities trust	Restricted assets	Interest rate swap	Total
Beginning balance at January 1, 2014	$	7	30,582	8,848	3,503	42,940
Purchases		—	—	—	—	—
Sales		—	—	—	—	—
Total unrealized gains (losses) included in changes in net assets		(7)	600	—	2,954	3,547
Ending balance at December 31, 2014		—	31,182	8,848	6,457	46,487
Purchases		—	—	—	—	—
Sales		—	—	—	—	—
Total unrealized gains (losses) included in changes in net assets		—	627	—	(1,069)	(442)
Ending balance at December 31, 2015	$	—	31,809	8,848	5,388	46,045

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, 2015 and 2014.

(e) Commingled Securities Trust Net Asset Valuation

Investments recorded in long-term investments – other that are reported at net asset value as a practical expedient for fair value are presented by major category (in thousands):

		Fair value at December 31, 2015	Redemption frequency	Redemption notice period
Commingled securities trust (a)	$	31,809	Monthly	30–60 days
Total	$	31,809		

a. This category is comprised of a long-term strategy to maximize returns by investing in high yield bank loan fund. This investment is reported at NAV and grouped with other Level 3 assets and liabilities. Additionally, it is accounted for under the equity method as the Group's ownership percentage in the fund was 37% as of December 31, 2015. The fair value option was elected.

At December 31, 2015 there were no outstanding funding commitments.

(9) Pension Plans

The Group sponsors two defined benefit plans (the DB Plans), a defined contribution plan (the DC Plan), two 401(k) plans, a 403(b) plan, and contributes to a union sponsored multiemployer trust defined benefit plan for certain employees. Collectively, these plans cover substantially all of its employees. The Group's policy is to fund pension costs for the DB 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 according to the plan document. Matching contributions to the 401(k) and 403(b) plans are based on a percentage of participants' contributions as set forth in the plan document. The total expense for the defined benefit plans was $25,557,000 and $12,843,000 in 2015 and 2014, respectively, and the total expense for the other plans was $28,951,000 and $29,913,000 in 2015 and 2014, respectively.

GHC amended its defined benefit pension plan (the Plan), effective January 1, 2014, to freeze the accrued benefits of eligible employees whose terms of employment are not covered by a collective bargaining agreement (nonunion employees) and exclude nonunion employees from actively participating in the Plan. As a result of this amendment, effective January 1, 2014, these participants stopped accruing benefits under the Plan and will not earn additional benefits under the Plan based on hours of service earned or pay received after December 31, 2013. Participants were automatically enrolled in the DC Plan as of January 1, 2014 and earn contributions on pay received after January 1, 2014 subject to terms of the DC Plan.

In 2015, pursuant to the plan of reorganization, GHO became the sponsor of the Kitsap Physicians Service Employees' Retirement Plan, a qualified defined benefit pension plan. On January 15, 2009, this defined benefit pension plan was amended to curtail benefits effective March 1, 2009. As a result, each active participant's pension benefit was determined based on the participant's compensation and duration of employment as of March 1, 2009. Thus, no new benefits are being accrued after the date of the curtailment. The amended plan covers employees who had one year of service at the date of curtailment.

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, 2015 and 2014, net periodic pension expense related to the Group's participation in the Plans for 2015 and 2014 included the following components (in thousands):

		2015	2014
Service cost	$	18,037	17,373
Interest cost on projected benefits		32,522	33,838
Expected return on plan assets		(49,385)	(48,799)
Amortization of net loss		24,383	10,431
Net periodic benefit cost	$	25,557	12,843

	2015	2014
Discount rate (preretirement)	4.25%–4.30%	5.10%–5.25%
Discount rate (postretirement)	1.40–4.96	4.95–5.25
Rate of increase in compensation levels	3.00–4.50	4.00
Expected return on plan assets	5.25–8.00	5.25–8.00

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, 2015 and 2014 are shown in the following table (in thousands):

	2015	2014
Change in projected benefit obligation:		
Projected benefit obligation – beginning of year	$ 796,719	677,904
Service cost	18,037	17,373
Interest cost	32,522	33,838
Plan amendments	(14,069)	—
Actuarial (gain) loss	(25,073)	124,190
Benefits paid	(45,227)	(56,586)
Projected benefit obligation – end of year	762,909	796,719
Change in plan assets:		
Fair value of plan assets – beginning of year	606,076	599,815
Actual return on plan assets	(23,562)	22,847
Employer contributions	40,000	40,000
Benefits paid	(45,227)	(56,586)
Fair value of plan assets – end of year	577,287	606,076
Funded status	$ (185,622)	(190,643)

	2015	2014
Amounts recognized in unrestricted net assets consist of:		
Net actuarial loss	$ 286,177	276,755
Accumulated benefit obligation – end of year	739,824	764,690
Discount rate (preretirement)	4.75%–4.80%	4.25%–4.30%
Discount rate (postretirement)	1.76–5.13	4.20–5.25
Rate of increase in compensation levels	3.00–4.50	Graded to 3%

The funded status is recorded as a component of noncurrent liabilities as of December 31, 2015 and 2014 in the consolidated balance sheets.

(Continued)

Expected amounts to be recognized as components of 2016 net periodic pension cost are as follows (in thousands):

Service cost	$	16,750
Interest cost on projected benefits		35,074
Expected return on plan assets		(46,722)
Amortization of net loss		27,521
Net periodic pension cost	$	32,623

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, 2015 are as follows (in thousands):

Years ending December 31:		
2016	$	49,566
2017		51,131
2018		53,212
2019		55,904
2020		55,904
2021–2025		266,913
Total	$	532,630

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.

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 Sound Retirement Trust, formerly Retail Clerks Pension Trust (Federal Identification Number 91-6069306), which includes Pharmacy and Optical employees under the United Food and Commercial Workers (UFCW) union. The collective bargaining agreement with Pharmacy employees expires October 31, 2016 and the Optical employees expires April 30, 2018. The most recent Pension Protection Act (PPA) status available is for the plan's year end of September 30, 2015. The status has been designated critical status. The 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 critical status are generally less than 65% funded, plans in the endangered status are between 65% and 79% funded, and plans in the critical and

65% funded, plans in the endangered status are between 65% and 79% funded, and plans in the critical and declining status are projected to become insolvent within 15 years. The Plan has a financial improvement plan (FIP) or rehabilitation plan that has been implemented. The contributions to the plan were $1,079,000 and $1,116,000 for the years ended December 31, 2015 and 2014, respectively. The Group's contributions represent less than five percent of total contributions to the plan. The Group paid rehabilitation surcharges in 2015 and 2014.

(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, 2015 and 2014, the following table summarizes the target allocation range defined in the investment policies compared to the actual allocations of the Group's plan assets:

	2015		2014	
	Target allocation	Actual allocation	Target allocation	Actual allocation
Equity securities	32%–67%	45%	32%–67%	52%
Debt securities	14–41	37	14–41	33
Cash equivalents	0–5	—	0–5	—
Other investments	4–44	18	4–44	15

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 2016 of $40,000,000.

(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.
- 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, net asset value, and model-based valuation techniques for which all significant assumptions are observable in the market.
- Level 3 – Valuation is generated from model-based techniques that use significant assumptions not observable in the market and net asset value. 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.

(Continued)

The table below presents the balances of plan assets measured at fair value on a recurring basis as of December 31, 2015 and 2014 (in thousands):

	Fair Value at December 31, 2015	Fair value measurements at December 31, 2015 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	$ 5,537	5,537	—	—
Commingled trusts	154,063	102,581	51,482	—
Common stocks	129,666	129,666	—	—
Limited partnership	148,431	5,362	126,991	16,078
Private equity	75,382	—	—	75,382
Trust index fund	9,536	—	9,536	—
Mutual funds:				
Domestic equities:				
Large blend	2,528	2,528	—	—
Long-term bond	21,422	21,422	—	—
Intermediate-term bond	29,660	29,660	—	—
Foreign equities:				
Large blend	1,062	1,062	—	—
Total plan assets	$ 577,287	297,818	188,009	91,460

	Fair Value at December 31, 2014	Fair value measurements at December 31, 2014 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	$ 2,615	2,615	—	—
Commingled trusts	177,614	—	155,244	22,370
Common stocks	132,901	132,901	—	—
Limited partnership	174,359	—	163,665	10,694
Private equity	52,393	—	—	52,393
Trust index fund	10,122	—	10,122	—
Mutual funds:				
Domestic equities:				
Large blend	2,575	2,575	—	—
Long-term bond	22,867	22,867	—	—
Intermediate-term bond	29,521	29,521	—	—
Foreign equities:				
Large blend	1,109	1,109	—	—
Total plan assets	$ 606,076	191,588	329,031	85,457

(Continued)

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	Commingled trusts	Total
Beginning balance at January 1, 2014	$ 21,108	27,996	—	49,104
Purchases, sales, and settlements, net	—	20,659	6,352	27,011
Level transfers	(10,666)	—	18,767	8,101
Total net gains (losses) (realized/unrealized)	252	3,738	(2,749)	1,241
Ending balance at December 31, 2014	10,694	52,393	22,370	85,457
Purchases, sales, and settlements, net	5,000	18,636	—	23,636
Level transfers	—	—	(22,370)	(22,370)
Total net gains (realized/unrealized)	384	4,353	—	4,737
Ending balance at December 31, 2015	$ 16,078	75,382	—	91,460

	Fair value measurements using significant unobservable inputs (Level 3)			
	Limited partnership	Private equity	Commingled trusts	Total
Net unrealized gains (losses) relating to assets held at December 31, 2014	$ (190)	2,868	(2,741)	(63)
Net unrealized gains relating to assets held at December 31, 2015	384	2,738	—	3,122

Assets with a fair value of $107,943,000 at December 31, 2015 were determined to have an active market and therefore were transferred from assets with other observable inputs (Level 2) to assets with inputs with quoted prices in active markets for identical assets (Level 1).

(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 at December 31, 2015	Redemption frequency	Redemption notice period
Commingled trust (a)	$	51,482	Monthly	1–10 days
Limited partnership (b)		143,069	Monthly, Quarterly	1–30 days
Private equity (c)		75,382	—	—
Trust index fund (d)		9,536	Monthly	10 days
Total	$	279,469		

a. This category is comprised of two different fund strategies: 1) An index fund that invests in non-U.S. global equities; 2) An actively managed fund that invests in emerging market local and U.S. dollar debt employing a long-term strategy focused on income and capital appreciation.

b. This category is comprised of five fund strategies: 1) An index fund that invests in Russell 3000 equities that meet a defined criteria related to quality, stability and income; 2) Two actively managed funds that invest in noninvestment grade bonds employing a long-term strategy focused on income and capital appreciation; 3) An actively managed fund that invests in non-U.S. developed market equities (Europe, Australia, Asia and Far East) employing a long-term value approach to stock selection; 4) An actively managed fund that invests in frontier market equities employing strategies that take advantage of mispriced high quality stocks for long-term capital appreciation; 5) An actively managed fund that invests in secured loans and other debt instruments of below investment grade companies.

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 the Group’s ownership interest in the partners’ capital. These funds do not allow the Group to submit redemption requests. Distributions from these funds will be received as the underlying investments 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, 2015 and 2014 the private equity investments have outstanding funding commitments totaling $95,949,000 and $76,248,000, 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, 2015 and 2014, net periodic postretirement benefit cost is comprised of interest costs on accumulated benefit obligation of $2,826,000 and $2,235,000, respectively.

Amounts recognized in unrestricted net assets consisted of net actuarial losses of $11,472,000 and $16,821,000 at December 31, 2015 and 2014, respectively.

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

		2015	2014
Change in accumulated postretirement benefit obligation:			
Accumulated postretirement benefit obligation – beginning of year	$	51,875	46,001
Interest cost		1,926	1,949
Actuarial loss		(4,449)	8,362
Benefits paid		(4,439)	(4,437)
Accumulated postretirement benefit obligation – end of year	$	44,913	51,875
Change in plan assets:			
Employer contributions	$	4,439	4,437
Benefits paid		(4,439)	(4,437)

Future benefit costs were estimated assuming medical costs would increase at a 7.30% annual rate. A 1% increase in this annual trend rate would have increased the APBO at December 31, 2015, by $2,518,000 and the sum of service cost and interest cost for 2015 by $114,000. A 1% decrease in this annual trend rate would have decreased the APBO at December 31, 2015 by $2,252,000 and the sum of service cost and interest cost for 2015 by $102,000.

The weighted average discount rate used in determining the APBO was 3.85% in 2015 and 4.50% in 2014. The assumptions used to determine the APBO are measured at year end. The weighted average discount rate used in determining the net periodic postretirement benefit cost was 4.40% in 2015 and 3.85% in 2014, and is based on beginning of year assumptions.

Expected amounts to be recognized as components of 2016 net periodic postretirement benefit cost are interest cost on projected benefits of $1,880,000 and amortization of net loss of $519,000.

GHC funds the plan as benefit payments are required. The expected benefit payments to be paid, and contributions to be made, in each of the next five years, and in the aggregate for the five fiscal years thereafter, as of December 31, 2015, are as follows (in thousands):

Years ending December 31:		
2016	$	4,369
2017		4,289
2018		4,173
2019		4,044
2020		3,891
2021–2025		17,439
Total	$	38,205

(11) Commitments and Contingencies

(a) Leases

The Group is obligated under capital leases covering certain equipment that expires in 2016. At December 31, the gross amount of equipment and related accumulated amortization recorded under capital leases were as follows (in thousands):

		2015	2014
Equipment	$	6,420	6,420
Less accumulated amortization		(4,380)	(3,102)
Net equipment under capital lease	$	2,040	3,318

The Group has various operating leases for land, buildings, and equipment. Total rent expense was $23,428,000 and $22,623,000 on these leases in 2015 and 2014, respectively. Total sublease rental revenue was $3,746,000 and $3,614,000 in 2015 and 2014, respectively, and is recorded as a component of other revenue. Future minimum operating lease rental payments, future minimum operating sublease rental receipts under noncancelable operating lease and sublease agreements, and future minimum capital lease payments as of December 31, 2015 are as follows (in thousands):

	Operating lease rental payments	Operating sublease rental receipts	Capital lease payments
Years ending December 31:			
2016	$ 24,373	2,242	1,987
2017	21,160	2,005	—
2018	12,777	1,683	—
2019	10,958	302	—
2020	10,820	—	—
Thereafter	116,293	—	—
Total	$ 196,381	6,232	1,987
Less amount representing interest (at rates ranging from 6.50% to 7.43%)			(76)
Present value of net minimum capital lease payments			1,911
Less current installments of obligations under capital leases			(1,911)
Obligations under capital leases, excluding current installments			$ —

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 $1,702,000 and $4,619,000 as of December 31, 2015 and 2014, respectively.

(b) Labor

Approximately 62% of GHC's employees are covered under collective bargaining agreements. These employees provide nursing and other technical services to GHC. One collective bargaining agreement expires within one year. Bargaining disputes could adversely affect GHC.

(c) Litigation

The Group is involved in litigation and regulatory investigations arising in the normal course of business. After consultation with legal counsel, management estimates accruals, if any, that are necessary related to these matters. Management believes the recorded amounts are adequate and the

(Continued)

ultimate outcome of the matters will not have a material adverse effect on the Group's consolidated financial position or results of operations.

(d) Joint Partnerships and New Administrative Buildings

In 2015, GHC signed two separate joint venture agreements with Ryan Companies US, Inc., a national commercial real estate firm, to form Ryan-GHC One, LLC and Ryan-GHC Two, LLC. GHC has a 50 percent ownership in Ryan-GHC One, LLC in the amount of $3,663,000 and a 50 percent ownership in Ryan-GHC Two, LLC in the amount of $4,834,000 as of December 31, 2015. Under the agreements, the joint ventures plan to develop an operations and administrative campus involving four adjacent buildings located in Renton, Washington. GHC will become the major tenant of the new campus with two 15-year operating lease agreements. GHC plans to move certain administrative, lab and pharmacy operations in 2016.

(e) Government Contracts

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 continuing to respond to intermittent requests for additional information subject to the subpoena. No amounts have been accrued in the accompanying consolidated financial statements related to this matter because the investigation remains in a preliminary stage and it is not possible to estimate a probable loss or provide a range of loss, if any.

(f) Commitments

In April 2015, GHC committed to be a limited partner in Heitman America Real Estate Trust, L.P., a commingled trust that invests in stable, income producing real estate diversified by property type, economic exposure and geography throughout the United States. As of December 31, 2015, GHC had an unfunded commitment of $50,000,000 that was called in January 2016. The trust has a one-year lock out period followed with a 90 day redemption notice period and a quarterly redemption frequency.

(12) Federal Income Taxes

The components of income tax expense for the Group related to continuing operations and the change in unrestricted net assets for the years ended December 31, 2015 and 2014 are summarized as follows (in thousands):

		2015	2014
Federal income tax expense on operations	$	8,623	13,522
Federal income tax expense (benefit) included in the change in unrestricted net assets		973	(721)
Federal income tax expense	$	9,596	12,801

Federal income tax expense on operations is recognized as a component of other expenses in the consolidated statements of operations and changes in net assets. Federal income tax expense (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 current other assets and noncurrent other 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):

		2015	2014
Deferred tax asset	$	4,457	5,084
Deferred tax liability		(827)	(1,419)
Net deferred tax asset	$	3,630	3,665

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.

No valuation allowance has been provided for the net deferred tax asset as management believes it is more likely than not that the entire amount will be realized. At December 31, 2015, the Group has net operating loss carryforwards for federal income tax purposes of $5,991,000, which expire between 2024 and 2033.

(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 $14,002,000 and $14,697,000 at December 31, 2015 and 2014, respectively, and are recorded in temporarily and permanently 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

(Continued)

- 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.

Foundation policy limits spending in any calendar year to 5% of the prior year end fair market value of endowment balances. The Foundation may in any year choose to spend less than 5%. In times of low inflation or possible deflation, in the interests of preserving the endowment balances, the Foundation is more likely to keep spending under 5%. The Foundation may also choose to charge up to 1% of the endowment market value as an annual management fee. Total annual spending, including both management fee and spending allocations, cannot exceed the 5% limit. Newly received and named endowment funds are invested for one year before disbursements are made.

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

(14) Statutory Net Worth

GHC and GHO (insurance entities) are required to periodically file financial statements with regulatory agencies in accordance with statutory accounting and reporting practices. The insurance entities 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 and regulatory net worth in excess of minimum regulatory requirements as of December 31, 2015 and 2014 are shown in the following table (in thousands):

		2015	2014
GHC regulatory net worth	$	879,326	792,099
GHO regulatory net worth		142,283	142,973
GHC regulatory net worth in excess of minimum regulatory requirements		854,138	766,903
GHO regulatory net worth in excess of minimum regulatory requirements		132,362	131,053

(15) Patient Protection and Affordable Care Act

The Patient Protection and Affordable Care Act, as well as the Health Care and Education Reconciliation Act of 2010, or collectively, Health Care Reform, significantly changed the current U.S. health care system. 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.

Health Care Reform requires public health exchanges be available in every state by January 1, 2014. GHC offered individual products in the Washington State Health Benefit Exchange (WSHBE) starting in 2014. GHC and GHO also offered products in the outside, non-Exchange market for both individuals and small groups. Because individuals seeking to purchase health insurance coverage are guaranteed to be issued a policy, Health Care Reform provides three programs designed to reduce the risk for participating health insurance companies. Those three programs are as follows:

- A three-year temporary reinsurance program for the years 2014 through 2016. The program is designed to provide reimbursement for high cost individual enrollees and is funded by the per-customer reinsurance fee assessed against insurers and self-insured group health plans. The Group recorded $1,561,000 and $2,646,000 in ceded reinsurance premium payments in 2015 and 2014, respectively, which is an expense component of external delivery services and had $19,961,000 and $26,478,000 in reinsurance recoveries on paid losses in 2015 and 2014, respectively, which is an expense reduction of external delivery services and accounts receivable. Transitional reinsurance fees, recorded as an expense component of business taxes and insurance, was $16,302,000 and $24,402,000 for 2015 and 2014, respectively.
- A three-year temporary risk corridor program for the years 2014 through 2016. The program limits the insurer gains and losses and protects against inaccurate rate setting at the outset of the new program. The program creates a mechanism for sharing risk for allowable costs between the federal government and the insurer. In 2015, the Group incurred and settled a risk corridor liability of $6,386,000 which reduced premium revenue related to benefit year 2014. At December 31, 2015 and 2014, there was no risk corridor receivable or liability recorded.
- A permanent risk adjustment program that transfers funds from lower risk to higher risk plans within similar plans in the same state in order to adjust premiums for adverse selection among carriers. The program provides payments to health insurance carriers that disproportionately attract higher-risk populations and transfers funds from plans with lower risk enrollees to plans with higher-risk enrollees. The Group recorded receivables of $1,134,000 and $1,087,000 and payables of $8,242,000 and $6,827,000 resulting in net premium revenue reductions of $2,584,000 and $5,740,000 in 2015 and 2014, respectively.

In 2014, Health Care Reform imposed an annual carrier 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 Group incurred fees of $37,430,000 and $30,300,000 for the years ended December 31, 2015 and 2014, respectively. The estimated 2016 fees assessment is $34,590,000. This fee is temporarily suspended for the 2017 fee year only and, unless the moratorium is extended through future legislation, the fee would again become effective after 2017.

(16) Subsequent Events

Subsequent events are events or transactions that occur after the consolidated balance sheet date but before consolidated financial statements are issued that provide additional evidence about conditions that existed at the date of the consolidated balance sheet.

(Continued)

In December 2015, GHC signed an agreement to be acquired by Kaiser Foundation Health Plan of Washington (Kaiser). Closing of the acquisition is subject to certain conditions, including approval by GHC's eligible voting members, filings with, and approval by, state and federal regulators, and just prior to closing, separation of Group Health Foundation as a controlled affiliate of GHC. On March 12, 2016, GHC's eligible voting members approved the Plan of Member Substitution, the resolution supporting Kaiser's acquisition of GHC. The federal antitrust regulatory review pursuant to the Hart-Scott-Rodino Act was complete on March 10, 2016.

The Group has evaluated subsequent events for recognition or disclosure through March 30, 2016, the date these consolidated financial statements were issued.

SUPPLEMENTAL INFORMATION

GROUP HEALTH COOPERATIVE
AND SUBSIDIARIES

Supplemental Consolidating Balance Sheet Information

December 31, 2015

(In thousands)

Assets		GHC	GHO	Foundation	CMA	Eliminations	Total
Current assets:							
Cash and cash equivalents	$	156,753	24,318	523	1,731	—	183,325
Short-term marketable securities		14,891	8,203	—	—	—	23,094
Accounts receivable - net		109,451	41,914	67	1,163	(4,843)	147,752
Receivable from affiliate		2,715	2,172	—	—	(4,887)	—
Inventories		18,072	—	—	—	—	18,072
Other		18,681	5,870	2	137	—	24,690
Total current assets		320,563	82,477	592	3,031	(9,730)	396,933
Long-term marketable securities		839,172	204,483	22,322	—	—	1,065,977
Long-term investments - other		68,492	563	—	—	—	69,055
Restricted assets		32,522	—	—	—	—	32,522
Land, buildings, and equipment:							
Land		30,835	—	—	—	—	30,835
Buildings		601,489	—	—	1,680	—	603,169
Equipment		408,920	—	—	2,852	—	411,772
Construction in progress		31,656	—	—	—	—	31,656
Total land, buildings and equipment		1,072,900	—	—	4,532	—	1,077,432
Less accumulated depreciation		(678,470)	—	—	(2,330)	—	(680,800)
Land, buildings, and equipment-net		394,430	—	—	2,202	—	396,632
Other assets		220,628	8,052	1,811	427	(172,732)	58,186
Total	$	1,875,807	295,575	24,725	5,660	(182,462)	2,019,305

(Continued)

GROUP HEALTH COOPERATIVE
AND SUBSIDIARIES

Supplemental Consolidating Balance Sheet Information

December 31, 2015

(In thousands)

Liabilities and Net Assets		GHC	GHO	Foundation	CMA	Eliminations	Total
Current liabilities:							
Accounts payable	$	103,120	11,463	—	1,079	—	115,662
External delivery services payable		167,577	91,255	—	—	(5,227)	253,605
Unearned premiums and deposits		47,767	33,779	—	—	—	81,546
Accrued employee compensation		60,158	484	—	527	—	61,169
Accrued taxes and interest		32,970	8,464	—	48	—	41,482
Current portion of long-term debt		6,003	—	—	—	—	6,003
Current portion of reserve for self-insurance		16,945	—	—	—	—	16,945
Current portion of retiree medical benefits		4,369	—	—	—	—	4,369
Liability to affiliate		2,172	—	2,316	15	(4,503)	—
Total current liabilities		441,081	145,445	2,316	1,669	(9,730)	580,781
Noncurrent liabilities:							
Long-term debt		116,898	—	—	—	—	116,898
Self-insurance		40,646	—	—	—	—	40,646
Retiree medical benefits		40,544	—	—	—	—	40,544
Pension		183,517	2,105	—	—	—	185,622
Other		14,396	186	1,495	12	—	16,089
Total noncurrent liabilities		396,001	2,291	1,495	12	—	399,799
Total liabilities		837,082	147,736	3,811	1,681	(9,730)	980,580
Commitments and contingencies (note 11)							
Net assets:							
Unrestricted		1,022,868	147,839	5,057	3,979	(156,845)	1,022,898
Temporarily restricted		6,218	—	6,218	—	(6,218)	6,218
Permanently restricted		9,639	—	9,639	—	(9,669)	9,609
Total net assets		1,038,725	147,839	20,914	3,979	(172,732)	1,038,725
Total	$	1,875,807	295,575	24,725	5,660	(182,462)	2,019,305

See accompanying independent auditors' report.

GROUP HEALTH COOPERATIVE
AND SUBSIDIARIES

Supplemental Consolidating Statement of Operations and Changes in Net Assets Information

Year ended December 31, 2015

(In thousands)

	GHC	GHO	Foundation	CMA	Eliminations	Total
Revenues:						
Premiums	$ 2,393,720	834,229	—	—	(5,497)	3,222,452
Clinical services - net	362,810	—	—	16,440	(53,819)	325,431
Other	201,844	23,798	4,181	2,009	(122,112)	109,720
Total operating revenues	2,958,374	858,027	4,181	18,449	(181,428)	3,657,603
Expenses:						
External delivery services	1,225,244	726,157	—	—	(105,000)	1,846,401
Employee compensation	567,542	3,432	96	11,282	(9,511)	572,841
Group Health Physicians expense	344,868	—	—	7,326	—	352,194
Medical and operating supplies	357,508	91	114	887	(27)	358,573
Other expenses	136,516	28,171	3,810	3,409	(2,469)	169,437
Services purchased	115,646	66,579	1,468	470	(64,430)	119,733
Business taxes and insurance	68,933	37,564	—	514	—	107,011
Depreciation and amortization	55,799	3	—	935	—	56,737
Total operating expenses	2,872,056	861,997	5,488	24,823	(181,437)	3,582,927
Operating income (loss)	86,318	(3,970)	(1,307)	(6,374)	9	74,676
Nonoperating income (expense):						
Investment income - net	30,796	5,289	(169)	—	6,663	42,579
Interest expense	(3,365)	(136)	—	(5)	—	(3,506)
Total nonoperating income (expense)	27,431	5,153	(169)	(5)	6,663	39,073
Excess (deficit) of revenues over expenses	113,749	1,183	(1,476)	(6,379)	6,672	113,749
Change in net unrealized investment gains and losses	(29,189)	(1,606)	—	—	1,606	(29,189)
Change in defined benefit pension and other postretirement plans	(3,982)	(176)	—	—	176	(3,982)
Capital contributions	—	23,041	—	6,000	(29,041)	—
Other	(117)	—	—	—	—	(117)
Change in unrestricted net assets	80,461	22,442	(1,476)	(379)	(20,587)	80,461
Change in temporarily restricted net assets	(990)	—	(990)	—	990	(990)
Change in permanently restricted net assets	161	—	161	—	(161)	161
Change in net assets	79,632	22,442	(2,305)	(379)	(19,758)	79,632
Net assets:						
Beginning of year	959,093	125,397	23,219	4,358	(152,974)	959,093
End of period	$ 1,038,725	147,839	20,914	3,979	(172,732)	1,038,725

See accompanying independent auditors' report.