GROUP HEALTH COOPERATIVE AND SUBSIDIARIES

Consolidated Financial Statements

Federal OMB Circular A-133 Reports

Year ended December 31, 2009

(With Independent Auditors' Report Thereon)

GROUP HEALTH COOPERATIVE AND SUBSIDIARIES

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KPMG LLP
Suite 900
801 Second Avenue
Seattle, WA 98104

Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheets of Group Health Cooperative and subsidiaries (the Group) as of December 31, 2009 and 2008, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Group as of December 31, 2009 and 2008, and the results of its operations and its cash flows for the years then ended in conformity with U. S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 2, 2010 on our consideration of the Group's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

KPMG LLP

April 2, 2010

GROUP HEALTH COOPERATIVE
AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2009 and 2008

(In thousands)

Assets	**2009**	**2008**
Current assets:		
Cash and cash equivalents	$ 149,605	$ 186,618
Short-term marketable securities	65,136	110,998
Accounts receivable – net	104,807	89,501
Inventories	22,268	22,896
Funds held by trustee – current portion	363	586
Assets held for sale	20,528	20,528
Other	24,787	22,629
Total current assets	387,494	453,756
Long-term marketable securities	751,913	648,370
Funds held by trustee – net of current portion	14,428	8,848
Land, buildings, and equipment:		
Land	22,180	22,152
Buildings and improvements	496,618	480,163
Equipment	388,422	379,266
Construction in progress	24,818	16,880
Total land, buildings, and equipment	932,038	898,461
Less accumulated depreciation	(514,169)	(489,880)
Land, buildings, and equipment – net	417,869	408,581
Other assets	32,987	38,230
Total	$ 1,604,691	$ 1,557,785

(Continued)

GROUP HEALTH COOPERATIVE
AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2009 and 2008

(In thousands)

Liabilities and Net Assets	**2009**	**2008**
Current liabilities:		
Accounts payable	$ 73,612	$ 75,470
External delivery services payable	200,216	170,793
Accrued employee compensation	43,997	47,730
Accrued taxes and interest	13,277	13,086
Unearned dues and deposits	39,135	22,867
Current portion of long-term debt	6,154	5,872
Current portion of reserve for self-insurance	10,725	8,601
Current portion of retiree medical benefits	16,836	4,616
Total current liabilities	403,952	349,035
Noncurrent liabilities:		
Long-term debt	187,713	193,863
Self-insurance	51,059	67,423
Retiree medical benefits	47,917	65,167
Pension	62,100	106,986
Other	37,202	40,572
Total noncurrent liabilities	385,991	474,011
Total liabilities	789,943	823,046
Commitments and contingencies (note 10)		
Net assets:		
Unrestricted	802,957	725,404
Temporarily restricted	4,227	1,823
Permanently restricted	7,564	7,512
Total net assets	814,748	734,739
Total	$ 1,604,691	$ 1,557,785

See accompanying notes to consolidated financial statements.

GROUP HEALTH COOPERATIVE
AND SUBSIDIARIES

Consolidated Statements of Operations and Changes in Net Assets

Years ended December 31, 2009 and 2008

(In thousands)

	2009	2008
Revenues:		
Premiums	$ 2,737,072	$ 2,522,262
Clinical services	193,230	194,255
Other	70,618	62,629
Total operating revenues	3,000,920	2,779,146
Expenses:		
External delivery services	1,595,801	1,351,857
Employee compensation	556,666	530,573
Other expenses	300,081	289,976
Group Health Permanente expense	279,519	256,643
Medical and operating supplies	250,324	246,348
Depreciation	50,287	51,082
Total operating expenses	3,032,678	2,726,479
Operating (loss) income	(31,758)	52,667
Nonoperating income (expense):		
Investment income (loss)	69,554	(59,560)
Interest expense	(13,149)	(1,756)
Total other income (expense)	56,405	(61,316)
Excess (deficit) of revenues over expenses	$ 24,647	$ (8,649)

(Continued)

GROUP HEALTH COOPERATIVE
AND SUBSIDIARIES

Consolidated Statements of Operations and Changes in Net Assets

Years ended December 31, 2009 and 2008

(In thousands)

	2009	2008
Excess (deficit) of revenues over expenses	$ 24,647	$ (8,649)
Change in net unrealized investment gains and losses	10,814	(5,581)
Change in defined benefit pension and other postretirement plans	41,754	(144,835)
Other	338	(152)
Change in unrestricted net assets	77,553	(159,217)
Change in temporarily restricted net assets	2,404	(3,012)
Change in permanently restricted net assets	52	133
Change in net assets	80,009	(162,096)
Net assets:		
Beginning of year	734,739	896,835
End of year	$ 814,748	$ 734,739

See accompanying notes to consolidated financial statements.

GROUP HEALTH COOPERATIVE
AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended December 31, 2009 and 2008

(In thousands)

	2009	2008
Cash flows from operating activities:		
Change in net assets	$ 80,009	$ (162,096)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	50,287	51,082
Provision for self-insurance	2,467	2,524
Change in net unrealized and realized investment gains and losses	(49,416)	2,206
Recognized other-than-temporary impairment losses	243	103,304
Cumulative effect of prior year other-than-temporary impairment	(738)	—
Change in fair value of interest rate swap	5,234	(5,616)
Other	834	13,593
Cash provided by (used in) operating assets and liabilities:		
Accounts receivable – net	(15,306)	1,262
Inventories	628	(1,408)
Other current assets	(2,158)	336
Other assets	(2,060)	(6,437)
Accounts payable	(1,940)	(23,535)
External delivery services payable	29,423	18,077
Accrued employee compensation	(3,733)	(2,909)
Accrued taxes and interest	191	2,523
Unearned dues and deposits	13,351	1,688
Self-insurance	(16,707)	(13,511)
Retiree medical benefits	(5,030)	(10,427)
Pension	(44,886)	136,988
Other noncurrent liabilities	(3,789)	(3,658)
Net cash provided by operating activities	36,904	103,986
Cash flows from investing activities:		
Payments for land, buildings, and equipment	(59,524)	(89,343)
Proceeds from disposal of land, buildings, and equipment	48	353
Proceeds from sale of marketable securities	873,637	1,068,816
Purchases of marketable securities	(878,151)	(998,707)
Distribution from equity investments	1,850	8,337
Sales of other equity investments, net	100	—
Funds held by trustee	(6,022)	17,623
Net cash (used in) provided by investing activities	(68,062)	7,079
Cash flows from financing activities:		
Repayment of debt	(5,675)	(5,434)
Other	(180)	(152)
Net cash used in financing activities	(5,855)	(5,586)
Net (decrease) increase in cash and cash equivalents	(37,013)	105,479
Cash and cash equivalents:		
Beginning of year	186,618	81,139
End of year	$ 149,605	$ 186,618
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Interest (net of amount capitalized)	$ 8,523	$ 9,014
Income taxes	2,008	25

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), Auxiliary of Group Health Cooperative (the Auxiliary), and KPS's wholly owned subsidiary, Northwest Credentials Verification Service LLC (NCVS), (collectively, the Group).

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

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

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 grants and donations it receives.

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

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

NCVS, a Washington limited liability company, performs primary source credentials verification of health care providers requesting new or continued participation with KPS, and contracts nationally with health plans, hospitals, and other organizations to provide credentials verification services.

(2) Summary of Significant Accounting Policies

(a) Principles of Consolidation

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

The Group has prepared the accompanying consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP).

(b) Estimates

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

(c) Cash and Cash Equivalents

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

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 insured limits.

(d) Marketable Securities

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

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

An investment is impaired if the fair value of the investment is less than its 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 be sold before recovery, OTTI is recorded in income equal to the entire difference between the security's amortized cost basis and its fair value at the balance sheet date. If the Group does not intend to sell or it is more likely than not it will be required to sell the security before recovery, OTTI is separated into the amount representing the credit loss and the amount related to all other factors. The credit component of the OTTI is recognized in income and the noncredit component is recognized as a component of net assets.

The credit component of OTTI is determined by comparing the present value of projected future cash flows with the amortized cost basis of the fixed income security. The present value is calculated by discounting the projected future cash flows at the effective interest rate implicit in the fixed income maturity at the date of acquisition. For mortgage-backed and asset-backed securities, cash flow estimates are based on assumptions regarding the underlying collateral including prepayment speeds, type of underlying assets, geographic concentrations, default rates, recoveries, and changes in value. For all other debt securities, cash flow estimates are driven by assumptions regarding probability of default, including changes in credit ratings, and estimates regarding timing and amount of recoveries associated with a default. Unrealized losses caused by noncredit related factors related to fixed income securities, for which the Group expects to fully recover the amortized cost basis, continue to be recognized as a component of net assets.

(f) Accounts Receivable

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

(g) Provision for Uncollectible Accounts

The Group provides an allowance for potential uncollectible accounts receivable whereby such receivables are reduced to their estimated net realizable value. The Group estimates this allowance based on the aging of accounts receivable, historical collection experience, enrollment retroactivity, and other relevant factors. There are various factors that can impact the collection trends and the estimation process, such as changes in the economy, the increased burden of copays and deductibles to be made by enrollees and business practices related to collection efforts. The allowance for uncollectible accounts was $6,353,000 and $9,541,000 as of December 31, 2009 and 2008, respectively.

(h) Inventories

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

(i) Funds Held by Trustee

Funds held by trustee are assets restricted as to use pursuant to terms and conditions of the revenue bonds (see note 5). The current portion represents funds held for bond principal and interest payable within the next 12 months.

The Series 2006 revenue bonds require a debt service reserve fund in the amount of $8,952,000 for the benefit of the bond owners, which shall be maintained as long as any Series 2006 bonds remain outstanding. The Series 1991 revenue bonds experienced a rating downgrade which triggered the establishment of a cash reserve requirement of $5,476,000 in February 2009. Further rating downgrades will not result in additional cash reserves. The debt service reserve funds are included within the long-term portion of funds held by trustee on the consolidated balance sheets as of December 31, 2009 and 2008.

(j) Charitable Gift Annuities

As of December 31, 2009 and 2008, the Foundation had a charitable gift annuities liability of $1,240,000 and $1,260,000, respectively, which includes a 10% reserve as required by state law and is recorded as a component of other noncurrent liabilities in the accompanying consolidated balance sheets.

(k) Land, Buildings, and Equipment

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

(l) Construction in Progress

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

(m) Long-Lived Assets

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

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

In 2003, GHC announced its intention to cease operations in 2008 of its Eastside Campus located in Redmond, Washington, which housed an inpatient hospital facility, a specialty center and primary care clinic, and to consider the sale of the Eastside Campus at that time. This action is part of GHC's overall strategic plan for the Eastside Campus. It included relocating the primary care center to downtown Redmond and building a new specialty center in Bellevue, adjacent to Overlake Hospital Medical Center, a not-for-profit regional medical center, where Group Health enrollees can receive hospital care. In February 2008, Group Health carried out its plan and placed the Eastside Campus for sale. As a result, the assets of this facility are classified as held-for-sale.

Management periodically performs an evaluation of the book value of the Eastside Campus assets compared to fair value less cost to sell. No impairment loss was incurred in 2009 or 2008.

(n) Self-Insurance

The Group is partially self-insured for professional liability and industrial accident claims and fully self-insured for unemployment benefits. Professional liability and industrial accident claims liabilities are determined using case-based estimates for reported claims and actuarial estimates for incurred but not reported claims. These estimates are based on historical information along with certain assumptions about future events. Changes in assumptions related to expected claims development as well as changes in actual experience could cause these estimates to change. At December 31, 2009 and 2008, the estimated liability for professional liability claims was $53,415,000 and $67,324,000, respectively. When preparing its estimate for professional claims liability, the Group has historically recorded a margin for risk of adverse deviation in excess of the expected ultimate losses and costs associated with settling claims. In 2009, the Group changed its method of estimating professional claims liability and is now recording at the best estimate of the ultimate losses and costs associated with settling claims. The effect of this correction was not material to the Group's consolidated financial statements. The reduction in the professional claims liability in 2009 was due primarily to the elimination of the margin for risk of adverse deviation, which resulted in a decrease of professional liability expense of approximately $11,424,000 for the year ended December 31, 2009 relating to the prior years. The professional liability expense (credit) was $(2,954,000) and $(2,411,000) for the years ended December 31, 2009 and 2008, respectively. At December 31, 2009 and 2008, the estimated liability for industrial accident claims was $6,885,000 and $7,629,000, respectively.

(o) Reinsurance

The Group limits certain exposure to claims loss by ceding reinsurance to other insurance companies. GHC maintains reinsurance on a claims-made basis for professional liability and industrial accident claims. Retention levels for professional liability are $10,000,000 per claim with a $50,000,000 annual aggregate in 2009 and 2008. Retention levels for industrial accident claims are $450,000 and $400,000 in 2009 and 2008, respectively, per claim and in aggregate. KPS purchases reinsurance to limit its exposure on all of its insured contracts except the Federal Employees Health Benefit Plan and Medicare Supplemental products. A retention level of $500,000 per claim with a coinsurance level of 10% was held in 2009 and 2008 by KPS.

Reinsurance contracts do not relieve the Group from its obligations to claimants. Failure of reinsurers to honor their obligations could result in losses to the Group. The Group had recorded prepaid reinsurance premiums of $1,161,000 and $1,444,000 as of December 31, 2009 and 2008, respectively, and reinsurance receivables of $97,000 and $68,000 as of December 31, 2009 and 2008, respectively.

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(p) Derivatives

In certain instances, the Group enters into derivative instruments to hedge specific assets and liabilities. Prior to entering into a derivative contract designated as a hedge, the relationship between the hedging instruments and the hedged items, as well as its risk management objective and strategy, is formally documented. On the date the Group enters into a derivative contract utilized as a hedge, the derivative instrument is designated as either a hedge of the fair value of a recognized asset or liability or 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).

In a cash flow hedge, the effective portion of the changes in the fair value of the hedging derivative is recorded in net assets and is subsequently reclassified into earnings during the same period in which the hedged item affects earnings. The change in fair value of any ineffective portion of the hedging derivative is recognized immediately in earnings.

To qualify for hedge accounting treatment, the derivatives and related hedged items must be designated as a hedge. Both at the inception of the hedge and on an ongoing basis, the Group assesses whether the hedging relationship is expected to be highly effective in offsetting changes in fair value or cash flows of hedged items. If it is determined that the derivative instrument is not highly effective as a hedge, hedge accounting treatment is discontinued.

(q) Revenues

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

GHC has a contract with the Centers for Medicare and Medicaid Services (CMS) to provide health care services to enrollees eligible for Medicare coverage. Under this arrangement, premiums from CMS are paid prospectively. The premium amounts vary by individual and are determined through a bidding process whereby GHC submits a bid for the projected costs of Medicare covered services. The amount of the premium is determined by the relationship of the submitted bid to the CMS county level benchmarks and is adjusted for the health risk of the enrollee. Supplemental dues are paid by individual enrollees or employer groups for benefits not covered under CMS premiums.

Other revenues consist mainly of grants awarded to the Group Health Research Institute, previously the Center for Health Studies, a division of Group Health, and optical sales. 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 use 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 and are reported as other revenue.

The table below presents the balances of the significant operating revenue types for the years ended December 31, 2009 and 2008 (in thousands):

	2009	2008
Premiums:		
Group dues	$ 1,925,714	$ 1,769,149
Medicare	669,334	647,409
Medicaid	37,088	34,159
Individual and family	104,936	71,545
Total premiums	2,737,072	2,522,262
Clinical services	193,230	194,255
Other revenue:		
Sales	13,390	13,639
Grants	37,500	31,861
Other	19,728	17,129
Total other	70,618	62,629
Total operating revenues	$ 3,000,920	$ 2,779,146

(r) 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, 2009 and 2008.

(s) Charity Care

Charity care represents medically necessary health care services that are provided to patients which have demonstrated an inability to pay. Only the portion of a patient’s account that meets GHC’s established criteria is recognized as charity care. The charges associated with charity care provided by GHC were $2,422,000 and $2,175,000 for the years ended December 31, 2009 and 2008, respectively.

(t) External Delivery Services

External delivery services represent health care expenses incurred by GHC, GHO, and KPS for care provided by contracted and noncontracted health care facilities and practitioners. The liability reflected on the consolidated balance sheets is determined using actuarial estimates. These estimates are based on historical information along with certain assumptions about future events. Changes in assumptions, as well as changes in actual experience, could materially impact these estimates.

(u) Group Health Permanente Expense

Group Health Permanente P.C. is an independent medical group with an exclusive contract to provide medical services at GHC facilities providing primary, specialty, and inpatient care.

(v) Advertising

Advertising costs are expensed as incurred and are recorded within other expenses in the statements of operations and changes in net assets. The Group recorded advertising expense of $8,515,000 and $8,966,000 for the years ended December 31, 2009 and 2008, respectively.

(w) Leases

Rent revenue and expense is recorded on a straight-line basis over the term of the respective leases. Lease incentives are amortized ratably over the lease term (see note 10).

(x) Income Taxes

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

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

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(y) Net Assets

Unrestricted net assets result from operations and unrestricted contributions income. Temporarily and permanently restricted net assets are accounted for within GHC and the Foundation. Temporarily restricted net assets account for funds restricted by donors for specific purposes and are available to support GHC and the Foundation in carrying out their missions.

Temporarily restricted net assets are available for the following purposes as of December 31, 2009 and 2008 (in thousands):

		2009		2008
Health care services	$	2,917	$	1,250
Health education		767		104
Health care research and development		456		422
Other		87		47
Total temporarily restricted net assets	$	4,227	$	1,823

Certain temporarily restricted net assets are reclassified to unrestricted net assets after the time restriction expires. Permanently restricted net assets as of December 31, 2009 and 2008 are contributions restricted by the donor to be invested in perpetuity.

The change in temporarily restricted net assets is comprised of $944,000 and $1,184,000 of contributions, $951,000 and $1,380,000 of release from restrictions, and investment income (loss) of $2,043,000 and $(2,309,000) and other of $368,000 and $(507,000) for the years ended December 31, 2009 and 2008, respectively.

(z) Reclassifications

Certain reclassifications have been made to the 2008 consolidated financial statements to conform to the 2009 consolidated financial statement presentation.

(aa) Accounting Changes

In April 2009, the Financial Accounting Standards Board (FASB) issued Accounting Standards Codification (ASC or Codification) Section 320-10-65, *Recognition and Presentation of Other-Than-Temporary Impairments*, which amends other-than-temporary guidance for debt securities to be more operational and to improve presentation and disclosure of OTTI on debt and equity securities in the financial statements. This standard is effective for the 2009 fiscal year. This standard was applied to existing fixed income investments held at time of adoption, which resulted in the Group recognizing a cumulative effect adjustment to net assets and resulted in additional disclosures (see note 3). The adoption of this standard did not have a material impact on the Group's consolidated financial statements.

(bb) New Accounting Pronouncements

In June 2009, the FASB established the FASB ASC to become the source of authoritative GAAP to be applied by nongovernmental entities. The Codification does not change GAAP, except in limited circumstances. The GAAP hierarchy has been modified to include only two levels of GAAP: authoritative and nonauthoritative. The Group adopted the Codification in the 2009 fiscal year, and references to GAAP accounting pronouncements in the notes to the consolidated financial statements have been modified accordingly.

In January 2010, the FASB issued Accounting Standard Update (ASU) No. 2010-06, *Fair Value Measurements and Disclosures, Improving Disclosures about Fair Value Measurements*, which requires new disclosures that increase the transparency in financial reporting. The standard is effective for the 2010 fiscal year. The Group is evaluating the impact the adoption of this standard will have on its future consolidated financial statements.

In September 2009, the FASB issued ASU No. 2009-12, *Investments in Certain Entities That Calculate Net Asset value per Share (or Its Equivalent)*, which allows for the estimation of the fair value of investments in investment companies for which the investment does not have a readily determinable fair value using net asset value per share or its equivalent. This standard is effective for the 2009 fiscal year. The adoption of this standard did not have a material impact on the Group's consolidated financial statements.

In August 2009, the FASB issued ASU No. 2009-05, *Fair Value Measurements and Disclosures—Measuring Liabilities at Fair Value*, which provides clarifying guidance on the fair value measurement of liabilities. This standard is effective for the 2009 fiscal year. The adoption of this standard did not have a material impact on the Group's consolidated financial statements.

In May 2009, the FASB issued ASC Subtopic 855-10, *Subsequent Events*, which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. This standard requires disclosure of the date through which an entity has evaluated subsequent events and the basis for that date. It is effective for the 2009 fiscal year. The adoption of this standard did not have a material impact on the Group's consolidated financial statements.

In April 2009, the FASB issued ASC Subtopic 958-805, *Not-for-Profit Entities: Business Combinations,* which provides guidance on accounting for a combination, whether a merger or acquisition, of not-for-profit entities. This standard is effective for the 2010 fiscal year. The adoption of this standard will not have a material impact on the Group's consolidated financial statements.

(3) Marketable Securities

Marketable securities as of December 31, 2009 and 2008 consist of the following (in thousands):

	2009				2008			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Debt:								
U.S. government securities	$ 304,301	$ 6,497	$ (2,108)	$ 308,690	$ 306,573	$ 14,891	$ (158)	$ 321,306
Commercial paper	7,750	2	—	7,752	17,434	48	—	17,482
Corporate debt securities	243,324	7,550	(1,003)	249,871	189,431	2,089	(4,691)	186,829
Mortgage-backed securities	—	—	—	—	50,345	1	(2,182)	48,164
Asset-backed securities	8,835	113	(229)	8,719	—	—	—	—
Collateralized mortgage obligations	51,061	878	(921)	51,018	35,805	169	(4,194)	31,780
Mutual funds:								
Fixed income	3,285	54	(23)	3,316	3,025	24	(63)	2,986
Equity	182,609	6,865	(1,804)	187,670	154,821	—	(4,132)	150,689
Other	15	—	(2)	13	135	—	(3)	132
Total	$ 801,180	$ 21,959	$ (6,090)	$ 817,049	$ 757,569	$ 17,222	$ (15,423)	$ 759,368

Contractual maturities of debt securities held as of December 31, 2009 include:

	Fair value				
	Within 1 year	After 1 year through 5 years	After 5 years through 10 years	After 10 years	Total fair value
Debt:					
U.S. government securities	$ 9,172	$ 108,264	$ 51,288	$ 139,966	$ 308,690
Commercial paper	7,752	—	—	—	7,752
Corporate debt securities	48,106	98,981	76,878	25,906	249,871
Asset-backed securities	106	6,712	528	1,373	8,719
Collateralized mortgage obligations	—	923	13,705	36,390	51,018

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, 2009 and 2008 (in thousands):

	2009	2008
Interest	$ 28,889	$ 36,016
Realized gains on sale	42,037	8,340
Realized losses on sale	(3,063)	(5,840)
Dividends and capital gains	2,496	7,035
Amortization, accretion and other	(562)	(1,807)
OTTI	(243)	(103,304)
Total investment income (loss)	$ 69,554	$ (59,560)

Upon adoption of ASC Section 320-10-65 in 2009, the Group recorded a cumulative effect adjustment of $738,000 as of the beginning of the period of adoption to reclassify the noncredit component of previously recognized OTTI and is reflected within other changes in unrestricted net assets in the consolidated statements of operations and changes in net assets.

The Group evaluates investment securities for OTTI losses based on qualitative and quantitative factors. In 2009, the amount of the credit component of OTTI losses on fixed income securities recognized in income was $243,000. The portion of the OTTI losses from noncredit-related factors was $79,000 and was recognized as a component of the change in net unrealized investment gains and losses.

The following tables show the gross unrealized losses and fair value of the Group's investments with unrealized losses. These securities are aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2009 and 2008 (in thousands):

	Less than 12 months		12 months or greater		Total	
2009	**Fair value**	**Unrealized losses**	**Fair value**	**Unrealized losses**	**Fair value**	**Unrealized losses**
Debt:						
U.S. government securities	$ 121,650	$ (1,864)	$ 2,331	$ (244)	$ 123,981	$ (2,108)
Corporate debt securities	57,153	(787)	3,566	(216)	60,719	(1,003)
Asset-backed securities	796	(200)	359	(29)	1,155	(229)
Collateralized mortgage obligations	14,558	(135)	8,995	(786)	23,553	(921)
Mutual funds:						
Fixed income	365	(4)	1,035	(19)	1,400	(23)
Equity	20,510	(243)	4,925	(1,561)	25,435	(1,804)
Other	—	—	4	(2)	4	(2)
Total	$ 215,032	$ (3,233)	$ 21,215	$ (2,857)	$ 236,247	$ (6,090)

(Continued)

2008	Less than 12 months Fair value	Less than 12 months Unrealized losses	12 months or greater Fair value	12 months or greater Unrealized losses	Total Fair value	Total Unrealized losses
Debt:						
U.S. government securities	$ 6,765	$ (158)	$ —	$ —	$ 6,765	$ (158)
Corporate debt securities	83,842	(3,712)	5,353	(979)	89,195	(4,691)
Mortgage-backed securities	45,761	(2,063)	981	(119)	46,742	(2,182)
Collateralized mortgage obligations	15,921	(2,869)	4,514	(1,325)	20,435	(4,194)
Mutual funds:						
Fixed income	1,190	(50)	1,137	(13)	2,327	(63)
Equity	5,058	(2,399)	1,879	(1,733)	6,937	(4,132)
Other	—	—	3	(3)	3	(3)
Total	$ 158,537	$ (11,251)	$ 13,867	$ (4,172)	$ 172,404	$ (15,423)

The unrealized losses in the Group's investments in 2009 were due primarily to changes in interest rates. Substantially all 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 2009. The Group has the ability and intent to hold these investments until a recovery of market 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):

	2009	2008
Balances at January 1	$ 170,793	$ 152,716
Incurred related to:		
Current year	1,596,520	1,378,503
Prior years	(719)	(26,646)
Total incurred	1,595,801	1,351,857
Paid related to:		
Current year	1,420,028	1,226,582
Prior years	146,350	107,198
Total paid	1,566,378	1,333,780
Balances at December 31	$ 200,216	$ 170,793

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. Negative amounts reported for incurred related to prior years result from claims being adjudicated and paid for amounts less than originally estimated.

(Continued)

(5) Revenue Bonds

The 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, 2009 and 2008.

Long-term debt at December 31, 2009 and 2008 consists of the following (in thousands):

	Years of maturity	2009	2008
Revenue bonds:			
Series 1991, 6-1/4% to 6-3/4%, net of bond discount of $975 and $1,097 in 2009 and 2008, respectively	2008 – 2021	$ 39,976	$ 41,518
Series 2001, 3-1/2% to 5-3/8%, plus bond premium of $1,011 and $1,241 in 2009 and 2008, respectively	2008 – 2019	54,151	58,391
Series 2006, 4-1/2% to 5.0%, plus bond premium of $1,771 and $1,856 in 2009 and 2008, respectively	2022 – 2036	99,736	99,821
Other		4	5
Subtotal		193,867	199,735
Less current portion		(6,154)	(5,872)
Total long-term debt		$ 187,713	$ 193,863

Future annual principal payments on long-term debt for each of the next five years and thereafter at December 31, 2009 are as follows (in thousands):

Years ending December 31:	
2010	$ 5,990
2011	6,050
2012	6,620
2013	6,970
2014	7,365
Thereafter	159,065
Subtotal	192,060
Add unamortized premium and discount, net	1,807
Total	$ 193,867

Interest paid during 2009 and 2008 was $8,523,000 and $9,014,000, respectively. Interest expense was $13,149,000 and $1,756,000 during 2009 and 2008, respectively, and the amount of interest capitalized was $410,000 and $1,904,000 in 2009 and 2008, respectively. The effect of the interest rate swap increased interest by $2,465,000 and reduced interest by $6,935,000 in 2009 and 2008, respectively.

In March 2010, GHC notified the trustee of the Series 1991 bonds of its intention to redeem the bonds. The redemption is required to occur no later than 45 days after delivery of notice. There is no call premium associated with an early redemption and bond provisions permit rescission of the call notice prior to redemption.

(6) Derivative Financial Instruments

GHC is exposed to the effects of changing interest rates. This exposure is managed, in part, with the use of derivatives. The following is a summary of GHC's risk management strategies and the effects of these strategies on the consolidated financial statements.

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

GHC had a total return swap with Lehman Brothers considered to be a derivative financial instrument. The total return swap entitled GHC to receive payments equal to the coupon rates on the 1991 Series bonds and pay a variable rate that was based on the Securities Industry and Financial Markets Association Municipal Swap Index. In September 2008, Lehman Brothers Holdings Inc., which is the guarantor of the counterparty, filed for bankruptcy. The counterparty, Lehman Brothers Holdings Inc. also filed for bankruptcy in October 2008. These events resulted in the termination of the swap agreement. The fair value of the interest rate swap, which was charged to interest expense in 2008, was not significant to the consolidated financial statements.

(7) Disclosure about Fair Value of Financial Instruments

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

- Level 1 – Valuation is based upon quoted prices for identical instruments traded in active markets. At December 31, 2009, Level 1 securities include primarily U.S. government bonds, and mutual funds.
- Level 2 – Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market. At December 31,

2009, Level 2 securities include primarily U.S. government and corporate bonds, commercial paper, asset-backed securities, and collateralized mortgage obligations.

- Level 3 – Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect the Group's estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of discounted cash flow models and similar techniques. At December 31, 2009, Level 3 instruments include primarily an interest rate swap and real estate.

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

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

(a) Cash and Cash Equivalents

The carrying amounts approximate fair value due to the short maturity of those instruments.

(b) Long-Term Debt

Long-term debt is carried at amortized cost; however, accounting standards require the Group to disclose the fair value. The fair value of the Group's long-term debt is based on quoted market prices, which are Level 1 inputs. The fair value of the long-term debt was $190,246,000 and $165,715,000 as of December 31, 2009 and 2008, respectively.

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

The table below presents the balances of assets measured at fair value on a recurring basis. There were no liabilities required to be reported at fair value as of December 31, 2009 and 2008 (in thousands):

	Fair value measurements at December 31, 2009 using			
	Fair value	**Quoted prices in active markets for identical assets (Level 1)**	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
Available-for-sale securities				
Debt:				
U.S. government securities	$ 308,690	$ 120,744	$ 187,946	$ —
Commercial paper	7,752	—	7,752	—
Corporate debt securities	249,871	—	249,871	—
Asset backed securities	8,719	—	8,719	—
Collateralized mortgage backed securities	51,018	—	51,018	—
Mutual funds:				
Fixed income	3,316	3,316	—	—
Equity	187,670	187,670	—	—
Other	13	4	—	9
Total available-for-sale securities	$ 817,049	$ 311,734	$ 505,306	$ 9
Funds held by trustee				
Money markets	$ 5,943	$ 5,943	$ —	$ —
Guaranteed income contract	8,848	—	—	8,848
Total funds held by trustee	$ 14,791	$ 5,943	$ —	$ 8,848
Interest rate swap	$ 251	$ —	$ —	$ 251

	Fair value measurements at December 31, 2008 using			
	Fair value	**Quoted prices in active markets for identical assets (Level 1)**	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
Available-for-sale securities				
Debt:				
U.S. government securities	$ 321,306	$ 63,417	$ 257,889	$ —
Commercial paper	17,482	—	17,482	—
Corporate debt securities	186,829	3,586	175,283	7,960
Mortgage backed securities	48,164	—	48,164	—
Collateralized mortgage backed securities	31,780	—	31,780	—
Mutual funds:				
Fixed income	2,986	2,986	—	—
Equity	150,689	147,024	3,665	—
Other	132	3	—	129
Total available-for-sale securities	$ 759,368	$ 217,016	$ 534,263	$ 8,089
Funds held by trustee				
Money markets	$ 586	$ 586	$ —	$ —
Guaranteed income contract	8,848	—	—	8,848
Total funds held by trustee	$ 9,434	$ 586	$ —	$ 8,848
Interest rate swap	$ 5,486	$ —	$ —	$ 5,486

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

	Fair value measurements using significant unobservable inputs (Level 3)			
	Available-for-sale securities	**Funds held by trustee**	**Interest rate swap**	**Total**
Beginning balance at January 1, 2008	$ 184	$ 8,848	$ (130)	$ 8,902
Purchases	8,133	—	—	8,133
Total gains or losses (realized/unrealized) included in changes in net assets	(228)	—	5,616	5,388
Ending balance at December 31, 2008	8,089	8,848	5,486	22,423
Sales	(8,077)	—	—	(8,077)
Total losses (realized/ unrealized) included in changes in net assets	(3)	—	(5,235)	(5,238)
Ending balance at December 31, 2009	$ 9	$ 8,848	$ 251	$ 9,108
Net unrealized losses included in changes in net assets for the year relating to assets held at December 31, 2009	$ —	$ —	$ —	$ —
Net unrealized gains (losses) included in changes in net assets for the year relating to assets held at December 31, 2008	$ (81)	$ —	$ —	$ (81)

(8) Pension Plans

The Group contributes to two defined benefit plans (the Plans), a defined contribution plan, two 401(k) plans, a 403(b) plan, and several union negotiated plans that collectively cover substantially all of its employees. The Group's policy is to fund pension costs for the Plans based on actuarially determined funding requirements, thereby accumulating funds adequate to provide for all accrued benefits. Contributions for the defined contribution plan are based on a percentage of covered employees' salaries. Matching contributions to the 401(k) and 403(b) plans are based on a percentage of participants' contributions as set forth in the plan agreement. The total expense for the defined benefit plans was \$35,567,000 and \$9,752,000 in 2009 and 2008, respectively, and the total expense for the other plans was \$17,137,000 and \$17,099,000 in 2009 and 2008, respectively.

On January 15, 2009, KPS amended its defined benefit pension plan to freeze 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. The most significant financial effect is that no new benefits are being accrued after the date of freeze.

For the defined benefit plans, the actuarial cost method used in determining the net periodic pension cost is the projected unit credit cost method. At December 31, 2009 and 2008, net periodic pension expense related to the Group's participation in the Plans for 2009 and 2008 included the following components (in thousands):

	2009	2008
Service cost	$ 19,383	$ 21,172
Interest cost on projected benefits	25,810	25,075
Expected return on plan assets	(27,040)	(36,421)
Amortization of net loss	17,184	—
Actuarial loss (gain)	230	(74)
Net periodic benefit cost	$ 35,567	$ 9,752
Discount rate (preretirement)	6.00% – 6.20%	6.30% – 6.60%
Discount rate (postretirement)	6.00	5.50 – 6.60
Rate of increase in compensation levels	4.39 – 5.00	4.39 – 5.00
Expected return on plan assets	8.00 – 8.50	8.00 – 8.50

The Plans' funded status and amounts included in unrestricted net assets to be recognized as a component of net periodic pension cost as of December 31, 2009 and 2008 are shown in the following table (in thousands):

		2009		2008
Change in projected benefit obligation:				
Projected benefit obligation at beginning of year	$	435,363	$	406,079
Service cost		19,383		21,172
Interest cost		25,811		25,075
Plan amendments/curtailment		(3,007)		—
Actuarial loss		17,015		2,781
Benefits paid		(8,991)		(19,823)
Employee contributions		930		79
Projected benefit obligation – end of year		486,504		435,363
Change in plan assets:				
Fair value of plan assets – beginning of year		328,377		436,081
Actual return on plan assets		73,213		(109,858)
Employer contributions		30,875		21,898
Employee contributions		930		79
Benefits paid		(8,991)		(19,823)
Fair value of plan assets – end of year		424,404		328,377
Funded status	$	(62,100)	$	(106,986)
Amounts recognized in unrestricted net assets consist of:				
Net actuarial loss	$	126,848	$	176,427
Accumulated benefit obligation – end of year		447,278		391,871
Discount rate (preretirement)		5.90% – 6.00%		6.00% – 6.20%
Discount rate (postretirement)		5.90 – 6.00		6.00%
Rate of increase in compensation levels		0.00 – 5.00		4.39 – 5.00

The funded status is recorded as a component of noncurrent liabilities as of December 31, 2009 and 2008 in the consolidated balance sheets.

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

(a) Investment Policies and Strategies

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

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

As of December 31, 2009 and 2008, the following table summarizes the target allocation range defined in the investment policies compared to the actual allocations of the Group's plan assets:

	2009		2008	
	Target allocation	**Actual allocation**	**Target allocation**	**Actual allocation**
Equity securities	60% – 70%	56%	60% – 70%	55%
Debt securities	30 – 40	40	25 – 40	43
Cash equivalents	0 – 5	4	0 – 5	2
Other investments	0 – 5	—	0 – 5	—

The investment policy emphasizes the following key objectives:

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

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

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

The assumed long-term return on plan assets used for 2009 was 8.50%. There are no required employer contributions expected to be made to the Plans in 2010.

Expected amounts to be recognized as components of 2010 net periodic pension cost are (in thousands):

Service cost	$	21,108
Interest cost on projected benefits		27,751
Expected return on plan assets		(35,419)
Amortization of net loss		10,526
Net periodic pension cost	$	23,966

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, 2009 are as follows (in thousands):

Years ending December 31:		
2010	$	32,878
2011		34,325
2012		37,073
2013		36,259
2014		38,879
2015 – 2019		210,189
Total	$	389,603

(c) Fair Value of Pension Assets

The table below presents the balances of assets measured at fair value on a recurring basis as of December 31, 2009 (in thousands):

	Fair value measurements at reporting date using			
	Fair value	**Quoted prices in active markets for identical assets (Level 1)**	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
Plan assets				
Commingled bond funds	$ 108,641	$ 108,641	$ —	$ —
Common stocks	115,317	115,317	—	—
Corporate debt securities	12,155	12,155	—	—
Mutual funds	56,131	56,131	—	—
Real estate investment trusts	932	932	—	—
Common collective trust	63,029	—	19,850	43,179
Limited partnership	36,459	—	—	36,459
Commingled trust	31,740	—	—	31,740
Total plan assets	$ 424,404	$ 293,176	$ 19,850	$ 111,378

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

	Fair value measurement using significant unobservable inputs (Level 3)
Beginning balance at January 1, 2009	$ 90,507
Purchase, issuance, and settlement	4,082
Total gains or losses (realized/unrealized) included in changes in net assets	16,789
Ending balance at December 31, 2009	$ 111,378
Net unrealized gains included in changes in net assets for the year relating to assets held at December 31, 2009	$ 27,582

(d) Pension Net Asset Valuation

Investments held in the Plans that calculate net asset value per share (or its equivalent) are presented by major category (in thousands):

		Fair value	Redemption frequency	Redemption notice period
Common collective trust (a)	$	43,179	Monthly	0-30 days
Limited partnership (b)		36,459	Monthly	15 days
Commingled trust (c)		31,740	Monthly	10 days
Total	$	111,378		

a. This category invests in a broad range of high-quality (investment grade) U.S. fixed income securities and seeks to provide long-term returns. This category also invests in high quality, short-term money market securities.

b. This category invests in non-U.S. (Europe, Australasia, Far East) common equity employing a long-term value approach for its stock selection.

c. This category invests in non-U.S. (Europe, Australasia, Far East) common equity employing a long-term growth approach for its stock selection.

At December 31, 2009 and 2008, the Plans have no outstanding funding commitments.

(9) Retiree Medical Plans

GHC provides certain medical benefits for eligible retired employees. Employees became eligible for these benefits upon retirement and 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 retiring on or after December 31, 2009 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. A portion of the accumulated benefit obligation, totaling $10,852,000, was paid out in March 2010.

At December 31, 2009 and 2008, net periodic postretirement benefit cost comprises the following components (in thousands):

		2009		2008
Service cost	$	663	$	868
Interest cost on accumulated benefit obligation		4,451		4,173
Amortization of unrecognized prior service cost		(299)		(299)
Amortization of transition obligation		477		477
Net periodic postretirement benefit cost	$	5,292	$	5,219

Amounts recognized in unrestricted net assets consist of:

	2009	2008
Net actuarial loss (gain)	$ 7,587	$ (9)
Prior service credit	—	(907)
Transition obligation	—	1,977
	$ 7,587	$ 1,061

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, 2009 and 2008, and comprises the following components (in thousands):

	2009	2008
Change in accumulated postretirement benefit obligation:		
Accumulated postretirement benefit obligation at beginning of year	$ 69,783	$ 72,762
Service cost	661	870
Interest cost	4,451	4,173
Plan amendments/curtailment	(14,305)	—
Actuarial loss (gain)	9,296	(3,727)
Benefits paid	(5,133)	(4,295)
Accumulated postretirement benefit obligation – end of year	$ 64,753	$ 69,783
Change in plan assets:		
Employer contributions	$ 5,133	$ 4,295
Benefits paid	(5,133)	(4,295)

Future benefit costs were estimated assuming medical costs would increase at an 8.60% annual rate. A 1.0% increase in this annual trend rate would have increased the APBO at December 31, 2009, by $4,921,000 and the sum of service cost and interest cost for 2009 by $564,000. A 1.0% decrease in this annual trend rate would have decreased the APBO at December 31, 2009 by $4,286,000 and the sum of service cost and interest cost for 2009 by $480,000.

The weighted average discount rate used in determining the APBO was 5.30% in 2009 and 6.20% in 2008. 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 6.20% in 2009 and 6.30% in 2008, and is based on beginning of year assumptions.

Expected amounts to be recognized as components of 2010 net periodic postretirement benefit cost are (in thousands):

Interest cost on projected benefits	$	2,672
Amortization of net loss		164
Net periodic postretirement benefit cost	$	2,836

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

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, 2009, are as follows (in thousands):

Years ending December 31:		
2010	$	4,998
2011		4,972
2012		4,901
2013		4,782
2014		4,672
2015 – 2019		21,351
Total	$	45,676

(10) Commitments and Contingencies

(a) Leases

The Group has various operating leases for land, buildings, and equipment. Total rent expense was $19,204,000 and $19,955,000 on these leases in 2009 and 2008, respectively. Total sublease rental revenue was $2,406,000 and $2,341,000 in 2009 and 2008, respectively. Future minimum rental payments and future minimum sublease rental receipts under noncancelable operating lease and sublease agreements as of December 31, 2009 are as follows (in thousands):

	Minimum sublease rental receipts	Minimum rental payments
Years ending December 31:		
2010	$ 2,578	$ 20,151
2011	2,388	18,121
2012	2,140	16,055
2013	2,018	15,801
2014	726	15,517
Thereafter	1,036	34,445
Total	$ 10,886	$ 120,090

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 dues and deposits and other noncurrent liabilities in the consolidated balance sheets in the amount of $19,205,000 and $22,122,000 as of December 31, 2009 and 2008, respectively.

(b) Labor

Approximately 58% of GHC's employees are covered under collective bargaining agreements. These employees provide nursing and other technical services to GHC. Bargaining disputes could adversely affect GHC.

(c) Litigation

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

(Continued)

(d) Guarantees

In December 2005, GHC signed a joint venture agreement with City Investors V LLC, a real estate development company controlled by the Vulcan Corporation, to form Westlake Terry LLC. GHC has a 50% ownership interest in Westlake Terry LLC in the amount of $4,711,000 and $5,944,000 as of December 31, 2009 and 2008, respectively. Under the agreement, the joint venture developed two adjacent buildings totaling 319,000 square feet located in Seattle, Washington, with GHC a major tenant of the facility with a 10-year operating lease agreement. GHC, GHO, and the Foundation moved their administrative headquarters to this site in August 2007.

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

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

(e) Contingencies

GHC contracts with the Office of Personnel Management (OPM) as a community–rated carrier under the Federal Employee Health Benefits Program (FEHBP). During 2009, a regularly scheduled audit was conducted by the Office of Inspector General (OIG) on behalf of OPM. In March 2010, GHC received the OIG's draft audit report with its preliminary findings and recommendations that includes a defective pricing claim that is estimated at approximately $37,700,000 plus interest. Management strongly disagrees with the OIG's assertion as management believes it is contrary to applicable laws, regulations and OPM's instructions and believes that no amount is owed to OPM for this matter. Management is in the process of assessing all findings in the OIG's draft report and expects this matter to be resolved without a material effect on the Group's consolidated financial statements.

(11) Federal Income Taxes

The components of income tax expense (benefit) for GHO, KPS, and NCVS related to continuing operations and the change in unrestricted net assets for the years ended December 31, 2009 and 2008 are summarized as follows (in thousands):

		2009		2008
Federal income tax (benefit) expense on operations	$	(937)	$	797
Federal income tax (benefit) expense included in the change in unrestricted net assets		(1,283)		528
	$	(2,220)	$	1,325

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

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

	2009	2008
Deferred tax asset	$ 9,484	$ 9,824
Deferred tax liability	(987)	(675)
Valuation allowance	(5,128)	(5,166)
Net deferred tax asset	$ 3,369	$ 3,983

Deferred tax assets primarily relate to the tax effects of temporary differences associated with pension liabilities, buildings and improvements, OTTI, and net operating loss carryforwards. The deferred tax liability results primarily from temporary differences in unrealized investment gains, pension and postretirement accruals, accrued dividends, and the effect of an Internal Revenue Code (IRC) Section 481 adjustment due to a change in accounting method for unearned premiums. A valuation allowance has been provided for the net deferred tax asset as management believes it is more likely than not that the entire amount will not be realized.

At December 31, 2009, the Group has net operating loss carryforwards for federal income tax purposes of $9,208,000, which expire between 2018 through 2024.

(12) Endowments

Endowment funds held at the Foundation consist of approximately 40 individual funds established for a variety of purposes and are all donor-restricted. The change in net assets associated with the endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. Donor-restricted endowment assets were $9,707,000 and $7,613,000 at December 31, 2009 and 2008, respectively, and are recorded in restricted net assets.

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

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

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

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

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

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

(13) Subsequent Events

Subsequent events are events or transactions that occur after the consolidated balance sheet date but before financial statements are issued that provide additional evidence about conditions that existed at the date of the balance sheet. The Group has evaluated subsequent events for recognition or disclosure through April 2, 2010, the date these consolidated financial statements are available for issuance.

As a result of recently enacted federal health care reform legislation, substantial changes are anticipated in the United States health care system. Such legislation includes numerous provisions affecting the delivery of health care services, the financing of health care costs, reimbursement of health care providers and the legal obligations of health insurers, providers and employers. These provisions are currently slated to take effect at specified times over approximately the next decade. This federal health care reform legislation does not affect the 2009 consolidated financial statements.

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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

The Board of Trustees
Group Health Cooperative and Subsidiaries:

We have audited the financial statements of Group Health Cooperative and Subsidiaries (the Group) as of and for the years ended December 31, 2009 and 2008, and have issued our report thereon dated April 2, 2010. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Group's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Group's internal control over financial reporting.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency and that is described in the accompanying schedule of findings and questioned costs as finding 09-01. A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Group's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Group in a separate letter dated April 2, 2010.

The Group's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Group's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Board of Trustees, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

April 2, 2010

KPMG LLP
Suite 900
801 Second Avenue
Seattle, WA 98104

Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

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

Compliance

We have audited the compliance of Group Health Cooperative and Subsidiaries (the Group) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2009. The Group's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Group's management. Our responsibility is to express an opinion on the Group's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Group's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provided a reasonable basis for our opinion. Our audit does not provide a legal determination on the Group's compliance with those requirements.

In our opinion, the Group complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2009.

Internal Control over Compliance

The management of the Group is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grant agreements applicable to federal programs. In planning and performing our audit, we considered the Group's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Group's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the basic consolidated financial statements of the Group as of and for the year ended December 31, 2009, and have issued our report thereon dated April 2, 2010. Our audit was performed for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic consolidated financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Trustees, management, others within the entity, federal awarding agencies, and pass-through entities, and is not intended to be, and should not be, used by anyone other than these specified parties.

KPMG LLP

April 2, 2010

GROUP HEALTH COOPERATIVE AND SUBSIDIARIES

Schedule of Expenditures of Federal Awards

Year ended December 31, 2009

Federal agency/subdivision	CFDA number	Pass-through identifying number	Expenditures
Research and Development cluster:			
Department of Defense:			
Pass-through funds from:			
University of Wisconsin	12.420	W81XWH-07-1-0522	$ 16,535
University of Washington	12.800	FA7014-08-2-0002	95,271
			111,806
Agency for Healthcare Research and Quality	93.226		291,826
Pass-through funds from:			
University of Washington	93.226	5R01HS014764-02	34,050
Harvard Pilgrim Health Care	93.226	1U18HS016955-01	(4,311)
Harvard Pilgrim Health Care	93.226	5U18HS016955	14,228
Harvard Pilgrim Health Care	93.226	5U18HS016955	7,197
Harvard Pilgrim Health Care	93.226	5U18HS016955	26,392
University of Washington	93.226	1R21HS017657-01	59,722
Seattle Children's Hospital	93.226	1R18HS018156-01	7,190
			436,294
Agency for Healthcare Research and Quality	93.RD		912
Pass-through funds from:			
Rand	93.RD	HHSA2902006000171	37,886
Harvard Pilgrim Health Care	93.RD	HHSA290200500331 TO5	29,502
Harvard Pilgrim Health Care	93.RD	HHSA290200500331-TO4-WA1	1,740
Kaiser Permanente Division of Research	93.RD	HHSA290-2005-0033-1	148,782
Kaiser Permanente Division of Research	93.RD	HHSA290-2005-0033-I-TO10-WA4	11,657
			230,479
Centers for Disease Control and Prevention:			
Pass-through funds from:			
University of Washington	93.135	5U48DP000050-05	5,688
University of Washington	93.135	5U48DP000050-05	4,992
University of Washington	93.135	2U48DP000050-06	318
Center for Health Training	93.260	6 FPTPA100014-27	45,241
Center for Health Training	93.260	6FPTPA100014-27	5,361
University of Washington	93.283	5U90TP024247-06	20,717
Public Health – Seattle & King	93.283	5U58CCU02330-05	10,750
SE Alaska Regional Health Consortium	93.283	5U58DP024663-04	35,771
Fred Hutchinson Cancer Research Center	93.283	5R18DP001142-02	28,534
Fred Hutchinson Cancer Research Center	93.283	5R18DP001142-03	23,721
Latino Commission on AIDS	93.941	1H62PS001325-01	36,445
Latino Commission on AIDS	93.941	5H62PS001325-02	5,239
Seattle Children's Hospital	93.945	5U01DP000244-04	5,846
University of Washington	93.977	5H25PS001349-02	10,952
Americas Health Insurance Plan	93.RD	200-2002-00732	883
Americas Health Insurance Plan	93.RD	200-2002-00732	661,482
Americas Health Insurance Plan	93.RD	200-2002-00732	168,758
Americas Health Insurance Plan	93.RD	200-2002-00732	622
Americas Health Insurance Plan	93.RD	200-2002-00732	277,593
Americas Health Insurance Plan	93.RD	200-2002-00732	103,273
Americas Health Insurance Plan	93.RD	200-2002-00732	18,852
			1,471,038
Department of Health and Human Services:			
Pass-through funds from:			
MDRC New York	93.RD	233-01-0012	7,988
			7,988

GROUP HEALTH COOPERATIVE AND SUBSIDIARIES

Schedule of Expenditures of Federal Awards

Year ended December 31, 2009

Federal agency/subdivision	CFDA number	Pass-through identifying number	Expenditures
Food and Drug Administration:	93.RD		$ 55,944
Pass-through funds from:			
Harvard Pilgrim Health Care	93.RD	HHSF223200510012C-COA6	29,511
Harvard Pilgrim Health Care	93.RD	HHSF223200510012C-COA7	74,774
Harvard Pilgrim Health Care	93.RD	HHSF223200510012C-COA7	1,700
Harvard Pilgrim Health Care	93.RD	HHSF223200510010C	1,906
Harvard Pilgrim Health Care	93.RD	HHSF223200910006I	225
Harvard Pilgrim Health Care	93.RD	HHSF223200910006I	3,910
			167,970
Health Services and Services Admin:			
Pass-through funds from:			
University of Washington	93.249	D20HP00007-09-00	6,467
University of Washington	93.249	5D20HP00007-10	2,575
			9,042
National Institutes of Health	93.172		
Pass-through funds from:			
University of Washington	93.113	5P42ES004696-21	2,037
			2,037
National Institutes of Health	93.172		1,287,167
			1,287,167
National Institutes of Health	93.213		1,176,931
			1,176,931
National Institutes of Health			
Pass-through funds from:			
University of Washington	93.226	5R01HS016506-02	1,475
			1,475
National Institutes of Health	93.242		3,067,824
Pass-through funds from:			
Seattle Children's Hospital	93.242	1R01MH085645-01A1	21,292
University of Washington	93.242	5R01MH072736-04	12,487
University of Washington	93.242	5R01MH041739-21	697,125
University of Washington	93.242	1R01MH084759-01	88,151
University of Washington	93.242	1R01MH084897-01A1	7,444
University of Washington	93.242	1R01MH085668-01A1	3,695
			3,898,018
National Institutes of Health:	93.279		841,720
Pass-through funds from:			
Free and Clear Inc	93.279	1R21DA026580-01	5,071
Stanford University	93.279	7R21DA027331-0209	8,937
University of California, San Francisco	93.279	5U01DA020830-04	18,288
University of California, San Francisco	93.279	5U01DA020830-05	8,861
University of Wisconsin	93.279	5P50DA019706-10	232,480
			1,115,357
National Institutes of Health:			
Pass-through funds from:			
University of Washington	93.281	5K23MH069814-03	6,574
			6,574
National Institutes of Health	93.386		34,230
			34,230

GROUP HEALTH COOPERATIVE AND SUBSIDIARIES

Schedule of Expenditures of Federal Awards

Year ended December 31, 2009

Federal agency/subdivision	CFDA number	Pass-through identifying number		Expenditures
National Institutes of Health				
Pass-through funds from:				
Fred Hutchinson Cancer Research Center	93.389	5R01CA098858-04	$	3,217
University of Washington	93.389	5UL1RR025014-02		202,480
University of Washington	93.389	5UL1RR025014-03		177,880
University of Washington	93.389	3UL1RR025014-02S1		100,467
University of Washington	93.389	3UL1RR025014-03		54,301
				538,345
National Institutes of Health	93.393			5,083,381
Pass-through funds from:				
Boston Medical Center	93.393	2R01CA093772-01		44,963
Boston Medical Center	93.393	5R01CA093772-06		47,921
Center for Health Research	93.393	5R01CA114204-02		66,434
Center for Health Research	93.393	5R01CA114204-03		50,915
Fred Hutchinson Cancer Research Center	93.393	5R01CA097325-05		52,353
Fred Hutchinson Cancer Research Center	93.393	5R01CA097325-06		104,792
Fred Hutchinson Cancer Research Center	93.393	5R01CA098415-05		29,893
Fred Hutchinson Cancer Research Center	93.393	5U01CA088160-08		41,801
Fred Hutchinson Cancer Research Center	93.393	5U01CA088160-09		674
Kaiser Foundation Health Plan of CO	93.393	5P20CA137219-02		102,429
Kaiser Foundation Health Plan of CO	93.393	5P20CA137219-02		22,506
Kaiser Permanente Division of Research	93.393	1P20CA137219-01		237,139
Kaiser Permanente Division of Research	93.393	1P20CA137219-01		48,248
Sloan Kettering Institute	93.393	2R01CA079572-10		102,337
Sloan Kettering Institute	93.393	5U01CA115953-04		40,916
SRI International	93.393	5R01CA71358-05A1		90,052
University of California, San Francisco	93.393	1R21CA131698-01A1		59,085
University of California, San Francisco	93.393	5R21CA131698-02		30,176
University of California, San Francisco	93.393	1R21CA132987-01A2		45,549
University of California-Davis	93.393	1R03CA139567-01		24,230
University of Missouri-Columbia	93.393	1R01CA134196-01		9,431
University of Missouri-Columbia	93.393	5R01CA134196-02		11,755
University of TX MD Anderson CA Center	93.393	5R01098380-05		10,611
University of Vermont	93.393	3U01CA070013-14S2		45,628
University of Washington	93.393	5R01CA107623-06		140,794
				6,544,013
National Institutes of Health				
Pass-through funds from:				
Sloan Kettering Institute	93.394	5R01CA079572-09		53,955
				53,955
National Institutes of Health				
Pass-through funds from:				
University of California, San Francisco	93.398	1K24CA125036-01		12,986
				12,986
National Institutes of Health:	93.399			5,558,884
Pass-through funds from:				
Dana Farber Cancer Institute	93.399	3U01CA093332-05S2		9,829
Dana Farber Cancer Institute	93.399	2U01CA093332		7,602
				5,576,315
National Institutes of Health	93.837			7,683
Pass-through funds from:				
Black Hills Center-AI Health	93.837	5U01HL087422-03		14,565
Black Hills Center-AI Health	93.837	5U01HL087422-04		11,234
Kaiser Permanente Division of Research	93.837	5U19HL0911179-02		30,969

(Continued)

GROUP HEALTH COOPERATIVE AND SUBSIDIARIES

Schedule of Expenditures of Federal Awards

Year ended December 31, 2009

Federal agency/subdivision	CFDA number	Pass-through identifying number	Expenditures
Kaiser Permanente Division of Research	93.837	5U19HL091179-03	$ 16,513
Seattle Children's Hospital	93.837	7R01HL079402-04	13,001
University of Washington	93.837	5R01HL085251-02	100,390
University of Washington	93.837	5R01HL085251-03	44,318
University of Washington	93.837	1R01HL088456-01	59,622
University of Washington	93.837	1R01HL091244-01	45,301
University of Washington	93.837	R01 HL43201	(468)
			343,128
National Institutes of Health			
Pass-through funds from:			
University of Washington	93.839	5R01HL073410-03	53,063
University of Washington	93.839	2R01HL073410-05A2	12,782
University of Washington	93.839	1R01HL095080-01	175,875
			241,720
National Institutes of Health:	93.847		19,562
			19,562
National Institutes of Health			
Pass-through funds from:			
University of Washington	93.848	1 R01 DK071101-01A2	21,365
University of Washington	93.848	5R01DK076608-02	40,069
			61,434
National Institutes of Health:			
Pass-through funds from:			
University of Washington	93.849	5P01DK053369-10	2,472
			2,472
National Institutes of Health:	93.864		20,903
			20,903
National Institutes of Health	93.865		234,668
Pass-through funds from:			
University of Washington	93.865	5R37AG024102-05	18,818
			253,486
National Institutes of Health	93.866		2,381,838
Pass-through funds from:			
Seattle Institute of BioMed Research	93.866	R01AG024180 01A2	(14)
Seattle Institute of BioMed Research	93.866	5R01AG024180-03	62,115
Seattle Institute of BioMed Research	93.866	5R01AG024180-04	245,753
University of Washington	93.866	5R01AF023801-04	29,451
University of Washington	93.866	5K23AG028980-03	19,160
University of Washington	93.866	1R01AG031126-01	428,717
			3,167,020
National Institutes of Health	93.RD		3,366,991
Pass-through funds from:			
Booz Allen Hamilton, Inc.	93.RD	GS35F0306J, HHSN27620008003880	5,374
Booz Allen Hamilton, Inc.	93.RD	GS35F0306J, HHSN27620008003880	1,666
Booz Allen Hamilton, Inc.	93.RD	GS35F0306J, HHSN27620008003880	3,032
Booz Allen Hamilton, Inc.	93.RD	GS35F0306J, HHSN27620008003880	7,069
			3,384,132
VA FSC	64.RD		41,104
			41,104

(Continued)

GROUP HEALTH COOPERATIVE AND SUBSIDIARIES

Schedule of Expenditures of Federal Awards

Year ended December 31, 2009

Federal agency/subdivision	CFDA number	Pass-through identifying number		Expenditures
ARRA – National Institutes of Health	93.701		$	1,735,394
National Institutes of Health				
Pass-through funds from:				
ARRA – Center for Health Research	93.701	3R01CA114204-03S1		638
ARRA – Dana Farber Cancer Institute	93.701	1RC2CA148185-01		17,019
ARRA – Kaiser Permanente Division of Research	93.701	1RC2HL101666-01		6,636
ARRA – University of Missouri-KC	93.701	1R01AT005061-01		78,719
ARRA – University of Washington	93.701	2R01HL068986-05A2		24,407
ARRA – University of Washington	93.701	1RC2CA1484331-01		36,058
				1,898,871
Total Research and Development cluster				32,115,852
Total federal awards			$	32,115,852

See accompanying independent auditors' report.

(1) Basis of Accounting

The accompanying schedule of expenditures of federal awards has been prepared from the Group's accounting records and is presented on the accrual basis of accounting.

(2) Major Program

The research and development grants are determined to be a cluster of grants. A cluster of grants means a grouping of closely related grants that share common compliance requirements. A cluster of grants shall be considered as one program for determining major programs, as described in §520, Major Program Determination, of the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement*.

(Continued)

(3) Subrecipient Awards

GHC, GHO, KPS, Auxiliary, NCVS, and the Foundation passed through federal awards to subrecipients for:

CFDA number	Program	Subrecipient	Amount
Pass-through – Non-ARRA funds:			
93.172	Development and Use of Network Infrastructure for High Throughput GWA Studies Y2	Fred Hutchinson Cancer Research Center	$ 47,085
		University of Washington	383,437
		Seattle Institute for Biomedical and Clinical Research	8,407
93.172	Development and Use of Network Infrastructure for High Throughput GWA Studies Y3	Fred Hutchinson Cancer Research Center	66,696
		University of Washington	163,509
93.172	Development and Use of Network Infrastr for Hi Thruput GWA Studies Supplement	University of Washington	14,266
93.172	Development and Use of Network Infrastr for High Thruput GWA Studies – Phenotype Admin Suppl	University of Washington	24,881
93.213	Efficacy of Acupuncture for Chronic Low Back Pain	Cancer Research & Biostatistics	(882)
		Kaiser Foundation Research Institute	3,844
93.213	Measuring Patient Expectations for Cam Therapies	University of Washington	2,500
93.242	Social Role Disability and Mental-Physical Co-Morbidity	Harvard University	(23)
93.242	Depression Diabetes Care Disparities Adverse Outcomes	University of Washington	58,280
93.242	Transition from Prison to Comm Unity: A Pilot Intervention of Adherence Support	University of Wisconsin Madison	44,428
93.242	Prevention Needs HIV+ Persons Awaiting Release from Prison Year 1	University of Wisconsin Madison	5,814
93.242	Prevention Needs HIV+ Persons Awaiting Release from Prison Year 2	University of Wisconsin Madison	31,617
93.242	Patient Portal to Support Treatment Adherence Y1	Kaiser Foundation Research Institute	841

(Continued)

GROUP HEALTH COOPERATIVE AND SUBSIDIARIES

Notes to the Schedule of Expenditures of Federal Awards

Year ended December 31, 2009

CFDA number	Program	Subrecipient		Amount
93.242	Patient Portal to Support Treatment Adherence Y2	Kaiser Foundation Research Institute	$	145,606
93.242	Organized Self-Management Supp Services for Chronic Depression	Swedish Health Services		50,924
93.242	Patient Centered Interventions for Mood Disorders Y4	University of Washington		15,390
93.242	Patient Centered Interventions for Mood Disorders Y5	University of Washington		12,416
93.242	Patient Centered Interventions for Mood Disorders	Depression & Bipolar Support		13,807
93.279	Healthcare Costs and Utilization of Smoking and Quitting	University of Iowa		30,724
93.279	Long-Term Opioid Management of Chronic Pain: Trends and Risks Y3	Kaiser Foundation Research Institute		215,822
		University of Washington		39,173
93.279	Long-Term Opioid Management of Chronic Pain: Trends and Risks Y4	Kaiser Foundation Research Institute		271,285
		University of Washington		70,587
93.393	Multi Center Study of Pancreatic Cancer Etiology	Kaiser Foundation Research Institute		478,216
		Fred Hutchinson Cancer Research Center		162,855
		University of Washington		61,830
93.393	Statistical Coordinating Center for the Breast Cancer Surveillance Consortium Y10	Cancer Research & Biostatistics		18,373
93.393	Statistical Coordinating Center for the Breast Cancer Surveillance Consortium Y9	Cancer Research & Biostatistics		28,667
93.393	Design and Inference for Hybrid Ecological Studies Y2	University of Washington		88,764
93.393	Design and Inference for Hybrid Ecological Studies Y3	University of Washington		49,024
93.393	Systems of Support (sos) to Increase Colon Cancer Screening and Support Y2	Kaiser Foundation Research Institute		9,728
		Fred Hutchinson Cancer Research Center		14,997

(Continued)

GROUP HEALTH COOPERATIVE AND SUBSIDIARIES

Notes to the Schedule of Expenditures of Federal Awards

Year ended December 31, 2009

CFDA number	Program	Subrecipient		Amount
93.393	Systems of Support (sos) to Increase Colon Cancer Screening and Support Y3	Kaiser Foundation Research Institute	$	10,254
		Fred Hutchinson Cancer Research Center		20,205
93.393	Optimizing an Online Motivational Tobacco Cessation Program	University of Michigan		312,465
93.393	Statistical Coordinating Center for the Breast Cancer Surveillance Consortium Y10	The University of New Mexico		4,026
93.393	Statistical Coordinating Center for the Breast Cancer Surveillance Consortium Y9	The University of New Mexico		5,942
93.399	Building A Pharmacovigilance Population-based Lab – CRN3 Admin Supplement Y1	Harvard Pilgrim Health Care		18,116
		Henry Ford Health System		38,140
		Kaiser Foundation Research Institute		184,924
		Marshfield Clinic		9,091
93.399	Building A Pharmacovigilance Population-based Lab – CRN3 Admin Supplement Y2	Harvard Pilgrim Health Care		21,174
		Henry Ford Health System		38,448
		Kaiser Foundation Research Institute		267,136
		Marshfield Clinic		31,585
93.399	Cancer Research Network Across Health Care Systems – CRN3 Infrastructure Y10	University of Massachusetts		56,050
		Harvard Pilgrim Health Care		132,474
		Lovelace Clinic Foundation		91,226
		Henry Ford Health System		72,783
		Healthpartners Research		57,346
		Kaiser Foundation Research Institute		673,313
		Marshfield Clinic		68,361
		Geisinger Clinic		29,200
93.399	Cancer Research Network Across Health Care Systems – CRN3 Infrastructure Y11	University of Massachusetts		75,057
		Harvard Pilgrim Health Care		154,869
		Lovelace Clinic Foundation		130,110
		Henry Ford Health System		93,210
		Healthpartners Research		99,781
		Kaiser Foundation Research Institute		702,139
		Marshfield Clinic		108,234
		Geisinger Clinic		95,031
93.399	Cancer Research Network Across Health Care Systems – CRN3 Infrastructure Y9	Marshfield Clinic		(7,104)

(Continued)

GROUP HEALTH COOPERATIVE AND SUBSIDIARIES

Notes to the Schedule of Expenditures of Federal Awards

Year ended December 31, 2009

CFDA number	Program	Subrecipient	Amount
93.399	Cancer Research Network Across Healthcare Systems – CRN2 Multiplex	Henry Ford Health System	$ 203,327
93.399	Development of A Versatile Geospatial Database Within the CRN – CRN Pilot	Dartmouth College	(5,718)
		The Mayatech Corporation	7,205
93.399	Childhood, Adolescent and Young Adult Cancer Survivors – CRN Pilot	Kaiser Foundation Research Institute	23,170
93.399	Cancer Research Network Across Health Care Systems CRN2 Proj1 Tumor Markers and Recurrence After Dcis: Hmo	Beth Israel Deaconess	4,494
		Harvard Pilgrim Health Care	5,206
		Kaiser Foundation Research Institute	51,633
93.399	Chemotherapy and Coinsurance: The Effect of Cost-Sharing on Cancer Care – CRN Pilot	Kaiser Foundation Research Institute	47,446
93.399	Radiation Induced Cancers - CRN Pilot	Univ of California, San Francisco	3,557
		Henry Ford Health System	13,001
		Kaiser Foundation Research Institute	58,635
		Marshfield Clinic	9,036
93.399	Cancer Research Network Across Health Care Systems – CRN2 Menu	Kaiser Foundation Research Institute	24,041
93.399	Opportunistic Colorectal Cancer Screening: Providing Fit With Annual Flu Shots – CRN Pilot	Kaiser Foundation Research Institute	22,118
93.399	Development of A Model for Predicting Prostate Cancer - CRN Pilot	Marshfield Clinic	48,713
93.399	Socioeconomic Diversity in Integrated Healthcare Delivery Systems – CRN Pilot	University of Massachusetts	28,009
		Lovelace Clinic Foundation	6,867
		Kaiser Foundation Research Institute	20,191
93.399	Preventing Errors in the Home Care of Children with Cancer - CRN Pilot	University of Massachusetts	24,189
		Kaiser Foundation Research Institute	19,525

GROUP HEALTH COOPERATIVE AND SUBSIDIARIES

Notes to the Schedule of Expenditures of Federal Awards

Year ended December 31, 2009

CFDA number	Program	Subrecipient	Amount
93.399	Cancer Research Network Across Health Care Systems – CRN3 Health Literacy Y10	University of Massachusetts	$ 69,209
		Kaiser Foundation Research Institute	119,890
93.399	Cancer Research Network Across Health Care Systems – CRN3 Health Literacy Y11	University of Massachusetts	150,241
		Kaiser Foundation Research Institute	232,148
93.399	Media Coverage and Direct-to-Consumer Advertising of Genetic Tests – CRN Pilot	Kaiser Foundation Research Institute	4,010
93.399	Vteus: Eval of Control Measures Against Disease Other Than Aids 09-0073 H1n1 Hiv – Implem	Henry Ford Health System	20,795
		Kaiser Foundation Research Institute	70,549
93.399	Cancer Research Network Across Health Care Systems – CRN3 Cancer Prevention Index Y10	Kaiser Foundation Research Institute	92,451
93.399	Cancer Research Network Across Health Care Systems – CRN3 Cancer Prevention Index Y11	Kaiser Foundation Research Institute	49,123
93.864	Ectopic Pregnancy: Assessing Long-Term Trends in Rates and Risk Factors	University of Washington	6,495
93.865	Oral Contraceptive Use and Bone Density in Young Women	Fred Hutchinson Cancer Research Center	4,897
		University of Washington	4,157
93.866	Alzheimers Disease Patient Registry/adult Changes Of Thought	Swedish Health Services	20,302
		University of Washington	510,304
		Evergreen Healthcare	(670)
93.866	Alzheimers Disease Patient Registry	Swedish Health Services	11,585
		Fred Hutchinson Cancer Research Center	5,816
		University of Washington	65,037
93.866	Mci, Insulin, and Cholesterol in a Community Sample Y3	University of Washington	41,255
93.866	Mci, Insulin, and Cholesterol in a Community Sample Y4	University of Washington	87,105
93.866	Msi Flash: An Rct of Yoga and Ultra Low Dose Estrogen for Vasomotor Symptoms Y1	University of Washington	44,503

(Continued)

CFDA number	Program	Subrecipient		Amount
93.866	Msi Flash: An Rct of Yoga and Ultra Low Dose Estrogen for Vasomotor Symptoms Y2	University of Washington	$	23,051
93.866	Oral Contraceptive Use and Fractures around the Menopausal Transition Y1	Fred Hutchinson Cancer Research Center		6,404
		University of Washington		12,298
93.866	Oral Contraceptive Use and Fractures around The Menopausal Transition Y2	Fred Hutchinson Cancer Research Center		11,625
		University of Washington		10,957
93.RD	Re-engineering the Clinical Research Enterprise Feasibility	Kaiser Foundation Research Institute		3,214
93.RD	Integrating Chronic Care and Business Strategies in the Safety Net	California Health Care Safety		(7,275)
93.RD	Vteus: Evaluation of Control Measures Against Disease Other Than Aids	Childrens Hospital & Regional Med Ctr		186,828
		University of Washington		46,348
93.RD	Vteus: Evaluation of Control Measures Against Disease Other Than Aids Maternal Vacc Protocol	Childrens Hospital & Regional Med Ctr		32,597
93.RD	Phase 1/11 Modified Double-blind Study of the Safety & Immun-Ogenecity of Vaccination Strategies Using 1 or 2 Clades.	University of Washington		(3,559)
93.RD	Vteus: Evaluation of Control Measures Against Disease Other Than Aids 09-0043 Csl H1n1 Development	University of Washington		41,585
93.RD	Phase 1/2 Randomized Study of the Safety and Immunogenicity of Vaccination Strategies Using One or Two Clades and Different Schedules	University of Washington		(110,083)
93.RD	Vteus: Evaluation of Control Measures Against Disease Other Than Aids 09-0058 H1n1 Mix Match	University of Washington		41,585
93.RD	Vteus: Evaluation of Control Measures Against Disease Other Than Aids 09-0073 H1n1 HIV Development	University of Washington		4,515

GROUP HEALTH COOPERATIVE AND SUBSIDIARIES

Notes to the Schedule of Expenditures of Federal Awards

Year ended December 31, 2009

CFDA number	Program	Subrecipient	Amount
93.RD	Vteus: A Phase I Randomized Study of the Safety of Dose Escalation, 08-0013 H5n1	University of Washington	$ 33,588
93.RD	Vteus: Evaluation of Control Measures Against Disease Other Than Aids 09-0058 H1n1 Mx Match – Implem	University of Washington	324,577
93.RD	Vteus: Evaluation of Control Measures Against Disease Other Than Aids 09-0073 H1n1 Mx Match – Implem	University of Washington	75,741
93.RD	Vteus: Evaluation of Control Measures Against Disease Other Than Aids 09-0047 Tiv H1n1 Children – Dev	Childrens Hospital & Regional Med Ctr	22,495
93.RD	Vteus: Evaluation of Control Measures Against Disease Other Than Aids 05-0048 Maternal Vacc – Imp	Childrens Hospital & Regional Med Ctr	62,564
		University of Washington	18,718
93.RD	Vteus: Evaluation of Control Measures Against Disease Other Than Aids 09-0054 H1n1 Children – Dev	Childrens Hospital & Regional Med Ctr	42,300
93.RD	Vteus: Evaluation of Control Measures Against Disease Other Than Aids 08-0017 Rotavirus – Dev	Childrens Hospital & Regional Med Ctr	20,000
93.RD	Vteus: Evaluation of Control Measures Against Disease Other Than Aids 09-0054 H1n1 Children – Implem	Childrens Hospital & Regional Med Ctr	478,813
Pass through – ARRA Funds:			
93.701	Promoting Oral Health Among Tobacco Users: A Pilot Feasibility Study	Free & Clear Inc	6,278
93.701	Systems of Support (sos) to In Crease Colon Cancer Screening and Follow-up	Fred Hutchinson Cancer Research Center	9,093
		University of Washington	6,156
93.701	Search: Cancer Screening Effec- Tiveness and Research in Community-based Healthcare	University of Massachusetts	86,061
		Harvard Pilgrim Health Care	6,994
		Healthpartners Research	10,000
		Kaiser Foundation Research Institute	143,160
		University of Washington	20,000
		Marshfield Clinic	10,000
		Geisinger Clinic	10,000

(Continued)

GROUP HEALTH COOPERATIVE AND SUBSIDIARIES

Notes to the Schedule of Expenditures of Federal Awards

Year ended December 31, 2009

CFDA number	Program	Subrecipient		Amount
93.701	Multi-center Study of Pancreatic Cancer Etiology	Kaiser Foundation Research Institute	$	5,664
93.701	Statistical Coordinating Center for the Breast Cancer Surveillance Consortium	Georgetown University Medical		99,947
		Oregon Health & Science		57,250
93.701	Natural Language Processing for Cancer Research Network Surveillance Studies	Mayo Clinic College		35,258
		University of Pittsburgh		10,000
93.701	Comparative Effectiveness of Breast Imaging Strategies in Community Practices	Harvard Pilgrim Health Care		35,232
		Georgetown University Medical		40,762
		Dana Farber Cancer Institute		37,300
		University of Vermont		61,277
		Univ of California, San Francisco		61,571
		Dartmouth College		58,248
		University of Washington		13,439
		University of North Carolina		51,583
		University of Texas		35,071
			$	10,739,551

GROUP HEALTH COOPERATIVE AND SUBSIDIARIES

Schedule of Findings and Questioned Costs

Year ended December 31, 2009

Part I – Summary of Auditors' Results

Financial Statements

Type of auditor's report issued:	Unqualified	
Internal control over financial reporting:		
• Material weaknesses identified?	________ Yes	___X___ No
• Significant deficiencies identified that are not considered to be material weaknesses	___X___ Yes	_________ None Reported
• Noncompliance material to financial statements noted?	_________ Yes	___X___ No

Federal Awards

Internal control over major programs:		
• Material weaknesses identified?	_________ Yes	___X___ No
• Significant deficiencies identified that are not considered to be material weaknesses	_________ Yes	___X___ None Reported
Type of auditor's report issued on compliance for major programs:	Unqualified	
Any audit findings disclosed that are required to be reported in accordance with Circular A-133 (Section 0.510(a))?	_________ Yes	___X___ No

Identification of major programs:

CFDA number	Name of federal program
Cluster	Research and Development

Dollar threshold used to distinguish between Type A and Type B programs:	$963,476	
Auditee qualified as low-risk auditee?	_________ Yes	___X___ No

GROUP HEALTH COOPERATIVE AND SUBSIDIARIES

Schedule of Findings and Questioned Costs

Year ended December 31, 2009

Part II – Financial Statement Findings Section

Finding 09-01

Criteria

Management is responsible for ensuring appropriate controls are in place, properly designed, and operating effectively over areas of significant financial risk.

Statement of Condition

During the course of the 2009 financial statement audit, control exceptions and substantive errors were identified in the Company's claims payment process.

Questioned Costs

None noted.

Cause and Effect

During our audit procedures over the claims process, KPMG identified exceptions over rate inputs, claims pricing, and claims review controls. These types of control exceptions create a financial risk that claims may not be properly priced and that claims could be improperly paid. This could result in a potentially material misstatement of the Cooperative's financial statements.

Recommendation

We recommend that the Cooperative implement a more stringent control environment to help ensure that inputs into the claims processing environment are accurate and are based on the most current contract terms in place. As part of this process, we recommend that the Cooperative consider completing a risk analysis to identify particularly complex contracts where small input errors or misinterpretations of terms can result in material mispayments.

Views of Responsible Officials

Management agrees with the need for improvements to the control environment surrounding the claims process. A mitigating internal control consisting of an analyst peer review has already been implemented and reviewed by GHC Audit Services. Improved claims software will be fully implemented on July 1, 2010. This software will automate the loading of rate inputs, thus eliminating the possibility of human-error in calculation. An additional policy will be implemented by Provider Relations by April 30, 2010, which will define standards and expectations regarding the handling of financial detail.

Part III – Federal Award Findings and Questioned Costs

No matters reported.