STATE OF WASHINGTON
OFFICE OF THE INSURANCE COMMISSIONER

FINANCIAL EXAMINATION
OF
GROUP HEALTH COOPERATIVE
SEATTLE, WASHINGTON

NAIC CODE 95672
December 31, 2013

Order No. 15-153
Group Health Cooperative
Exhibit A

SALUTATION

Seattle, Washington
April 16, 2015

The Honorable Mike Kreidler, Commissioner
Washington State Office of the Insurance Commissioner (OIC)
Insurance Building-Capitol Campus
302 Sid Snyder Avenue SW, Suite 200
Olympia, WA 98504

Dear Commissioner Kreidler:

In accordance with your instructions, and in compliance with the statutory requirements of RCW 48.03.010, an examination was made of the corporate affairs and financial records of

Group Health Cooperative
of
Seattle, Washington

hereinafter referred to as "GHC" or the "Company" at the location of its home office 320 Westlake Avenue North, Suite 100, Seattle, WA 98109. This report is respectfully submitted showing the financial condition and related corporate matters of the Company as of December 31, 2013.

CHIEF EXAMINER'S AFFIDAVIT

I hereby certify I have read the attached Report of the Financial Examination of Group Health Cooperative of Seattle, Washington. This report shows the financial condition and related corporate matters as of December 31, 2013.

Patrick H. McNaughton

Patrick H. McNaughton
Chief Examiner

6-29-15

Date

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SCOPE OF THE EXAMINATION

This examination covers the period January 1, 2009 through December 31, 2013 and comprises a risk focused review of the books and records of the Company. The examination followed statutory requirements contained in the Washington Administrative Code (WAC), the Revised Code of Washington (RCW), and the guidelines recommended by the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook (FCEH). The examination included identification and disposition of material transactions and events occurring subsequent to the date of examination through the end of field work on April 16, 2015.

Corporate records, external reference materials, and various aspects of the Company's operating procedures and financial records were reviewed and tested during the course of this examination and are commented upon in the following section of this report. In addition, the Company's Certified Public Accountants' (CPA's) work papers were reviewed and utilized, where possible, to facilitate efficiency in the examination.

This examination was performed in compliance with the 2013 NAIC FCEH which requires the examiners to consider the Company's risk management process, corporate governance structure, and control environment, as well as ten critical risk areas. The examiners utilized the information obtained during the examination to assess the Company's overall potential risks both currently and on an on-going basis, allowing the examiners to focus on the Company's greatest areas of risk and providing assurance on the Company's financial statements as of the examination date.

INSTRUCTIONS

The examiners reviewed the Company's filed 2013 NAIC Annual Statement as part of the statutory examination. This review was performed to determine if the Company completed the NAIC Annual Statement in accordance with the NAIC Annual Statement Instructions and to determine if the Company's accounts and records were prepared and maintained in accordance with Title 48 RCW, Title 284 WAC, and the NAIC Statements of Statutory Accounting Principles (SSAP) as outlined in the NAIC Accounting Practices and Procedures Manual (AP&P).

The following summarizes the exceptions noted while performing this review:

1. **Reporting of Investments**

Two reporting errors with investments were noted during our review.

a. **Westlake Terry LLC**

Westlake Terry LLC, a joint real estate venture between GHC and City Investors V LLC (a real estate development company controlled by the Vulcan corporation), was formed on December 16, 2005. In January 2013, Westlake Terry LLC sold the property that it owned at 320 Westlake Avenue North, Seattle, Washington. Through a capital distribution, GHC received its share of the sale proceeds of $39 million. The amount of the distribution that exceeded the amount GHC contributed to the joint venture was $35.9 million. The Company erroneously recorded the $35.9 million that came from the undistributed accumulated earnings as unrealized gains/losses. Per SSAP 48(14), it should have been recorded as net investment income. RCW 48.43.097 requires the Company to file its NAIC Annual Statement in accordance with the AP&P.

The Company is instructed to comply with RCW 48.43.097 and SSAP No. 48(14) by recording the distributions in its joint venture as investment income when declared to the extent that they are not in excess of the undistributed accumulated earnings. (See Examination Adjustment No. 1.)

b. American Excess Insurance Exchange (AEIX)

The Company did not include its equity share in AEIX in the 2013 NAIC Annual Statement as required for statutory accounting. AEIX qualified as a joint venture under SSAP No. 48(2), in which GHC was an investor. Per SSAP No. 48(7), joint ventures in which the entity has a minor ownership interest (less than ten percent) or lacks control shall be reported based on the underlying audited U.S. Generally Accepted Accounting Principles (GAAP) equity of the investee. As GHC owns less than a ten percent stake in AEIX, and it does not have the ability to direct management, its ownership in AEIX is considered to be minor. The NAIC Health Annual Statement Instructions require it to be recorded on Page 2, line 8, as Other invested assets. The yearly premiums that GHC paid should have increased the balance.

The Company is instructed to comply with RCW 48.43.097, WAC 284-07-050(2), and SSAP No. 48 by recording its audited U.S. GAAP equity share in AEIX on Page 2, line 8, of the NAIC Annual Statement. (See Examination Adjustment No. 2.)

2. <u>Assumption of Stop Loss Insurance</u>

In 2012, The Company entered into a Participation Agreement with Companion Captive Insurance Company (the Captive), a corporation organized under the laws of South Carolina and licensed in South Carolina as a sponsored captive insurer. In accordance with the Participation Agreement, the Captive established a protected cell in the name of Group Health Cooperative (the Group Health Protected Cell). The assets and liabilities of the various protected cells established by the Captive are segregated from other protected cells and cannot be accessed by or assigned to participants or creditors of other protected cells. Certain risks that were to be written by unidentified fronting insurers would be ceded to the Captive and assigned to the Group Health Protected Cell. Group Health Cooperative is 100 percent liable for all risks assigned to the Group Health Protected Cell.

Companion Life Insurance Company (Companion Life) is a South Carolina domiciled life insurance company, and an affiliate of the Captive. In 2014, Companion Life issued stop-loss policies to several of Group Health Cooperative's uninsured groups. Companion Life then ceded the risks on these stop loss policies to the Captive through a separate reinsurance agreement. The Captive assigned these policies to the Group Health Protected Cell. Group Health Cooperative, through the Group Health Protected Cell, assumed the risk for these contracts. The nature of this transaction is reinsurance. Group Health Cooperative has assumed the risk of the stop loss policies from Companion Life by using the Captive and the Group Health Protected Cell as a means to mask the reinsurance transaction.

Group Health Cooperative is registered as a health maintenance organization (HMO) pursuant to Chapter 48.46 RCW. The Certificate of Registration issued to the Company permits it to operate as a HMO and provide comprehensive health care services to enrollees and other persons. The Certificate of Registration does not allow the Company to write or assume insurance risks.

Stop-loss insurance is a form of disability insurance, as defined in RCW 48.11.030. Only domestic insurers that are authorized to write disability insurance are permitted to reinsure disability insurance, per RCW 48.11.130. Group Health Cooperative does not have a Certificate of Authority to write, and therefore reinsure, disability insurance.

The Company is instructed to comply with RCW 48.11.130, 48.11.030, and Chapter 48.46 RCW by only offering policies for which its Certificate of Registration permits, and to cease assuming policies of insurance that it is not authorized to write or reinsure.

3. **Form B Filings**

The Management Service Agreement (MSA) is considered both a provider and an intercompany agreement. The Company submitted the MSA, the First Amendment effective May 13, 2009, the Second Amendment effective December 31, 2009, and the Third Amendment effective January 1, 2012, to the Rates and Forms Division of the OIC as required for provider agreements. It did not file the same information on Forms B and D to the Company Supervision Division of the OIC as required for intercompany agreements. On June 7, 2012, the Company Supervision Division informed the Company that going forward, it needed to file the MSA and its amendments annually on a Form B, and any new agreements or amendments on a Form D. Subsequent to June 7, 2012, the Company failed to disclose the three amendments to the MSA on the 2013 Form B.

RCW 48.31C.040(2)(c)(v) and WAC 284-18A-920 require the Company to disclose intercompany management agreements, service contracts, and cost-sharing arrangements on its Form B filings. Amendments to these types of agreements are also required to be disclosed, as they change the terms of the original agreement.

The Company is instructed to comply with RCW 48.31C.040(2)(c)(v) and WAC 284-18A-920 by disclosing amendments to intercompany management agreements, service contracts, and cost-sharing arrangements on its Form B filings.

4. **Premium Deposits**

   a. **Premium Deposits**

   GHC collects premium receipts on behalf of Group Health Options, Inc. (GHO) and deposits them in a GHC bank account which is not under the exclusive control of GHO. The premiums are for individual and family policies collected through GHC's lockbox and for groups who write a single check payable to GHC to cover both GHC and GHO policies. Groups remit payments to GHO which include premiums for GHC, and the payments are deposited in GHO's bank account. The intercompany receivable/payable is reconciled at month end. The Company settles the previous month's balance on the 25th of the following month.

   Under the current process, both GHC and GHO can retain an affiliate's cash receipts for up to 55 days prior to remitting it. Premiums that are collected on behalf of an affiliate should be directly deposited into the affiliate's bank account. Per RCW 48.12.010, in any determination of the financial condition of any insurer, there shall be allowed as assets only such assets as belong wholly and exclusively to the insurer, which are registered, recorded, or held under the insurer's name, and per SSAP No. 4(2), the insurer must obtain the benefit and control others' access to the asset.

   b. **Administrative Services Agreement**

   The Administrative Services Agreement (ASA) between GHC and GHO that was effective on January 1, 2008, allows premiums to be deposited promptly in a fiduciary bank account established and maintained by GHC at GHO's direction. The ASA should be rewritten or amended to state that GHO premiums should be deposited directly into a bank account under GHO's name.

The Company is instructed to comply with RCW 48.12.010, RCW 48.43.097, WAC 284-07-050(2)(a), and SSAP No. 4 which require the Company to collect its premium receipts in a bank account under its exclusive control and to comply with RCW 48.31C.050(2)(d) which requires that it amend its ASA.

5. **Annual Statement Error – RMBS/CMBS Bond Designations**

Residual Mortgage Backed Securities (RMBS) and Commercial Mortgage Backed Securities (CMBS) that were subject to financial modeling were not reported with the correct NAIC designations. In addition, the Company failed to use the financial modeling process to derive the designation. Several securities were reported with either the "AM" or "FE" designations when they should have been reported with the "FM" designation. This error resulted in some securities being reported as NAIC-2 through NAIC-6 when they should have been reported as NAIC-1 with the "FM" designation. CMBS/ RMBS bonds that are subject to financial modeling should be reported with the FM symbol and designation number as required by the Purposes and Procedures Manual of the NAIC Securities Valuation Office (SVO), and SSAP No. 43R(25).

The Company is instructed to comply with RCW 48.43.097 by filing its financial statements in the general form and context approved by the NAIC and WAC 284-07-050(2)(a) which requires adherence to the NAIC Annual Statement Instructions and SSAP No. 43R(25).

6. **NAIC Annual Statement Errors and Misclassifications**

The results of the examination disclosed instances in which the Company's filing of the NAIC Annual Statement did not conform to the NAIC Accounting Practices and Procedures Manual and the NAIC Annual Statement Instructions. While the Company needs to correct these deficiencies, none of the following items were material to the financial statements and no examination adjustments were necessary.

a. Notes to Financial Statements No. 1

The Company reported in the 2013 Notes to Financial Statements No. 1, one special consent from the OIC and one permitted accounting practice. Neither of these were in place during 2013.

b. Notes to Financial Statements No. 11

1) The 2013 Notes to Financial Statements No. 11, did not disclose as required, the Series 2006 bonds balance of $1,432,000 as of December 31, 2013.

2) The 2010 NAIC Annual Statement, Notes to Financial Statements No. 11, did not disclose as required, the Series 2010 taxable commercial paper note balance of $40,976,000 as of December 31, 2010.

c. Schedule E - Part 3 - Special Deposits

GHC reported an incorrect balance on the 2013 Schedule E - Part 3 - Special Deposits. It reported an asset with a book adjusted carrying value of $2,621,115 and a fair value of $2,260,050, when it should have reported a book adjusted carrying value and a fair value of $167,421. This is not in compliance with the NAIC Annual Statement Instructions, which require columns 3 and 4 to include the book adjusted carrying value and fair value of the deposits held by the Company for the benefit of all policyholders. Because Schedule E - Part 3 - Special Deposits is informational only, this error did not affect surplus.

The Company is instructed to comply with RCW 48.43.097 by filing its financial statements in the general form and context approved by the NAIC and WAC 284-07-050(2) which requires adherence to the NAIC Annual Statement Instructions and the AP&P.

COMMENTS AND RECOMMENDATIONS

1. **Enterprise Risk Management (ERM)/ ORSA Preparedness/ Board Oversight**

a. ERM Program

GHC began developing its ERM program in 2011 and in 2012, the infrastructure was established and endorsed by the Audit and Compliance Committee (ACC) of the Board of Trustees (BOT). GHC's ERM program is still under development. It does not include a definition of its risk appetite, and BOT meeting minutes do not reflect discussion or approval of a risk appetite statement. A risk appetite statement effectively sets the tone for risk management, and should be aligned with the Company's strategic, operational, compliance, and reporting objectives. The risk appetite statement should be communicated to personnel so that management and the BOT know that the objectives being pursued are within reasonable risk limits and are aligned with its strategy.

Additionally, the ERM documentation does not always identify risk responses, process owners, or monitoring of the mitigation strategy for all risks.

It is recommended that the Company devote dedicated resources to fully develop its ERM program into maturity that has a defined risk appetite, identified risk owners, mitigation strategies and on-going monitoring of the risk mitigation strategies.

b. Own Risk Solvency Assessment (ORSA) Preparedness

The Company has not started to prepare an ORSA filing. Completing a sufficient ORSA filing for the first time will be a large and extensive project that will require dedicated resources to complete.

It is recommended that the Company dedicate sufficient resources for ORSA reporting and begin the process to prepare for the filing.

c. BOT Oversight of Enterprise Risks, ERM, and ORSA Preparedness

The BOT and its committees are an important part of enterprise risk management. The ERM framework developed by the Committee of Sponsoring Organizations (COSO) states, in part, that a board should provide oversight with regard to ERM by:

- Knowing the extent to which management has established effective enterprise risk management in the organization.
- Being aware of, and concurring with, the Company's risk appetite statement.
- Reviewing the entity's portfolio view of risk and considering it against the entity's risk appetite.
- Being apprised of the most significant risks and whether management is responding appropriately.

The Company's BOT has delegated the responsibility of overseeing the Enterprise Risks and ERM program to the Audit and Compliance Committee (ACC). The ACC receives ERM updates from management four times per year. The BOT meeting minutes include occasional, brief updates from the ACC, but lack any robust discussions about ERM, top risks, or a risk appetite statement.

Because the contents of the ORSA filing will be largely made up of the ERM program, ensuring that ERM is a mature and effectively functioning program is essential to a sufficient ORSA filing. The BOT meeting minutes do not document expectations for management to develop its ERM program into maturity or to complete preliminary and/or final ORSA filings by any particular deadline.

It is recommended that the full BOT provide oversight of the Company's ERM program by knowing the extent to which management has established effective ERM in the organization, being aware of and concurring with the Company's risk appetite, reviewing the Company's portfolio view of risk and considering it against the Company's risk appetite, and being apprised of the most significant risks and whether management is responding appropriately. This oversight should be documented in the BOT meeting minutes. In addition, it is recommended that the full BOT set specific expectations of management regarding a due date to complete its first ORSA filing and to develop the ERM program into a mature and effective program.

2. <u>Management's Review of Risks and Exposures</u>

The Company's control around management's monthly review of risks and exposures, including contractual arrangements, was not designed and implemented with respect to the completeness of the population of arrangements being reviewed. If the Company does not consider a complete population of arrangements in its monitoring, including those entered into in prior periods, there is a risk that transactions will not be accounted for correctly. This control weakness resulted in a reporting error. (See Instruction No. 1.b.)

It is recommended that the Company enhance its controls over the monthly review of risks and exposures by ensuring that the review include a complete population of agreements.

3. <u>Reconciliations of General Ledger Accounts</u>

GHC's policy requires general ledger accounts to be prepared by the 25th of the following month and then reviewed within two weeks of that date. Several reconciliations that we selected for testing were not performed timely. The Company stated that its transition to Blackline, a new system used for documenting and tracking the reconciliation process, was the reason for some of the delays.

It is recommended that the Company enhance its controls by timely preparing and approving the account reconciliations in accordance with the Company's general ledger and account reconciliation process policy.

4. <u>Approval of Disposals of Fixed Assets</u>

The Company did not properly approve the disposal of several fixed assets that were part of the sale of real estate. The transactions should have been properly authorized in accordance with its Disposition and Transfer Authority - Capital Assets Policy and documented as such.

It is recommended that GHC enhance its controls over its fixed asset disposals by obtaining proper approval to dispose of fixed assets in accordance with the Disposition and Transfer Authority - Capital Assets Policy and by maintaining the documentation of the approval.

5. <u>Current Flowcharts</u>

The Company updates its process flowcharts for changes in processes and primary controls on an annual basis. Some of the Company's process flowcharts identified secondary controls. The Company does not confirm the design, operating effectiveness, or existence of secondary controls listed on the process flowcharts. This could cause the flowcharts to identify controls that no longer exist or that are out of date.

It is recommended that the Company maintain current process flowcharts so they accurately reflect the Company's key controls.

COMPANY PROFILE

Company History

Group Health Cooperative was organized in 1945 in the state of Washington. It received its original certificate of registration on April 7, 1976, as a health maintenance organization (HMO) pursuant to Chapter 48.46 RCW. The Company is a consumer-governed, non-profit health care system that coordinates care and coverage. The Company changed its name effective December 31, 2002, from Group Health Cooperative of Puget Sound to Group Health Cooperative.

Capitalization

The Company met minimum net worth requirements pursuant to RCW 48.46.235 with $825.9 million of capital and surplus as of December 31, 2013 after examination adjustments.

Territory and Plan of Operation

GHC owns and operates its own medical facilities throughout the state of Washington and hires medical support personnel to staff them. GHC also contracts with Group Health Permanente, P.C. (GHP), an independent contractor, for the provision of medical services and also contracts with outside medical providers on a fee-for-service or capitated basis for services unavailable through its own facilities. Based in Seattle, Washington, GHC and its subsidiary health carriers, Group Health Options, Inc., and KPS Health Plans, serve more than half a million residents in Washington and Idaho. In Washington, the Company offers coordinated care plans for both groups and individuals, Medicare, and the Federal Employees Health Benefit Plan.

Growth of Company

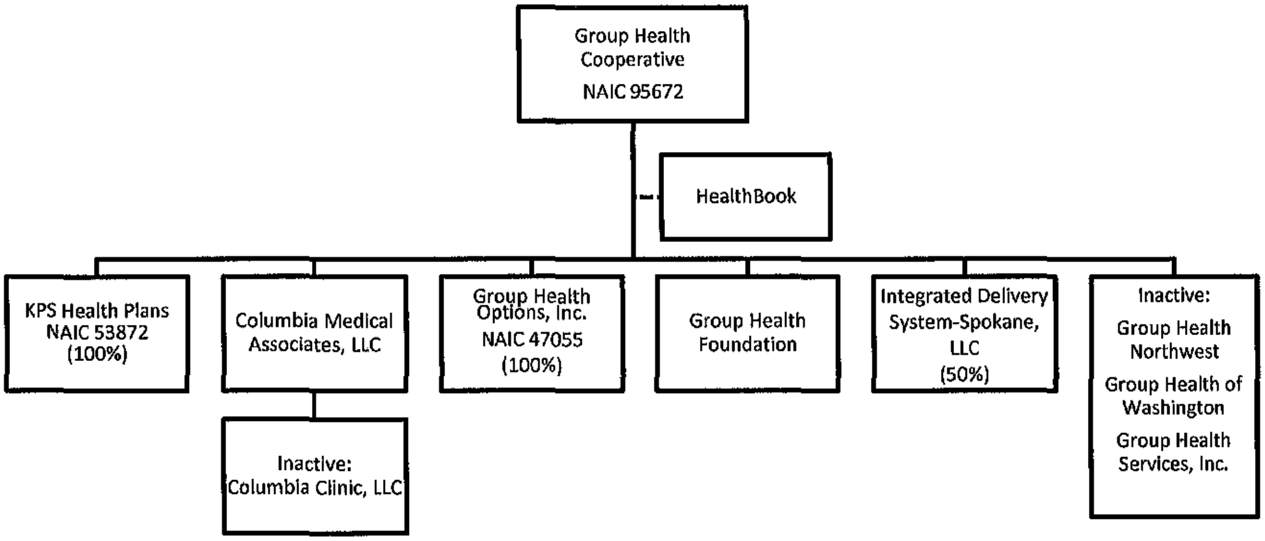
The following reflects the growth of the Company as reported in its filed NAIC Annual Statements for the five year period under examination:

Year	Admitted Assets	Liabilities	Capital & Surplus
*2013	$1,553,305,304	$727,448,021	$825,857,283
2012	1,255,360,797	824,100,616	431,260,181
2011	1,494,074,899	1,011,600,299	482,474,600
2010	1,379,812,981	774,032,844	605,780,137
2009	1,357,968,140	764,770,312	593,197,828

Year	Total Revenue	Net Underwriting Gain (Loss)	Net Investment Gain (Loss)	Net Income (Loss)
*2013	$2,245,768,118	$76,436,054	$69,372,887	$145,808,941
2012	2,121,979,714	(21,318,652)	25,732,723	4,414,071
2011	1,973,238,142	(85,895,785)	72,344,497	(13,551,288)
2010	1,874,011,409	(78,164,806)	45,280,911	(32,883,895)
2009	1,925,760,836	(53,324,162)	69,537,703	16,213,541

*Adjusted balances include the Examination Adjustments

Organizational Chart
The following is an organization chart as of December 31, 2013.



Affiliated Companies

Group Health Options, Inc. (GHO)
GHO was incorporated in 1990 as a wholly owned subsidiary of GHC. GHO was issued a certificate of registration as a health care service contractor (HCSC) in the state of Washington on October 23, 1990. It offers a variety of health plans in Washington and Idaho. These plans range from a defined physician-network plan to point-of-service plans in which members can get care from outside network for higher out-of-pocket costs.

KPS Health Plans (KPS)
KPS is a Washington taxable non-profit corporation registered and operating as a health care service contractor (HCSC) and is headquartered in Bremerton, Washington. KPS provides health care services through contracts with participating physicians and hospitals.

Group Health Foundation (GHF)
GHF is a Washington non-profit corporation organized under section 501(c)(3) of the Internal Revenue Code. GHF is registered in the state of Washington as a charitable gift annuity organization and is organized exclusively to benefit, to perform the functions of, and to carry out the purposes of GHC by securing, investing, and allocating charitable gifts in order to support research, health career training, health education, and other charitable programs that support the purpose of GHC. GHF is a membership corporation and has no capital stock. The membership of GHF consists of those persons elected as trustees of GHC.

Integrated Delivery System-Spokane, LLC (IDSS)
IDSS is a Washington limited liability company that was formed on July 31, 2012. GHC and Providence Health & Services-Washington, a corporation outside of the GHC holding company system, each own 50 percent of the membership interest in IDSS. The purpose of IDSS is to develop and operate an integrated healthcare delivery system in the greater Spokane area for GHC members.

Columbia Medical Associates (CMA)
CMA is a group of providers that delivers comprehensive medical care to families and individuals of all ages within the Spokane region. Effective July 31, 2011, GHC acquired 100 percent of CMA in order to provide a broader integrated system of medical care in the Spokane, Washington market. CMA owns 100 percent of Columbia Clinic, LLC.

HealthBook
CMA formed HealthBook as a Washington non-profit corporation without members on July 18, 2008. After GHC purchased CMA on July 31, 2011, HealthBook's Board of Directors was comprised entirely of GHC's employees and agents. Its purpose was to develop health information exchange platforms to facilitate the electronic exchange of health information among CMA primary care physicians and external specialists to be used in the treatment of patients. HealthBook was dissolved on December 12, 2014.

Related Party

Group Health Permanente, PC (GHP)
Group Health Permanente, PC (GHP) is a provider-owned, professional corporation with which GHC has entered into a mutually exclusive medical services agreement. Under this agreement, GHP provides medical services to enrollees of GHC and other persons seeking care in GHC operated hospitals and clinics in exchange for a negotiated payment.

Intercompany Agreements
The Company is a party to various intercompany agreements with affiliates. Between January 1, 2009 to December 31, 2013, the Company had the following significant intercompany agreements in force:

Administrative Services Agreement (ASA) between GHC and GHO
The ASA and the Medicare Products Addendum between GHC and GHO became effective January 1, 2008. It allows GHC to provide on behalf of GHO a wide range of services such as but not limited to actuarial, finance, legal, network access, information services, and human resources. The agreement amendments and addendum were filed with the OIC on Form D's, and they were not disapproved. They were also disclosed on the filed Form B's, as required.

Medical Service Agreement (MSA) between GHC and GHO
The MSA between GHC and GHO became effective February 10, 2009 and was subsequently amended three times. The purpose of the agreement is to make available comprehensive health care covered services to persons enrolled in GHO health plans and to GHO serviced self-funded group health plans through networks of contracted health care providers. The agreement and its amendments were filed with the OIC Rates and Forms Division. However, the Company did not disclose the amendment on its Form B's filed with the OIC. (See Instruction No. 3.)

Administrative Services Agreement between GHC and KPS

The ASA between GHC and KPS became effective January 1, 2007, and has been amended 16 times, as of December 31, 2013. Currently, GHC is to provide administrative services to KPS that includes, but is not limited to legal services, risk management and insurance services, internal audit services, governance services, financial services, and marketing and communications. The agreement and its amendments were filed with the OIC on Form D's, and they were not disapproved. They were also disclosed on Form B's, as required.

Administrative Services Agreement between KPS and GHC

The ASA between KPS and GHC became effective September 1, 2011. The Agreement allows KPS to provide management of sales, account management, and contract administration services to or on behalf of GHC for GHC's Federal Employees Health Benefits Plan. The first amendment effective June 11, 2012 adds actuarial services. The agreement and its amendment were filed with the OIC on Form D's, and they were not disapproved. They were also disclosed on the Form B's, as required.

Administrative Services Agreement between GHC and CMA

The ASA between GHC and CMA became effective on December 1, 2011. It allows GHC to perform certain administrative services for or on behalf of CMA. The first amendment effective February 1, 2013 added actuarial services. The agreement and its amendment were filed with the OIC on Form D's, and they were not disapproved. They were also disclosed on the Form B's, as required.

Administrative Services Agreement between GHC and CMA

The ASA between GHC and CMA became effective on January 1, 2013. CMA engaged GHC to perform administrative services for its self-funded employee welfare benefit plan ("Plan"). The Plan provides certain health care benefits to eligible CMA employees and their dependents. The agreement was filed with the OIC on a Form D, and was not disapproved. It was also disclosed on the Form B, as required.

Integrated Delivery System-Spokane, LLC Participation, Administration and Coordination Agreement between GHC and IDSS

The ASA between GHC and IDSS became effective on January 1, 2013. GHC and its affiliated entities operate various prepaid health plans for the provision of health care services. IDSS has established an integrated health care delivery system in Spokane, Washington, through written contracts with clinically integrated providers including primary care and specialty physicians, and hospitals. The agreement was filed with the OIC on a Form D, and was not disapproved. It was also disclosed on the Form B, as required.

MANAGEMENT AND CONTROL

Ownership

The Company is organized as a nonprofit membership corporation under Chapter 24.03 RCW. Its restated Articles of Incorporation effective January 8, 2003, state that the corporation shall have no capital stock and that no one shall receive any pecuniary gain or benefit by reason of their membership in the corporation. Membership in GHC is open to those consumers, as defined in the GHC Bylaws, who are over age 18, current in monthly premiums, believe in GHC's purposes and in democratic cooperative principles and apply for membership. Consumers apply for membership and are admitted to membership upon compliance with the requirements and procedures established by the Board of Trustees pursuant to the corporate bylaws. If the corporation is dissolved, any monies or assets remaining after payment of creditors and the return to members of the capital (membership fees) invested by each, shall be donated by the Board of Trustees to some public, nonprofit or charitable health organization having purposes similar to those of GHC.

Board of Trustees (BOT)
Board of Trustees as of December 31, 2013:

Porsche Everson	Chair
Susan Byington	Vice Chair
Katherine Bell	
Ruta Fanning	
Leo Greenawalt, Jr.	
Harry Harrison, Jr.	
Phillip Hass	
Jennifer Joly	
Robert Margulis	
Dorothy Ruzicki	
Robert Watt	

Officers
Officers as of December 31, 2013:

Scott Armstrong	President and CEO
Rick Woods	Vice President
Barbara Belt-Lloyd	Treasurer
Breton Myers	Assistant Treasurer
Rick Woods	Secretary
Sarah Yates	Assistant Secretary

Conflict of Interest
GHC's policy requires that upon hire, and annually thereafter, officers, directors, and other key persons are required to submit a conflict of interest disclosure form. In addition, as conflicts of interest arise they must be disclosed to the GHC's Office of Compliance and Ethics or the executive director. No exceptions noted.

Fidelity Bond
GHC is a named insured on a commercial crime policy that includes employee fidelity coverage with $10,000,000 coverage and a $100,000 deductible. The coverage meets the NAIC recommended minimum coverage.

Officers', Employees', and Agents' Welfare and Pension Plans
GHC has the following welfare and pension plans:

- GHC's policy is to fund pension costs for a defined benefit plan based on actuarial determined funding requirements, thereby accumulating funds adequate to provide for accrued benefits.

- GHC contributes to an employee defined contribution plan based on a percentage of covered employees' salaries.

- GHC contributes to a 403(b)(7) Restated Group Custodial Account Agreement plan based on a percentage of participants' contributions as set forth in the plan agreement.

Total expenses for the above plans were $71 million in 2013.

CORPORATE RECORDS

The Articles of Incorporation, Bylaws, Certificate of Registration, and minutes of the BOT and its committees were reviewed for the period under examination. All BOT meetings were conducted with a quorum present. The Bylaws were amended on June 10, 2009 to delete the introductory note and replace it with standard text regarding organizational purpose, amend the provisions regarding action without a meeting to permit consent by electronic transmission, permit use of a corporate seal, update provisions regarding indemnification, and to incorporate gender neutral titles for Chair and Vice Chair.

ACTUARIAL REVIEW

The OIC actuary reviewed the Company's actuarial report, claims unpaid, and other claim liabilities as of December 31, 2013. The review included examining the Company's reserving philosophy and methodologies to determine the reasonableness of the claim liabilities, verifying that claim liabilities include provisions for all components noted in SSAP No. 55(7) and (8), and SSAP No. 54(12), (13), (18) and (19), reviewing historical paid claims and loss ratios, checking the consistency of the incurred-paid data from the Company's system with the figures reported in the 2013 NAIC Annual Statement, and estimating claims unpaid for the valuation date of December 31, 2013.

The OIC actuary determined reserves were in compliance with statutory requirements, and the methods, assumptions, and methodologies used by the Company were appropriate.

REINSURANCE

The Company did not utilize reinsurance as of December 31, 2013.

INDEMNITY DEPOSITS

The Company maintained the following statutory deposit as of December 31, 2013:

State	Type	Book Value	Fair Value
Washington	Treasury Bill	$167,421	$167,421
Total		**$167,421**	**$167,421**

ACCOUNTING RECORDS AND INFORMATION SYSTEMS

The Company maintains its accounting records on a Generally Accepted Accounting Principles (GAAP) accrual basis of accounting and adjusts to Statutory Accounting Practices (SAP) basis for NAIC Annual Statement reporting. The Company is audited annually by the certified public accounting firm of KPMG LLC. The Company received an unqualified opinion for all years under review. The Company's accounting procedures, internal controls, and transaction cycles were reviewed during the planning and testing phase of the examination. A significant control deficiency was noted that resulted in the Company's failure to record some of its assets and an investment in a joint venture. (See Instruction No. 1a and b.)

The Company's Information Technology (IT) environment was reviewed during the planning and testing phase of the examination, focusing on the following Control Objectives for Information and related Technology (COBIT) Framework domains:

- Align, Plan and Organize
- Build, Acquire and Implement
- Deliver, Service and Support
- Monitor, Evaluate and Assess

The IT systems and controls were evaluated to gain an understanding of the IT general control risks and assess the effectiveness of these controls to determine if appropriate mitigating and internal controls have been implemented. Appropriate mitigating and internal controls have been implemented to reduce residual risk to appropriate levels. The Company has an effective Business Continuity Plan and Disaster Recovery Plan, which has been tested on a regular basis and includes the availability of an alternate site.

SUBSEQUENT EVENTS

1. The Affordable Care Act (ACA) imposes an assessment on entities that issue health insurance for each calendar year beginning on or after January 1, 2014 (ACA Section 9010 Assessments). Assessments are based upon prior year net written premiums. Fees and assessments to the federal government are payable no later than September 30th of the applicable calendar year. GHC's estimated 2014 fee assessment payable is $15.2 million and its impact to RBC is 1.9 percent.

2. In October 2014, Group Health Cooperative paid off its Series 2001 revenue bonds and entered into a bank loan agreement for $30,085,000. The agreement requires a cash collateral account be established for the same amount, an account that is restricted in use and can only be accessed by the bank to satisfy the bank debt. Since the right to offset exists, long-term debt is reported net of funds on deposit, in accordance with SSAP No. 64, "Offsetting and Netting of Assets and Liabilities."

3. Group Health Insurance Agency (GHIA) was granted a producer license to sell life and disability insurance on September 11, 2014. As of the end of fieldwork, the Company has not yet sold any Companion Life policies.

4. HealthBook discontinued its operations on December 12, 2014. The financial statement impact is minimal as HealthBook had no assets or liabilities.

5. Changes in executive management include:
   - In March, 2014, the executive vice president of human resources left.
   - In March, 2014, a new chief financial officer was hired.
   - In March 2015, the health plan appointed a new chief medical officer to manage the care management function.

FINANCIAL STATEMENTS

The following financial statements show the financial condition of GHC as of December 31, 2013:

Assets, Liabilities, Capital and Surplus
Statement of Revenue and Expenses
Five Year Reconciliation of Surplus

Group Health Cooperative
Assets, Liabilities, Capital and Surplus
December 31, 2013

	BALANCE PER COMPANY	EXAMINATION ADJUSTMENTS	BALANCE PER EXAMINATION	NOTES
ASSETS				
Bonds	$492,367,864	$0	$492,367,864	
Stocks				
Common Stocks	313,812,643		313,812,643	
Real Estate				
Properties occupied by the company	298,903,412		298,903,412	
Cash, cash equivalents, and short-term investments	202,777,967		202,777,967	
Derivaties	3,503,456		3,503,456	
Other invested assets	50,072,063	22,330,623	72,402,686	2
Receivables for securities	13,441		13,441	
Investment income due and accrued	3,732,135		3,732,135	
Premiums and considerations:				
Uncollected premium and agents' balances in the course of collection	25,597,538		25,597,538	
Amounts receivable relating to uninsured plans	1,272,279		1,272,279	
Electronic data processing equipment and software	11,582,905		11,582,905	
Furniture and equipment, including health care delivery assets	31,691,735		31,691,735	
Receivables from parent, subsidiaries and affiliates	290,140		290,140	
Health care and other amounts receivable	60,578,351		60,578,351	
Aggregate write-ins for other than invested assets	34,778,752		34,778,752	
Total assets	**$1,530,974,681**	**$22,330,623**	**$1,553,305,304**	

Group Health Cooperative
Assets, Liabilities, Capital and Surplus (Continued)
December 31, 2013

	BALANCE PER COMPANY	EXAMINATION ADJUSTMENTS	BALANCE PER EXAMINATION	NOTES
LIABILITIES, CAPITAL AND SURPLUS				
Claims unpaid	$155,730,724	$0	$155,730,724	
Accrued medical incentive pool and bonus amounts	16,812,049		16,812,049	
Unpaid claim adjustment expenses	6,209,146		6,209,146	
Aggregate health policy reserves	9,792,118		9,792,118	
Aggregate health claim reserves	125,909		125,909	
Premiums received in advance	9,164,295		9,164,295	
General expenses due or accrued	144,822,632		144,822,632	
Amounts withheld or retained for the account of others	8,079,021		8,079,021	
Borrowed money and interest theron	121,133,328		121,133,328	
Amounts due to parent, subsidiaries and affiliates	20,021,215		20,021,215	
Payable for securities lending	133,349		133,349	
Liability for amounts held under uninsured plans	301,976		301,976	
Aggregate write-ins for other liabilities	235,122,259		235,122,259	
Total liabilities	**727,448,021**	**0**	**727,448,021**	
Aggregate write-ins for special surplus funds	22,900,347		22,900,347	
Gross paid in and contributed surplus	14,715,121		14,715,121	
Unassigned funds (surplus)	765,911,192	22,330,623	788,241,815	2
Total capital and surplus	**803,526,660**	**22,330,623**	**825,857,283**	
Total liabilities, capital and surplus	**$1,530,974,681**	**$22,330,623**	**$1,553,305,304**	

Group Health Cooperative
Statement of Revenue and Expenses
For the Year Ended December 31, 2013

	BALANCE PER COMPANY	EXAMINATION ADJUSTMENTS	BALANCE PER EXAMINATION	NOTES
Member months	4,100,664	0	4,100,664	
Net premium income	$2,255,467,154	$0	$2,255,467,154	
Change in unearned premium reserves and reserve for rate credits	(1,798,964)		(1,798,964)	
Fee-for-service	(34,207,070)		(34,207,070)	
Risk revenue	20,825,272		20,825,272	
Aggregate write-ins for other health care related revenues	5,620,931		5,620,931	
Aggregate write-ins for other non-health revenues	(139,205)		(139,205)	
Total revenues	2,245,768,118	0	2,245,768,118	
Hospital and Medical:				
Hospital/medical benefits	1,589,741,072	(298,963)	1,589,442,109	2
Emergency room and out-of-area	100,584,049		100,584,049	
Prescription drugs	253,564,576		253,564,576	
Aggregate write-ins for other hospital and medical	761,737		761,737	
Incentive pool, withold adjustments and bonus amounts	29,108,695		29,108,695	
Subtotal	1,973,760,129	(298,963)	1,973,461,166	
Less:				
Net reinsurance recoveries	0	0	0	
Total hospital and medical	1,973,760,129	(298,963)	1,973,461,166	
Claims adjustment expenses	56,841,853		56,841,853	
General administrative expenses	139,029,045		139,029,045	
Total underwriting deductions	2,169,631,027	(298,963)	2,169,332,064	
Net underwriting gain or (loss)	76,137,091	298,963	76,436,054	
Net investment income earned	25,611,561	37,725,841	63,337,402	1,2
Net realized capital gains (losses) less capital gains tax	6,035,485	0	6,035,485	
Net investment gains (losses)	31,647,046	37,725,841	69,372,887	
Net income or (loss) after capital gains tax and before all other federal income taxes	107,784,137	38,024,804	145,808,941	
Net income or (loss)	**$107,784,137**	**$38,024,804**	**$145,808,941**	

Group Health Cooperative
Statement of Revenue and Expenses (Continued)
For the Year Ended December 31, 2013

	BALANCE PER COMPANY	EXAMINATION ADJUSTMENTS	BALANCE PER EXAMINATION	NOTES
CAPITAL AND SURPLUS ACCOUNT				
Capital and surplus prior reporting year	**$431,260,181**	**$0**	**$431,260,181**	
Net income or (loss)	107,784,137	38,024,804	145,808,941	1, 2
Change in net unrealized capital gains and (losses) less capital gains tax	80,916,593	(35,907,804)	45,008,789	1
Change in nonadmitted assets	85,795,225		85,795,225	
Surplus adjustments: Paid -in	(121,279)		(121,279)	
Aggregate write-ins for gains or (losses) in surplus	97,891,803	20,213,623	118,105,426	2
Net change in capital & surplus	**372,266,479**	**22,330,623**	**394,597,102**	
Capital and surplus end of reporting period	**$803,526,660**	**$22,330,623**	**$825,857,283**	

Group Health Cooperative
Five Year Reconciliation of Surplus
For the Years Ended December 31,

	*2013	2012	2011	2010	2009
Capital and surplus prior reporting year	$431,260,181	$482,474,599	$605,780,137	$593,197,828	$550,234,894
Net income or (loss)	145,808,941	4,414,071	(13,551,288)	(32,883,895)	16,213,541
Change in net unrealized capital gains (losses) less capital gains tax	45,008,789	9,172,031	(24,343,769)	30,278,976	0
Change in net unrealized foreign exchange capital gain or (loss)	-	0	0	0	2,620,722
Change in net deferred income tax	-	0	0	0	(11,367,444)
Change in nonadmitted assets	85,795,225	(12,539,565)	(1,071,210)	18,114,628	0
Cummulative effect of changes in accounting principles	-	0	0	(259,908)	259,908
Paid in (surplus adjustments)	(121,279)	(120,750)	(148,225)	(182,875)	(180,250)
Aggregate write-ins for gains or (losses) i	118,105,426	(52,140,205)	(84,191,046)	(2,484,617)	35,416,457
Net change in capital and surplus	394,597,102	(51,214,418)	(123,305,538)	12,582,309	42,962,934
Capital and surplus end of reporting year	**$825,857,283**	**$431,260,181**	**$482,474,599**	**$605,780,137**	**$593,197,828**

*Adjusted balances include the Examination Adjustments

NOTES TO THE FINANCIAL STATEMENTS

1. Westlake Terry LLC
   To record the investment in the joint venture between GHC and City Investors V LLC, to reduce "Change in net unrealized capital gains" by $35,907,804, and increase "Net investment income earned" by $35,907,804. (See Instruction No. 1.a.)

2. American Excess Insurance Exchange (AEIX)
   To record GHC's investment in AEIX, increase "Other invested assets" by $22,330,623, increase "Unassigned funds (Surplus)" by $20,213,623, increase "Net investment income earned" by $1,818,037, and decrease "Hospital and medical expenses" by $298,963. (See Instruction No. 1.b.)

ACKNOWLEDGMENT

Acknowledgment is hereby made of the cooperation extended to the examiners by the officers and employees of Group Health Cooperative and its affiliates during the course of this examination.

In addition to the undersigned, Michael V. Jordan, CPA, CFE, MHP, Assistant Chief Examiner; John Jacobson, AFE, CISA, AES, Automated Examination Specialist; Timothy F. Hays, CPA, JD, Investment Specialist; Susan Campbell, CPA, CFE, FLMI, ARA, Reinsurance Specialist; Scott Fitzpatrick, FSA, MAAA, Actuary; Adrienne Sulaiman, CPA, CFE, MHP, FLMI, Health Field Supervising Examiner; Christine Berch, CPA, Financial Examiner; Cynthia Clark, CPA, Financial Examiner; Edsel Dino, AFE, Financial Examiner, Keith Henderson, CPA, Financial Examiner; Tony Quach, AFE, Financial Examiner; Zairina Othman, Financial Examiner; Terry Gates, CPA, Financial Examiner, all from the Washington State Office of the Insurance Commissioner, participated in the examination and in the preparation of this report.

Respectfully submitted,

Kathy Hicks

Kathy Hicks, CPA, CFE
Examiner-in-Charge
State of Washington

AFFIDAVIT

STATE OF WASHINGTON }
} ss
COUNTY OF KING }

Kathy Hicks, being duly sworn, deposes and says that the foregoing report subscribed by her is true to the best of her knowledge and belief.

She attests that the examination of Group Health Cooperative was performed in a manner consistent with the standards and procedures required or prescribed by the Washington State Office of the Insurance Commissioner and the National Association of Insurance Commissioners.

Kathy Hicks

Kathy Hicks, CPA, CFE
Examiner-in-Charge
State of Washington

Subscribed and sworn to before me this 29th day of June, 2015.

Notary Public in and for the
State of Washington

COLLEEN JANSEN
COMMISSION EXPIRES
NOTARY
PUBLIC
5-17-16
STATE OF WASHINGTON