GROUP HEALTH COMMUNITY FOUNDATION AND SUBSIDIARY

Consolidated Financial Statements

December 31, 2017

(With Independent Auditors' Report Thereon)

KPMG LLP
Suite 2900
1918 Eighth Avenue
Seattle, WA 98101

Independent Auditors' Report

The Board of Directors
Group Health Community Foundation:

We have audited the accompanying consolidated financial statements of Group Health Community Foundation and its subsidiary, which comprise the consolidated statement of financial position as of December 31, 2017, and the related consolidated statement of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Group Health Community Foundation and its subsidiary as of December 31, 2017, and the results of its activities and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

KPMG

Other Matter

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

KPMG LLP

Seattle, Washington
June 5, 2018

GROUP HEALTH COMMUNITY FOUNDATION AND SUBSIDIARY

Consolidated Statement of Financial Position

December 31, 2017

Assets	
Assets:	
Cash and cash equivalents	$ 3,428,602
Investments	1,773,648,004
Other assets	239,778
Property and equipment, net	92,077
Charitable gift annuities investments	1,220,809
Total assets	$ 1,778,629,270
Liabilities and Net Assets	
Liabilities:	
Grants payable	$ 556,025
Accounts payable and accrued liabilities	579,898
Due to third party	5,859,661
Charitable gift annuities	717,923
Total liabilities	7,713,507
Net assets:	
Without donor restrictions	1,759,549,326
With donor restrictions	11,366,437
Total net assets	1,770,915,763
Total liabilities and net assets	$ 1,778,629,270

See accompanying notes to consolidated financial statements.

GROUP HEALTH COMMUNITY FOUNDATION AND SUBSIDIARY

Consolidated Statement of Activities

Year ended December 31, 2017

	Without donor restrictions	With donor restrictions	Total
Revenues, gains, and other support:			
Investment return, net	$ 35,071,415	272,410	35,343,825
Contributions	646,878	53,411	700,289
Proceeds from Kaiser Foundation Health Plan of Washington acquisition of Group Health Cooperative	1,723,980,625	—	1,723,980,625
Contribution received in the acquisition of Group Health Foundation (501(c)(3))	5,990,268	10,407,241	16,397,509
In-kind contributions	14,299	—	14,299
Net assets released from restrictions and reclassifications	(633,375)	633,375	—
Total revenues, gains, and other support	1,765,070,110	11,366,437	1,776,436,547
Expenses:			
Grants and program	1,179,256	—	1,179,256
Salaries and benefits	1,078,167	—	1,078,167
Professional fees:			
Governance and strategy	185,007	—	185,007
Information technology	156,801	—	156,801
Legal	197,797	—	197,797
Human resources	217,048	—	217,048
Accounting	623,135	—	623,135
Communications	172,864	—	172,864
Other	24,555	—	24,555
Board payments and costs	444,030	—	444,030
Occupancy	136,827	—	136,827
Employee costs	30,953	—	30,953
Insurance	37,000	—	37,000
Printed materials	32,396	—	32,396
Other general and administrative	124,894	—	124,894
Total expenses	4,640,730	—	4,640,730
Change in net assets	1,760,429,380	11,366,437	1,771,795,817
Net assets, beginning of year	(880,054)	—	(880,054)
Net assets, end of year	$ 1,759,549,326	11,366,437	1,770,915,763

See accompanying notes to consolidated financial statements.

GROUP HEALTH COMMUNITY FOUNDATION AND SUBSIDIARY

Consolidated Statement of Cash Flows

Year ended December 31, 2017

Cash flows from operating activities:	
Change in net assets	$ 1,771,795,817
Adjustments to reconcile change in net assets to cash flows from operating activities:	
Contribution received in the acquisition of Group Health Foundation (501(c)(3))	(12,853,061)
Realized gain on investments	(610,035)
Unrealized gain on investments	(24,767,050)
Depreciation	33,890
Change in value of charitable gift annuities investments	27,840
Contributions restricted for long-term purposes	(15,756)
Change in operating assets and liabilities:	
Other assets	(151,998)
Annuity portfolio	555,422
Grants payable	(604,610)
Accounts payable and accrued liabilities	521,706
Due to third party	(290,228)
Charitable gift annuities	(59,903)
Net cash provided from operating activities	1,733,582,034
Cash flows from investing activities:	
Purchase of property and equipment	(125,967)
Purchase of investments	(6,320,856,923)
Proceeds from sale of investments	4,592,054,462
Net cash used in investing activities	(1,728,928,428)
Cash flows from financing activities:	
Line of credit	(1,153,018)
Payments under charitable annuity agreements	(99,140)
Charitable gift annuity received	11,398
Contributions restricted for long-term purposes	15,756
Net cash used in financing activities	(1,225,004)
Change in cash and cash equivalents	3,428,602
Cash and cash equivalents, beginning of year	—
Cash and cash equivalents, end of year	$ 3,428,602
Noncash activities:	
Other in-kind contributions	$ 14,299

See accompanying notes to consolidated financial statements.

(1) Nature of Organization and Acquisition

Group Health Community Foundation was incorporated on November 24, 2015. The organization was funded by the proceeds from Kaiser Foundation Health Plan of Washington's acquisition of Group Health Cooperative, a transaction that was finalized in February 2017. Group Health Community Foundation is an independent 501(c)(4) nonprofit corporation, committed to carrying on Group Health Cooperative's legacy of caring, innovation, excellence, equity, and inclusion.

The longstanding Group Health Foundation, which was incorporated on November 18, 1983, is a 501(c)(3) nonprofit corporation that has been spurring innovation in health for more than three decades. Effective January 31, 2017, Group Health Community Foundation became the sole corporate member of Group Health Foundation. Group Health Foundation's resources, which consist primarily of donations from individuals, continue to be invested in improving health and health care.

The two foundations are united under a single brand, Group Health Foundation, and pursue a shared mission of shaping and accelerating efforts to improve health equity and advance community aspirations for a vibrant, healthy future in Washington. Refer to note 12 for further details on the acquisition.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

The consolidated financial statements are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles in the United States of America (GAAP). Consolidated financial statements include the accounts of Group Health Community Foundation (the 501(c)(4)) and Group Health Foundation (the 501(c)(3)), (collectively the Foundation). All significant intercompany balances and transactions have been eliminated upon consolidation.

(b) Classification of Net Assets

The consolidated financial statements report net assets and changes in net assets in two classes that are based upon the existence or absence of restrictions on use that are placed by its donors, as follows:

(i) Without Donor Restrictions

Net assets without donor restrictions represent resources which are not subject to donor-restrictions and over which the board of directors of the Foundation retain control to use the funds to achieve the Foundation's purpose.

(ii) With Donor Restrictions

Net assets with donor restrictions represent resources subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that are restricted by the donor for a particular purpose and that will be met by the passage of time or other events specified by the donor.

Other donor-imposed restrictions are to maintain resources in perpetuity. This consists of endowment funds. Donor-restricted endowment funds represent funds that are subject to restrictions of gift instruments requiring that the principal be invested in perpetuity.

(c) Contributions and Revenue Recognition

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary donor restrictions are reported as reclassifications between the applicable classes of net assets.

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value on the date contributed.

Endowment net assets are reported as net assets with donor restrictions and are stipulated by the donor. They consist of the original principal to be held in perpetuity. Generally, net appreciation, realized and unrealized, unless restricted by the donor, is available for appropriation by the board of directors for the uses and purposes for which the endowment fund is intended.

(d) Contributed Services

Contributed services are reported in the consolidated financial statements for voluntary donations of services when those services (1) create or enhance nonfinancial assets or (2) require specialized skills provided by individuals possessing those skills and are services that would be typically purchased if not provided by donation.

(e) Other General and Administrative

Other general and administrative expense primarily includes depreciation, office phone and internet, office supplies, business and occupation taxes, and computer supplies.

(f) Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the reporting period and reported amounts of assets and liabilities at the date of the consolidated financial statements. On an ongoing basis, the Foundation’s management evaluates the estimates and assumptions based upon historical experience and various other factors and circumstances. The Foundation’s management believes that the estimates and assumptions are reasonable in the circumstances; however, the actual results could differ from those estimates.

(g) Cash and Cash Equivalents

Cash and cash equivalents consist of highly liquid investments with original maturities of three months or less. The carrying value of cash and cash equivalents approximates fair value because of the short maturities of those financial instruments. At times throughout the year, the Foundation may maintain deposits with certain bank accounts in excess of the Federal Deposit Insurance Corporation (FDIC) – insured limits.

(Continued)

(h) Fair Value Measurements

The Foundation adopted the provisions of Financial Accounting Standards Board (FASB) guidance on fair value related to its financial assets measured at fair value on a recurring basis. This guidance establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy are as follows:

Level 1 Quoted prices are available in active markets for identical assets or liabilities. Active markets are those in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 Pricing inputs are other than quoted prices in active markets included in Level 1, which are either directly or indirectly observable as of the reporting date. Level 2 includes those financial instruments that are valued using models or other valuation methodologies. These models are primarily industry-standard models that consider various assumptions, including quoted forward prices for commodities, time value, volatility factors, and current market and contractual prices for the underlying instruments, as well as other relevant economic measures. Substantially all of these assumptions are observable in the marketplace throughout the full term of the instrument, can be derived from observable data, or are supported by observable levels at which transactions are executed in the marketplace.

Level 3 Pricing inputs include significant inputs that are generally unobservable from objective sources. These inputs may be used with internally developed methodologies that result in managements best estimate of fair value.

As required by FASB guidance on fair value, financial assets are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Foundation’s assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of the fair value of assets and their placement within the fair value hierarchy levels.

Investments are stated at fair value according to GAAP, which requires that the valuation of investments reported at fair value be made in the context of market conditions as of the valuation date. Whenever available, quotations from organized securities exchanges are used as the basis for fair value. For investments not traded on organized exchanges, fair value estimates are provided by investment managers. For applicable investments, manager-reported net asset value (NAV) is used as a practical expedient to estimate fair value. Valuations provided by fund managers consider variables such as the financial performance and sales of underlying investments and other pertinent information. In addition, actual market exchanges at year-end provide additional observable market inputs of the exit price. The Foundation reviews valuations and assumptions provided by fund managers for reasonableness and believes that the carrying amounts of these financial instruments are reasonable estimates of the fair value. Investments are stated at fair value, which is determined by using market quotations and other information available at the valuation date.

(Continued)

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

(i) Investment Expenses

External and direct internal investment expenses are classified within the statements of activities net of investment return.

(j) Charitable Gift Annuities

The Foundation has received contributions conditional upon the donors receiving current or deferred lifetime annuity payments. The Foundation has a contractual obligation for the annuity payments and is required under Washington law to set aside funds to meet the obligations or have minimal unrestricted net assets. The annuity obligations vary with the terms of the contract including the age of the donor, the starting date of the annuity, and the assumed interest rate. The Foundation has set aside gift annuities reserves of $717,923 as of December 31, 2017.

(k) Furniture, Fixtures, and Equipment

Purchased furniture, fixtures, and equipment are reported at cost. An asset is capitalized if it has a cost of $5,000 or more and a useful life when acquired of more than one year. Routine maintenance and repairs are expensed as incurred. The cost of furniture, fixtures, and equipment, and the related accumulated depreciation, are removed from the accounts when sold or retired, and the resulting gain or loss is recognized. Depreciation is provided over the estimated useful life of each depreciable asset and is computed using the straight-line method. The estimated useful lives of furniture, fixtures, and equipment are as follows:

Capital asset	Useful life
Computer hardware and software	3 years
Furniture and fixtures	7 years
Machinery and equipment	5-10 years
Leasehold improvements	Shorter of asset’s useful life or term of lease

(l) Due to Third Party

The Foundation holds donor permanently restricted funds that name a non-financially interrelated third party as beneficiary. Due to third party liabilities represent the donor-designated contributions and accrued interest balances of these funds.

(m) Federal Income Tax

The 501(c)(4) is a not-for-profit corporation and has been recognized as tax exempt pursuant to Section 501(c)(4) of the IRC. The 501(c)(3) is a not-for-profit corporation and has been recognized as tax exempt pursuant to Section 501(c)(3) of the Internal Revenue Code (IRC). The Foundation is exempt from federal income tax with exception to any unrelated business taxable income as defined under IRC Sections 511 through 515. The Foundation accounts for uncertain tax positions whereby the effect of the uncertainty would be recorded if the outcome was considered probable and estimable. The Foundation had no uncertain tax positions as of December 31, 2017.

(n) Implementation of New Accounting Standard

The Foundation has early adopted FASB Accounting Standards Update (ASU) 2016-14, Presentation of financial statements of Not-for-Profit Entities, for the year ended December 31, 2017. As a result of this ASU, the Foundation now presents two classes of net assets in its consolidated financial statements, instead of three: net assets with donor restrictions and net assets without donor restrictions.

This ASU also requires the following enhanced disclosures that pertain to the Foundation: the composition of net assets with donor restrictions at the end of the period focusing on how and when the resources can be used rather than a bright-line distinction between temporary and permanent restrictions; qualitative information on how the Foundation manages its liquid resources; quantitative and qualitative information on the availability of the Foundation’s financial assets at the date of the consolidated statement of financial position; amounts of expenses by both their natural classification and functional classification; methods used to allocate costs among program and support functions; policies and expanded information on underwater endowments and net reporting of investment return.

(3) Net Assets with Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes as of December 31, 2017:

		2017
Donor-restricted endowments subject to spending policy and appropriation, to support the following purposes (including net accumulated earnings):		
Phil and Sandra Nudelman Diversity Endowment	$	167,608
Margery Sayre Endowment for Seniors of Thurston, Mason, & Lewis Counties		291,207
Elwin Anderson Endowment for Seniors within Snohomish County		75,318
Physician Assistant Scholarship Endowment		112,654
General endowment		3,785,941
Calder Miles Endowment to Support Foundation Activity		137,203
Jerome F. Beekman Memorial Endowment for Clinical Innovation		1,010,748
Children’s Health Care Initiatives Endowment		3,923,062
Robin E. Johnson Endowment for Health Improvement		253,295
Bernice Cohen Sachs, MD Endowment for Women Medical Students		222,413
William C. Butts PhD Endowment for Lab Student Scholarships		131,472
Aubrey and Henrietta Davis Endowment for Governance Support		570,956
Carla A. Bush Endowment for Senior Healthcare Leaders		188,032
Vera K. Miller Endowment for Career Development		108,921
Donald G. Miller, MD Endowment for Clinical Innovation		103,020
Ruth Sinton Endowment to Support Foundation Programs		61,346
		11,143,196

(Continued)

		2017
Subject to donor imposed restrictions:		
Cancer care program	$	81,960
Senior programs		70,172
KFHPW Northgate READ Program		3,031
Immunization initiative		2,146
KFHPW South Tacoma READ Program		453
Group Health Network Spokane Support		9,789
Life Insurance Premium Fund		55,690
		223,241
Total net assets with donor restrictions	$	11,366,437

(4) Endowment

The Foundation's endowment assets include donor-restricted endowments. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

(a) Interpretation of Relevant Law

The Board of Directors interpreted the enacted version of Washington State's Uniform Prudent Management of Institutional Funds Act (WA-UPMIFA) as requiring the prudent management of donor-restricted gifts based on the spending and other investment policies of the Foundation, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classified the following amounts as net assets with donor restrictions in the accompanying consolidated financial statements:

- The fair value of the gifts donated to the donor-restricted endowment
- Accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument or statute at the time the accumulation is added to the fund
- The remaining portion of the donor-restricted endowment funds that is not required to be held in perpetuity consisting of accumulated investment gains and losses which are included in net assets with donor restrictions until those amounts are appropriated to the Foundation in a manner consistent with the donor stipulations.

In accordance with WA-UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purpose of the donor-restricted endowment fund
3. General economic conditions

4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the Foundation
7. The investment policies of the Foundation

(b) Endowment Spending Policy

It is the goal of the Foundation to provide annual distributions based on donor intent. The Foundation Board will approve the maximum endowment allocation. From this allocation, the Board may choose to allocate up to 1% of the total market value of the endowment as a management fee for the year. Total spending, including management fee and spending allocations, cannot exceed 5%.

(c) Investment Objective

The investment objective is to rely on diversification of investment instruments, asset classes, investment styles and philosophies to achieve a balance between three goals:

1. Preserve capital to maintain safety of principal;
2. Protect long-term purchasing power; and
3. Provide liquidity to meeting funding needs for fulfilling its mission.

(d) Asset Allocation

The Foundation recognizes that the strategic allocation of assets across broadly defined financial asset and specific investment classes is critical in reducing the volatility of the portfolio and in achieving its performance objectives. Investment decisions shall be made within the confines of the investment policy for optimizing the total rate of return, keeping in mind the desirability of limiting year-to-year risk of income and market fluctuations. Considering the Foundation's return objectives and risk tolerance, the Board of Directors set the general asset allocation rules that detail the asset mix between equity and fixed income for each pool.

(e) Funds With Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or WA-UPMIFA requires the Foundation to retain as a fund of perpetual duration. Deficiencies result from unfavorable market fluctuations that occur after the investment of permanently restricted contributions. There were no such deficiencies as of December 31, 2017.

(Continued)

The Foundation's endowment net asset composition by type of fund as of December 31, 2017 is as follows:

		Year ended December 31, 2017		
		Without donor restrictions	**With donor restrictions**	**Total**
Original donor-restricted gift amount	$	—	6,281,393	6,281,393
Accumulated investment gains and expenses		—	4,861,803	4,861,803
Total	$	—	11,143,196	11,143,196

The changes in the Foundation's endowment net assets for the years ended December 31, 2017 are as follows:

		Year ended December 31, 2017		
		Without donor restrictions	**With donor restrictions**	**Total**
Net asset balance – 2/1/17	$	—	11,191,669	11,191,669
Investment return		—	268,792	268,792
Expenses		—	(317,265)	(317,265)
Total	$	—	11,143,196	11,143,196

(5) Functional Expenses

The costs of program and supporting services activities have been summarized in the consolidated statements of activities. The expense analysis in the table below presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The consolidated financial statements report certain categories of expenses that are attributed to more than one program or support function. The expenses that are allocated include salaries, wages and employee benefits, which are allocated based on estimated time spent on program, fundraising, or general and administrative tasks. Other costs are classified in each functional category based on the underlying purpose of each transaction.

Functional expenses for the year ended December 31, 2017 are summarized as follows

	Program activities	Supporting activities: Management and general	Supporting activities: Fundraising	Supporting activities: Supporting subtotal	Total expenses
Grants and program	$ 1,179,256	—	—	—	1,179,256
Salaries and benefits	179,220	771,756	127,191	898,947	1,078,167
Professional fees:					
Governance and strategy	—	185,007	—	185,007	185,007
Information technology	71,510	83,006	2,285	85,291	156,801
Legal	—	197,797	—	197,797	197,797
Human resources	—	217,048	—	217,048	217,048
Accounting	—	623,135	—	623,135	623,135
Communications	36,264	136,600	—	136,600	172,864
Other	—	22,837	1,718	24,555	24,555
Board payments and costs	—	444,030	—	444,030	444,030
Occupancy	—	136,827	—	136,827	136,827
Employee costs	1,389	25,850	3,714	29,564	30,953
Insurance	—	37,000	—	37,000	37,000
Printed materials	14,136	8,194	10,066	18,260	32,396
Other general and administrative	—	116,343	8,551	124,894	124,894
Total expenses	$ 1,481,775	3,005,430	153,525	3,158,955	4,640,730

(6) Fair Value of Financial Instruments

Under GAAP, a financial instrument is defined as cash, evidence of an ownership in an entity, or a contract between two entities to deliver cash or another financial instrument or to exchange other instruments. The estimated fair value of certain financial instruments is reflected in the accompanying consolidated statement of financial position in the following manner. The carrying amount of cash and cash equivalents, other assets, grants payable, accounts payable and accrued liabilities, and due to Kaiser Foundation Health Plan of Washington, approximates the fair value of these instruments. Fair values of the annuities payable are estimated using either quoted market prices or discounted cash flows based on Treasury note rates.

Following is a description of the valuation methodologies used for investments measured at fair value.

Money markets are valued at fair value by discounting the related cash flows based on current yields of similar instruments with comparable durations considering the creditworthiness of the issuer.

Treasury obligations are valued at the closing price reported on the major market on which the individual securities are traded. Such securities are classified within Level 1 of the valuation hierarchy.

Common stocks and mutual funds are valued at the closing price reported on the major market on which the individual securities are traded. Common and preferred stocks are generally classified within Level 1 of the valuation hierarchy.

Units held in commingled trusts are valued at the closing price reported on the major market on which the individual securities are traded or have reported broker trades that may be considered indicative of an active market. These funds are determined to have a readily determinable fair value and are classified within Level 2 of the valuation hierarchy.

Fair values of assets measured at December 31, 2017 are as follows:

December 31, 2017	Fair value	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Investments:				
Money market	$ 129,611,398	—	129,611,398	—
Treasury obligations	679,993,321	679,993,321	—	—
Common stock	689,526	689,526	—	—
Mutual funds:				—
Bond funds	5,477,787	5,477,787	—	—
Equity funds	14,986,926	14,986,926	—	—
Commingled trust funds	942,889,046	—	942,889,046	—
Total	$ 1,773,648,004	701,147,560	1,072,500,444	—
Charitable gift annuities investments:				
Mutual funds:				
Equity funds	$ 796,432	796,432	—	—
Bond funds	358,886	358,886	—	—
Commodities	65,491	65,491	—	—
Total	$ 1,220,809	1,220,809	—	—

The Foundation recognizes transfers between levels in the fair value hierarchy at the end of the reporting period. There were no transfers between levels in 2017.

Components of investment income are as follows:

		2017
Interest	$	10,236,032
Dividends		475,888
Net realized gains		610,035
Change in unrealized net gains		24,767,050
		36,089,005
Less investment related fees		(745,181)
	$	35,343,824

(7) Property and Equipment, Net

A summary of property and equipment at December 31, 2017 are as follows:

Computer equipment and software	$	92,966
Furniture and fixtures		22,309
Equipment		10,692
		125,967
Less accumulated depreciation		(33,890)
Net property and equipment	$	92,077

Depreciation expense was $33,890 for the year ended December 31, 2017.

(8) Retirement Plan

The Foundation has a defined contribution 401(k) plan which covers employees who meet certain eligibility requirements. Employees make voluntary contributions to the plan subject to IRS limits. The Foundation has elected a Safe Harbor 401(k) Nonelective Contribution (7% of employee compensation) and a Safe Harbor 401(k) Matching Contribution (100% of the first 3% of employee compensation contributed to the plan).

Retirement plan benefit expense under the 401(k) plan totaled $101,792 for the year ended December 31, 2017.

(9) Grants Payable

As of December 31, 2017, the Foundation had grants payable totaling $556,025 awarded to one health research institution. Grants payable as of December 31, 2017 have been paid during 2018.

(10) Commitments and Contingencies

The Foundation leases office space in Seattle, WA which commenced January 1, 2017 and expires June 30, 2019. The lease contains escalation clauses that provide for increases in rent if operating costs incurred by the landlord exceed the base operating costs. The Foundation's policy is to record base rent expense on a straight-line basis over the term of the lease.

The future minimum lease commitments under the lease agreement are:

2018	$	140,585
2019		72,560
	$	213,145

Rent expense was $131,624 for the year ended December 31, 2017.

(11) Liquidity and Availability

The Foundation regularly monitors liquidity required to meet its operating needs, liabilities, and other obligations as they become due. As of December 31, 2017, the Foundation has ample cash, cash equivalents, and investments to cover operating expenses. The following assets could be readily made available within one year of the statement of financial position to meet general expenditures:

Financial assets:		
Cash and cash equivalents	$	3,428,602
Investments		1,773,648,004
Charitable gift annuities investments		1,220,809
Less those unavailable for general expenditures within one year, due to:		
Restricted by donor with time or purpose restrictions		(11,366,437)
Due to third party		(5,859,661)
Charitable gift annuities		(717,920)
Financial assets available to meet cash needs for general expenditures within one year	$	1,760,353,397

(12) Acquisition of GHF (the 501(c)(3))

Effective January 31, 2017 GHCF (the 501(c)(4)) acquired the 501(c)(3) and became its sole member. The acquisition occurred in conjunction with Kaiser Foundation Health Plan of Washington and Group Health business combination. In the acquisition of the 501(c)(3), the 501(c)(4) acquired the following assets and assumed the following liabilities:

Assets acquired:		
Cash and cash equivalents	$	3,545,148
Investments		19,467,758
Annuity portfolio		1,716,328
Other assets		64,350
		24,793,584
Liabilities assumed:		
Grants payable		1,160,635
Annuity payable		777,826
Due to GHC		307,725
Due to third party		6,149,889
		8,396,075
Contribution received in the acquisition of Group Health Foundation (501(c)(3))	$	16,397,509

The acquired net assets of the 501(c)(3) at the date of acquisitions was recorded as an inherent contribution in the consolidated statement of activities.

(13) Funds held in Escrow Account

An escrow agreement was executed during February 2017, among the Foundation, Group Health Cooperative, and Kaiser Foundation Health Plan of Washington with Citibank, National Association, as the escrow agent. Kaiser Foundation Health Plan of Washington agreed to place $75,000,000 in an escrow account to hold and distribute the funds in accordance with the escrow agreement. The escrow account was to remain active for indemnification claims for a period of 15 months from the effective date of the agreement, which was February 1, 2017.

Claims were filed prior to the close of the 15 month period, May 1, 2018 in the amount of $7,850,695. The Foundation issued a formal notice of dispute of the claims notice so the Foundation can reasonably evaluate the claims. The escrow agent shall continue to hold such amount in the escrow account in accordance with the escrow agreement. The remaining balance of $67,791,223 was transferred to the Foundation in May 2018 and is not yet reflected in the Foundation’s financial statements.

(14) Subsequent Events

Subsequent events are events or transactions that occur after the statement of financial position date but before the consolidated financial statements are available to be issued. The Foundation recognizes in the consolidated financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statement of financial position, including the estimates inherent in the process of preparing the consolidated financial statements. The Foundation's consolidated financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statement of financial position but arose after the statement of financial position date and before the consolidated financial statements are available to be issued.

The Foundation has evaluated subsequent events through June 5, 2018 which is the date the consolidated financial statements were available to be issued, and concluded that there were no events or transactions that need to be disclosed or recorded with exception to the activity related to the funds held in escrow documented in note 13.

GROUP HEALTH COMMUNITY FOUNDATION AND SUBSIDIARY

Consolidating Statement of Financial Position

December 31, 2017

Assets

	Group Health Community Foundation 2017	Group Health Foundation 2017	Eliminations 2017	Consolidated Total 2017
Assets:				
Cash and cash equivalents	$ 678,166	2,750,436	—	3,428,602
Due from Group Health Foundation (C3)	287,361	—	(287,361)	—
Investments	1,752,486,363	21,161,641	—	1,773,648,004
Other assets	70,467	169,311	—	239,778
Property and equipment, net	92,077	—	—	92,077
Charitable gift annuities investments	—	1,220,809	—	1,220,809
Total assets	$ 1,753,614,434	25,302,197	(287,361)	1,778,629,270
Liabilities and Net Assets				
Liabilities:				
Grants payable	$ —	556,025	—	556,025
Due to Group Health Community Foundation (C4)	—	287,361	(287,361)	—
Accounts payable and accrued liabilities	566,636	13,262	—	579,898
Due to third party	—	5,859,661	—	5,859,661
Charitable gift annuities	—	717,923	—	717,923
Total liabilities	566,636	7,434,232	(287,361)	7,713,507
Net assets:				
Without donor restrictions	1,753,047,798	6,501,528	—	1,759,549,326
With donor restrictions	—	11,366,437	—	11,366,437
Total net assets	1,753,047,798	17,867,965	—	1,770,915,763
Total liabilities and net assets	$ 1,753,614,434	25,302,197	(287,361)	1,778,629,270

See accompanying independent auditors' report.

GROUP HEALTH COMMUNITY FOUNDATION AND SUBSIDIARY

Consolidating Statement of Activities

Year ended December 31, 2017

	Group Health Community Foundation			Group Health Foundation			Consolidated Total		
	Without donor restrictions	**With donor restrictions**	**Total**	**Without donor restrictions**	**With donor restrictions**	**Total**	**Without donor restrictions**	**With donor restrictions**	**Total**
Revenues, gains, and other support:									
Investment return, net	$ 32,551,050	—	32,551,050	2,520,365	272,410	2,792,775	35,071,415	272,410	35,343,825
Contributions	—	—	—	646,878	53,411	700,289	646,878	53,411	700,289
Proceeds from Kaiser Foundation Health Plan of Washington acquisition of Group Health Cooperative	1,723,980,625	—	1,723,980,625	—	—	—	1,723,980,625	—	1,723,980,625
Contribution received in the acquisition of Group Health Foundation (501(c)(3))	—	—	—	5,990,268	10,407,241	16,397,509	5,990,268	10,407,241	16,397,509
In-kind contributions	2,300	—	2,300	11,999	—	11,999	14,299	—	14,299
Net assets released from restrictions and reclassifications	—	—	—	(633,375)	633,375	—	(633,375)	633,375	—
Total revenues, gains, and other support	1,756,533,975	—	1,756,533,975	8,536,135	11,366,437	19,902,572	1,765,070,110	11,366,437	1,776,436,547
Expenses:									
Grants and program	15,000	—	15,000	1,164,256	—	1,164,256	1,179,256	—	1,179,256
Salaries and benefits	637,363	—	637,363	440,804	—	440,804	1,078,167	—	1,078,167
Professional fees:									
Governance and strategy	177,716	—	177,716	7,291	—	7,291	185,007	—	185,007
Information technology	59,789	—	59,789	97,012	—	97,012	156,801	—	156,801
Legal	176,099	—	176,099	21,698	—	21,698	197,797	—	197,797
Human resources	202,868	—	202,868	14,180	—	14,180	217,048	—	217,048
Accounting	525,624	—	525,624	97,511	—	97,511	623,135	—	623,135
Communications	99,770	—	99,770	73,094	—	73,094	172,864	—	172,864
Other	14,320	—	14,320	10,235	—	10,235	24,555	—	24,555
Board payments and costs	440,110	—	440,110	3,920	—	3,920	444,030	—	444,030
Occupancy	115,546	—	115,546	21,281	—	21,281	136,827	—	136,827
Employee costs	20,866	—	20,866	10,087	—	10,087	30,953	—	30,953
Insurance	31,325	—	31,325	5,675	—	5,675	37,000	—	37,000
Printed materials	84	—	84	32,312	—	32,312	32,396	—	32,396
Other general and administrative	89,643	—	89,643	35,251	—	35,251	124,894	—	124,894
Total expenses	2,606,123	—	2,606,123	2,034,607	—	2,034,607	4,640,730	—	4,640,730
Change in net assets	1,753,927,852	—	1,753,927,852	6,501,528	11,366,437	17,867,965	1,760,429,380	11,366,437	1,771,795,817
Net assets, beginning of year	(880,054)	—	(880,054)	—	—	—	(880,054)	—	(880,054)
Net assets, end of year	$ 1,753,047,798	—	1,753,047,798	6,501,528	11,366,437	17,867,965	1,759,549,326	11,366,437	1,770,915,763

See accompanying independent auditors' report.