Providence Health & Services provides compassionate, high-quality care, while remaining good stewards of resources. A commitment to financial sustainability, coupled with the spirit and drive of the people of Providence, allows Providence to continue to deliver the highest quality care, provide a larger community benefit and offer an increased amount of free and discounted care to those who need it.

Community Benefit to Reach Unmet Needs

The Providence Mission reaches out beyond the walls of care settings to touch lives in the places where relief, comfort and care are needed. Providence collaborates with its community partners to respond to local needs and in 2010, contributed nearly $617 million to community benefit programs. All Providence regions were able to increase contributions in 2010, with total community benefit spending exceeding 2009 spending by $35 million.

A Special Concern for those who are Poor and Vulnerable

The cornerstone of the Providence Mission is to reveal God's love by providing quality care that is accessible to everyone – especially to those who are poor and vulnerable. Now, more than ever, the charity care Providence provides is necessary to ensure all people, regardless of their economic situation, can access quality health care. In 2010, Providence offered $198 million in free and discounted care. Consistent with other Catholic health care organizations, Providence's does not include the unpaid cost of Medicare, Medicaid or bad debt in its cost of charity care numbers.

Sustaining the Providence Mission

While these continue to be unpredictable economic times, the growing need for affordable health care has not changed. Remaining financially healthy is important for Providence to be able to continue to deliver the highest quality care, provide increased community benefit assets and offer charity and discounted health care to those who cannot afford it. In 2010, Providence net operating income was more than $330 million and on average, days cash on hand were 176.

The Providence Mission is firmly rooted in the work started more than 155 years ago by the Sisters of Providence. This heritage is an inspiration and guides Providence & Health Services to be a constant and supportive presence in the communities it serves.

Fiscal Year 2010 – Financial Performance Report

Net operating income ("NOI") of $330.2 million exceeded budget by $18.8 million and was $6.8 million above the prior year. The table below is a reconciliation of the 2010 actual versus budgeted performance which was driven by continued strong expense management in a volatile patient volume and rate market.

The following table presents consolidated key financial indicators:

Key Financial Indicators	**---- Fiscal Year 2010 ----**		
	Actual	Budget	2009
Net Operating Income	$330.2m	$311.4m	$323.4m
Operating Margin %	4.1%	3.8%	4.2%
Net Income (loss)	$485.6m	$409.5m	$360.7m
Charity Care Services % Net Revenue	5.8%	4.7%	5.7%
Inpatient Activity – Inpatient Admissions	262,070	269,967	261,439
Outpatient Activity – Outpatient Revenue	$6,390m	$6,184m	$5,673m
Non-Acute Patient Visits	2,125,825	2,168,136	2,070,071
CMI Adjusted Length of Stay	3.1	3.3	3.2
Rate - Net Service Revenue/CMAA	$11,258	$11,560	$10,945
Productivity – Labor % Net Revenue	39.1%	38.7%	39.0%
Supplies % Net Revenue	13.7%	13.6%	13.9%
Efficiency - Expense per CMAA	$10,725	$11,055	$10,409
Accounts Receivable Days	50	49	49
Days of Cash on Hand	176	151	158

Inpatient admissions ran 2.9% below budget and 0.2% below prior year to date. The 2.9% budget shortfall represents 21 admissions per calendar day or less than 1 admission per calendar day per hospital. The below budget performance occurred in all regions. The most significant drivers of the overall negative budget variance were inpatient surgeries, which ran 10.9% below budget. This shortfall from budget was driven by the poor economy, changes in commercial insurance plan designs and reduced hospital utilization.

Non-acute care activity ran 2.0% below budget but 2.7% above prior year to date. The 2.0% budget shortfall represents 116 fewer patients served per calendar day. The below budget performance occurred in all regions. The shortfall is driven by a combination of fewer hospital discharges, shifts in community practices and increased competition.

Net service revenue per CMAA (case mix adjusted admission) ran 3.0% below budget. The 3.0% budget shortfall represents $347 per CMAA. The below budget performance occurred in all regions. The shortfalls are the result of the economy driving up the number of uninsured, employers providing reduced insurance benefits, commercial insurance rate increases, reduced Medicaid reimbursement and the decline in utilization of hospital services. These shortfalls are anticipated to continue as predicted in our operational transformation plan. In an effort to optimize our net revenue and market positions, management is adding a consulting division to the Providence Health Plan that will support the strategic plan development of each market served. The objective is to assure relationships with all major payors are optimized, the health benefit needs of major employers in the markets served is understood and Providence is positioned to develop market leading accountable care organizations.

Labor productivity ran 0.4% above budget and 0.1% above prior year. The above budget performance occurred in Oregon and California. The most significant drivers of the overall negative budget variance were driven by less than budgeted inpatient volumes and net revenue per CMAA. Despite the budgeted shortfall, labor productivity was modified positively in response to the shortfall in patient volume and revenue.

Supplies ran 0.1% greater than budget and 0.3% below prior year. The negative year-to-date budget performance occurred in all regions except Washington Montana. The most significant drivers of the overall negative budget variance were driven by less than budgeted patient volumes. Despite the budget shortfall, total supply expense ran $10.0 million or % less than budget in response to the shortfall in patient volume and revenue.

Accounts receivable days ran 1 day greater than budget and prior year. The negative 2010 budget performance occurred in all regions except Oregon. The most significant driver of the overall negative budget variance was related to the accounting treatment for the pending provider tax reimbursement in California.

The strength of the Alaska region's performance was primarily due to an 8.0% greater than budgeted operating expense efficiency. The primary challenges for the Alaska region were the 5.4% shortfall in net service revenue per CMAA and 9.5% shortfall in outpatient visits. The strengths included significant positive NOI budget performances in Anchorage, Kodiak, and regional services.

The strength of the Washington/Montana region's performance was primarily the result of 4.4% better than budgeted operating expense efficiency, adjusted for the new provider tax expense of $19.7 million. The primary challenges for the Washington/Montana region were a 4.3% shortfall in net service revenue per CMAA, adjusted for the new provider tax, and an 11.4% shortfall in primary care visits. The strengths include significant positive NOI budget performances in Everett, Centralia, Spokane, and Missoula.

The strength of the Oregon region's performance was primarily due to 2.4% greater than budgeted operating expense efficiency and 0.4% greater than budgeted health plan enrollment. The primary challenge of the Oregon region was a 3.0% shortfall in inpatient admissions. The strengths included significant positive NOI budget performances in Portland, Milwaukie, Medford, regional services, and the Providence Health Plan.

The strength of the California region's performance was primarily due to 5.4% better than budgeted operating expense efficiency. The primary challenges of the California region were a 4.8% shortfall in net service revenue per CMAA, an 11.8% shortfall in outpatient visits and a negative budget variance in Tarzana. The strengths included significant positive NOI budget performances in Torrance, San Pedro, and Mission Hills.

The following table presents key balance sheet indicators' performances versus rating agency ratio goals:

Balance Sheet Indicators	---- December 2010 ----		
	Tracking Goal	Current	FYE Goal
Days of Cash on Hand	Yes	176	151
Long-term Debt to Total Capitalization	Yes	30%	35%
Cash to Debt	Yes	128%	110%

It should be noted from the table above that the 176 days of cash on hand includes $38.0 million of unspent debt; excluding the unspent debt, cash on hand is at 174 days.

Debt Supported by Self-Liquidity

In February 2008, Providence Health & Services (PH&S) held $720.5 million in auction rate debt, in 14 different series of bonds. During 2008, PH&S moved quickly to restructure its auction debt and as a result currently has approximately $412 million in variable-rate vehicles supported by self liquidity. The System reports monthly on its cash and investment balances available to retire maturing short-term debt in the event bonds cannot be remarketed. The table below summarizes the information provided to the rating agencies at the end of the fourth quarter describing cash and investments that could be available for liquidation.

Standard & Poor's Liquidity Assessment Coverage Calculation Spreadsheet (Last Revised January 2010)

INSTRUCTIONS: Fill in Green Cells to Compute Coverage Amounts

Liquidity Assessment Provider Name: Providence Health & Services

Portfolio As of Date: December 31, 2010

Asset Allocation (Security Type)	Assets ($ millions) with same day liquidity (T+0)	Assets ($ millions) with next day liquidity (T+1)	Assets ($ millions) with > same day liquidity (T+2, T+3,…T+n)	$ in Millions	Discount Factor	Discounted Assets
Cash & Cash Equivalents *	$ 365.04	$ -	$ (6.04)	$ 359.00	1.00	$ 359.00
S&P rated money market funds (> Am)	$ 403.64	$ 22.72	$ 391.90	$ 818.25	1.00	$ 818.25
Highly rated (A-1 or A-1+) dedicated bank line	$ -	$ -	$ -	$ -	1.00	$ -
Highly rated (A-1 or A-1+) money market instruments (< 1yr)	$ 1.91	$ 5.01	$ -	$ 6.92	0.91	$ 6.29
U.S. Treasury Debt Obligations (> 1 year)	$ -	$ 93.61	$ -	$ 93.61	0.91	$ 85.10
U.S. TIPs	$ -	$ 6.37	$ -	$ 6.37	0.87	$ 5.54
U.S. Agencies (> 1 year)	$ -	$ 91.64	$ -	$ 91.64	0.83	$ 76.37
Investment Grade Debt (that is not included above)	$ -	$ -	$ 271.05	$ 271.05	0.67	$ 180.70
Equities**	$ -	$ -	$ 48.28	$ 48.28	0.50	$ 24.14
Non-Investment Grade Debt	$ -	$ -	$ 60.72	$ 60.72	0.40	$ 24.29
Total	$ 770.59	$ 219.35	$ 765.91	$ 1,755.84		$ 1,579.68
Discounted Total	$ 770.42	$ 194.28	$ 614.99			Discounted Total

	Enter amount of Self Liquidity Backed Debt with:				
	Same Day Notice	Next Day Notice	> Next Day Notice	TOTAL DEBT SUPPORTED BY SELF LIQUIDITY	TOTAL REMAINING DISCOUNTED ASSETS
Commercial Paper		$ 50.00	$ 150.00		
Variable Rate Demand Note or Obligation	$ 61.53		$ 150.00		
Fixed Rate Debt					
Other Securities					
Total	$ 61.53	$ 50.00	$ 300.00		
				$ 411.53	$ 1,168.15
Remaining Discounted Assets	$ 708.89	$ 853.17	$ 1,168.15		
	Same Day +/-	Next Day +/-	> Next Day +/-		
	Sufficient	Sufficient	Sufficient		

December Metrics

In November 2008, the System issued $289,195,000 through the California Health Facilities Authority to refinance a portion of outstanding indebtedness incurred to benefit the System's California hospitals. During the sale, investors requested additional performance data to assist in ongoing analysis. On the following page is a list of the requested performance metrics.

Mike Butler, EVP Finance & Strategy

Performance Metrics

	December 31, 2010 Year-to-Date		
	Actual	Budget	Prior Year
Volume:			
Acute Adjusted Admissions	435,122	441,004	427,634
Total Acute Admissions	262,070	269,967	261,439
Total Acute Patient Days	1,175,371	1,227,946	1,185,619
Acute Outpatient Visits	5,607,320	5,824,530	5,465,032
Primary Care Visits	2,505,787	2,709,615	2,281,947
Long-Term Care Patient Days	466,495	488,032	481,365
Home Health Visits	536,526	541,917	525,796
Hospice Days	604,745	630,278	558,270
Housing and Assisted Living Days	518,059	507,909	504,640
Health Plan Members	4,536,372	4,520,150	3,217,724
Total Occupancy %	65.8%	68.0%	65.9%
Total Average Daily Census	3,220	3,364	3,248
Efficiency:			
FTE's	44,253	44,593	43,151
YTD Overall Case-Mix Index	1.4262	1.3967	1.4113
YTD Case-Mix Adj Admissions (CMAA)	620,575	615,940	603,521
YTD Acute Care LOS (case-mix adj)	3.1	3.3	3.2
YTD Net Svc Rev/CMAA	$11,258	$11,560	$10,945
YTD Net Expense/CMAA	$10,725	$11,055	$10,409
YTD Paid Hours/CMAA	148	151	149
YTD Productive Hours/CMAA	130	133	130
FTE's Per Adjusted Occupied Bed	8.28	8.11	8.12
Financial Performance:			
Operating Margin	4.1%	3.8%	4.2%
Total Margin	5.9%	4.9%	4.7%
EBIDA ('000)	$933,189	$868,100	$789,722
EBIDA Margin	11.5%	10.5%	10.3%
R12-monts Days Cash on Hand	176	151	158
Net Patient AR Days (3 mo rolling ave)	50	49	49
Ave Yearly Salary/FTE (w/o benefits)	$71,417	$71,578	$69,250
Employee Benefits as a % of Salaries	25.6%	26.2%	25.6%
Salary Wages as a % of Net Op Rev	39.1%	38.7%	39.0%
Supplies as a % of Net Op Revenue	13.7%	13.6%	13.9%
YTD Supplies Expense/CMAA	1,789	1,819	1,769
YTD Med Supplies Exp/CMAA	1,103	1,105	1,102
Bad Debt & Charity % Gross Svc Rev	4.7%	4.1%	4.4%
Community Benefit ('000) :			
Cost of Charity Care Provided	$197,815	$179,030	$200,057
Medicaid Charity	233,083	219,691	215,769
Education and Research Programs	76,349	40,985	61,679
Unpaid Cost of Other Govt Programs	1,907	9,822	11,584
Negative Margin Services and Other	67,799	59,588	56,113
Non-Billed Services	39,856	36,944	36,465
Total Community Benefit	$616,809	$546,060	$581,667

PROVIDENCE HEALTH & SERVICES

Consolidated Financial Statements

December 31, 2010 and 2009

(With Independent Auditors' Report Thereon)

KPMG LLP
Suite 900
801 Second Avenue
Seattle, WA 98104

Independent Auditors' Report

The Board of Directors
Providence Health & Services:

We have audited the accompanying consolidated balance sheets of Providence Health & Services (the Health System) as of December 31, 2010 and 2009, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Health System'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 audits 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 Health System'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, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Providence Health & Services as of December 31, 2010 and 2009, and the results of its operations, changes in net assets, and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

Our audits were made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and cash flows of the individual regions. The consolidating information for 2010 has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

KPMG LLP

April 11, 2011

PROVIDENCE HEALTH & SERVICES

Consolidated Balance Sheets

December 31, 2010 and 2009

(In thousands of dollars)

Assets		**2010**	**2009**
Current assets:			
Cash and cash equivalents	$	527,703	495,363
Short-term management-designated investments		358,307	213,124
Assets held under securities lending		139,920	110,771
Accounts receivable, less allowance for bad debts of $171,047 in 2010 and $194,677 in 2009		845,842	831,240
Other receivables, net		186,267	157,380
Supplies inventory		123,332	116,043
Other current assets		77,762	49,353
Current portion of funds held by trustee		88,684	93,489
Total current assets		2,347,817	2,066,763
Assets whose use is limited:			
Management-designated cash and investments		2,517,647	2,208,147
Gift annuities, trusts, and other		37,036	38,394
Funds held by trustee		139,533	172,545
Assets whose use is limited, net of current portion		2,694,216	2,419,086
Property, plant, and equipment, net		4,272,212	3,983,448
Other assets		264,825	208,011
Total assets	$	9,579,070	8,677,308

(Continued)

PROVIDENCE HEALTH & SERVICES

Consolidated Balance Sheets

December 31, 2010 and 2009

(In thousands of dollars)

Liabilities and Net Assets		2010	2009
Current liabilities:			
Current portion of long-term debt	$	48,145	48,675
Master trust debt classified as short-term		454,200	465,525
Accounts payable		301,560	303,270
Accrued compensation		378,598	347,739
Payable to contractual agencies		71,668	67,377
Liabilities under securities lending		142,345	114,597
Current portion of retirement plan obligations		136,245	16,034
Current portion of self-insurance liability		83,907	96,300
Other current liabilities		189,957	158,592
Total current liabilities		1,806,625	1,618,109
Long-term debt, net of current portion		1,705,313	1,542,089
Other long-term liabilities:			
Self-insurance liability, net of current portion		225,469	217,068
Pension benefit obligation		633,642	515,943
Other liabilities		71,199	74,772
Total other long-term liabilities		930,310	807,783
Total liabilities		4,442,248	3,967,981
Net assets:			
Unrestricted		4,909,822	4,478,089
Temporarily restricted		159,865	169,519
Permanently restricted		67,135	61,719
Total net assets		5,136,822	4,709,327
Total liabilities and net assets	$	9,579,070	8,677,308

See accompanying notes to consolidated financial statements.

PROVIDENCE HEALTH & SERVICES

Consolidated Statements of Operations

Years ended December 31, 2010 and 2009

(In thousands of dollars)

		2010	2009
Operating revenues:			
Net patient service revenues	$	6,512,985	6,180,916
Premium revenues		1,124,913	1,099,243
Other revenues		444,057	390,023
Total operating revenues		8,081,955	7,670,182
Operating expenses:			
Salaries and wages		3,160,451	2,988,199
Employee benefits		807,748	764,385
Purchased healthcare		651,738	674,466
Professional fees		240,248	223,010
Supplies		1,110,434	1,067,653
Purchased services		641,496	598,851
Depreciation		382,204	360,233
Interest and amortization		65,387	68,788
Bad debts		290,958	258,356
Other		401,076	342,860
Total operating expenses		7,751,740	7,346,801
Excess of revenues over expenses from operations		330,215	323,381
Net nonoperating gains		155,383	37,320
Excess of revenues over expenses		485,598	360,701
Contributions, grants, and other		2,264	2,344
Net assets released from restriction		23,751	18,827
Change in noncontrolling interests in consolidated joint ventures		43,410	—
Net assets assumed – Willamette Falls Medical Center and Willamette Falls Medical Foundation		—	36,911
Pension related changes		(123,290)	376,109
Increase in unrestricted net assets	$	431,733	794,892

See accompanying notes to consolidated financial statements.

PROVIDENCE HEALTH & SERVICES

Consolidated Statements of Changes in Net Assets

Years ended December 31, 2010 and 2009

(In thousands of dollars)

		Unrestricted	Temporarily restricted	Permanently restricted	Total net assets
Balance, December 31, 2008	$	3,683,197	173,234	54,524	3,910,955
Excess of revenues over expenses		360,701	—	—	360,701
Contributions, grants, investment income, and other		2,344	48,243	5,169	55,756
Net assets released from restriction		18,827	(52,879)	—	(34,052)
Net assets assumed – Willamette Falls Medical Center and Willamette Falls Medical Foundation		36,911	921	2,026	39,858
Pension related changes		376,109	—	—	376,109
Increase (decrease) in net assets		794,892	(3,715)	7,195	798,372
Balance, December 31, 2009		4,478,089	169,519	61,719	4,709,327
Excess of revenues over expenses		485,598	—	—	485,598
Contributions, grants, investment income, and other		2,264	47,390	5,416	55,070
Net assets released from restriction		23,751	(57,044)	—	(33,293)
Change in noncontrolling interests in consolidated joint ventures		43,410	—	—	43,410
Pension related changes		(123,290)	—	—	(123,290)
Increase (decrease) in net assets		431,733	(9,654)	5,416	427,495
Balance, December 31, 2010	$	4,909,822	159,865	67,135	5,136,822

See accompanying notes to consolidated financial statements.

PROVIDENCE HEALTH & SERVICES

Consolidated Statements of Cash Flows

Years ended December 31, 2010 and 2009

(In thousands of dollars)

		2010	2009
Cash flows from operating activities:			
Increase in net assets	$	427,495	798,372
Adjustments to reconcile increase in net assets to net cash provided by operating activities:			
Depreciation and amortization		383,999	361,899
Provision for bad debt		290,958	258,356
Equity income from joint ventures		(46,044)	(35,066)
Restricted contributions and investment income received		(39,064)	(46,490)
Net realized and unrealized gains on investments		(171,055)	(86,827)
Distributions from joint ventures		19,302	27,112
Net assets assumed – Willamette Falls Medical Center and Willamette Falls Medical Foundation		—	(39,527)
Changes in certain current assets and current liabilities		(104,414)	(244,855)
Change in other long-term liabilities and other		122,527	(337,971)
Net cash provided by operating activities		883,704	655,003
Cash flows from investing activities:			
Property, plant, and equipment additions		(668,768)	(610,918)
Proceeds from disposal of property, plant, and equipment		7,280	11,012
Purchases of investments		(5,763,988)	(3,543,175)
Proceeds from sales of investments		5,472,567	3,224,748
Change in securities lending collateral		(29,149)	93,753
Acquisition of physician practices		(37,314)	—
Change in other long-term assets and other		(5,911)	4,748
Change in funds held by trustee, net		(43,176)	(38,336)
Net cash used in investing activities		(1,068,459)	(858,168)
Cash flows from financing activities:			
Proceeds from restricted contributions and restricted income		39,064	46,490
Debt borrowings		887,423	1,098,120
Debt payments		(735,553)	(829,953)
Change in securities lending payable		27,748	(103,636)
Payment of deferred financing costs and other		(1,587)	(4,305)
Net cash provided by financing activities		217,095	206,716
Increase in cash and cash equivalents		32,340	3,551
Cash and cash equivalents, beginning of year		495,363	491,812
Cash and cash equivalents, end of year	$	527,703	495,363
Supplemental disclosure of cash flow information:			
Cash paid for interest (net of amounts capitalized)	$	70,565	56,666

See accompanying notes to consolidated financial statements.

(1) Organization

(a) Sisters of Providence

Sisters of Providence (the Congregation), a religious congregation of Roman Catholic women, was founded in 1843. The religious congregation's central headquarters is in Montreal, Quebec, Canada. Sisters of Providence – Mother Joseph Province (the Province) was formed in 2000 through the combination of the Sacred Heart Province (founded in 1856) and the St. Ignatius Province (founded in 1891). The activities of the Province include apostolic works in healthcare, social services, and education. Members of the Province serve in these works through related and unrelated organizations. The Province is compensated for the services of its members. The Province has 147 professed members and maintains Provincial Administration facilities in Renton, Washington. The members of the Province represent the Congregation in the following:

- Archdiocese of Los Angeles
- Archdiocese of Portland in Oregon
- Archdiocese of Seattle
- Diocese of Boise
- Diocese of Great Falls – Billings
- Diocese of Spokane
- Diocese of Yakima
- Diocesis Santiago de Maria, El Salvador

(b) Providence Health & Services

The Provincial Superior, Provincial Council, and Provincial Treasurer of the Sisters of Providence – Mother Joseph Province have historically controlled certain aspects of the various corporations comprising Providence Health & Services (the Health System), through certain reserved rights. Effective January 1, 2010, essentially all of the sponsorship of the Health System was transferred to the new Public Juridic Person, Providence Ministries, which was approved by the Vatican on February 2, 2009. The reserved rights, held by the Provincial Superior, Provincial Council, and Provincial Treasurer of the Sisters of Providence Mother Joseph Province, were transferred through the change in sponsorship to Providence Ministries.

The Public Juridic Person, Providence Ministries sponsors various corporations comprising the Health System:

- Providence Health & Services – Washington
- Providence Health & Services – Oregon
- Providence Health System – Southern California (cosponsored by the Congregation and the American Province of the Little Company of Mary Sisters)
- St. Patrick Hospital and Health Sciences Center

- St. Joseph Hospital Corporation
- St. Thomas Child and Family Center Corporation
- University of Great Falls
- Providence Plan Partners
- Providence Health Plan (the Health Plan)
- Providence Health Assurance
- Providence Health System Housing; The St. Luke Association; The Lundberg Association; Providence St. Francis Association; Providence Blanchet Association; Providence Rossi Association; Providence Peter Claver Association; The Gamelin Association; The Gamelin Oregon Association; The Gamelin California Association; Providence St. Elizabeth House Association; Gamelin Washington Association; Providence Gamelin House Association
- Providence Oregon Management Corporation
- The John Gabriel Ryan Association
- Providence Ventures, Inc.
- Providence Assurance, Inc.

The corporations own or operate 27 general acute care hospitals, six long-term care facilities, seven homecare and hospice entities, five assisted living facilities, a children's nursing center and Montessori school, a high school, a university, 12 low-income housing projects, the Health Plan, a health services contractor, two programs of all inclusive care for the elderly, and 20 controlled fundraising foundations.

The Health System provides inpatient, outpatient, primary care, and home care services in Alaska, Washington, Montana, Oregon, and Southern California. The Health System operates these businesses primarily in the greater metropolitan areas of Anchorage, Alaska; Everett, Seattle, Spokane, and Olympia, Washington; Missoula, Montana; Portland and Medford, Oregon; and Los Angeles, California.

(c) Organizational Changes

Effective October 1, 2009, Providence Health & Services – Oregon entered into an affiliation agreement with Willamette Falls Hospital and Willamette Falls Hospital Foundation, which were renamed Providence Willamette Falls Medical Center (Willamette Falls) and Providence Willamette Falls Medical Foundation (the Foundation). Willamette Falls is a 143-bed acute care hospital and is located in Oregon City, Oregon, becoming the fourth hospital that the Health System operates in the Portland Service Area. The results of operations of these entities have been included in the consolidated statements of operations of the Health System effective as of the date of the affiliation.

Pursuant to the affiliation agreement, Providence Health & Services – Oregon established a \$55,000,000 capital investment fund, which will be used to fund certain capital purchases, physician recruitment costs, and the funding of the Willamette Falls defined benefit pension plan.

(d) Affiliated Transactions

Interaffiliate Borrowings

The Health System has a policy to loan funds among its affiliates at various interest rates. These transactions eliminate upon consolidation.

Self-Insurance Liability

The Health System has established self-insurance programs for the deductible portion of professional and general liability and workers' compensation insurance coverage. These programs provide insurance coverage for healthcare institutions associated with the Health System. The Health System also operates an insurance captive, Providence Assurance, Inc., to self-insure certain layers of professional and general liability risk.

(2) Summary of Significant Accounting Policies

(a) Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Health System and the various corporations noted above. All significant transactions and accounts between consolidated divisions and affiliates of the Health System have been eliminated. The Health System has performed an evaluation of subsequent events through April 11, 2011, which is the date these consolidated financial statements were issued.

(b) Use of Estimates

The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(c) Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with an original or remaining maturity of three months or less when acquired.

(d) Supplies Inventory

Supplies inventory is stated at the lower of cost (first-in, first-out) or market.

(e) Property, Plant, and Equipment

Property, plant, and equipment are stated at cost. Improvements and replacements of plant and equipment are capitalized. Maintenance and repairs are expensed. The cost of the property, plant, and equipment sold or retired and the related accumulated depreciation are removed from the accounts, and the resulting gain or loss is recognized at the time of disposal.

The Health System assesses potential impairment to their long-lived assets when there is evidence that events or changes in circumstances have made recovery of the carrying value of the assets

(Continued)

unlikely. An impairment loss, equal to the excess, if any, of the carrying value over the fair value less disposal costs, is recognized when the sum of the expected future undiscounted net cash flows from the use and disposal of the asset is less than the carrying amount of the asset.

(f) Depreciation

The provision for depreciation is determined by the straight-line method, which allocates the cost of tangible property equally over its estimated useful life.

(g) Interest During Construction

Interest capitalized on amounts expended for construction is a component of the cost of plant additions to be allocated to future periods through the provision for depreciation. Capitalization of interest ceases when the plant addition is placed into service. The Health System capitalized $31,001,000 and $15,081,000 of interest costs during the years ended December 31, 2010 and 2009, respectively.

(h) Financing Costs

Financing costs are recorded in other assets and are amortized using the effective-interest method over the term of the related debt, or to the earliest date at which a creditor can demand payment.

(i) Goodwill

Goodwill is recorded in other assets as the excess of cost over fair value of the acquired net assets. In 2009, the provision for amortization was determined using the straight-line method over a period not to exceed 20 years. Beginning in 2010, amortization is no longer recognized. Additionally, goodwill is tested at least annually for impairment.

(j) Assets Whose Use Is Limited

The Health System has designated all of its investments in debt and equity securities as trading. All investments in debt and equity securities are reported on the consolidated balance sheets at fair value.

Assets whose use is limited primarily include assets held by trustees under indenture agreements, self-insurance funds, funds held for the payment of health plan medical claims, assets held by related foundations, and designated assets set aside by the management of Providence Health & Services for future capital improvements and other purposes, over which management retains control. Amounts required to meet current liabilities of the Health System have been reclassified as current in the consolidated balance sheets at December 31, 2010 and 2009.

(k) Net Assets

Unrestricted net assets are those that are not subject to donor imposed stipulations. Amounts related to the Health System's noncontrolling interests in certain joint ventures of $43,410,000 in 2010 are included in unrestricted net assets. Temporarily restricted net assets are those whose use by the Health System has been limited by donors to a specific time period and/or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Health System in perpetuity. Unless specifically stated by donors, gains and losses on temporarily and permanently restricted net assets are recorded as temporarily restricted.

(l) Donor-Restricted Gifts

Unconditional promises to give cash and other assets to the Health System are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as either temporarily or permanently restricted contributions if they are received with donor stipulations that limit the use of the donated assets. When the terms of a donor restriction are met, temporarily restricted net assets are reclassified as unrestricted net assets and reported as other revenues in the consolidated statements of operations and changes in net assets as net assets released from restriction.

(m) Net Patient Service Revenues

The divisions of the Health System have agreements with governmental and other third-party payors that provide for payments to the divisions at amounts different from their established charges. Payment arrangements for major third-party payors may be based on prospectively determined rates, reimbursed cost, discounted charges, per diem payments, predetermined rates per HMO enrollee per month, or other methods.

Net patient service revenues are reported at the estimated net realizable amounts due from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with governmental payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Adjustments from finalization of prior years' cost reports and other third-party settlement estimates resulted in an increase in net patient service revenues of $17,894,000 and $22,147,000 for the years ended December 31, 2010 and 2009, respectively.

The composition of significant third-party payors for the years ended December 31, 2010 and 2009, as a percentage of net patient service revenues, is as follows:

	2010	2009
Commercial and other insurance	49%	50%
Medicare	33	34
Medicaid	11	10
Self-pay	7	6
	100%	100%

(n) Premium Revenues, Premiums Receivable, and Unearned Premiums

Health plan revenues consist of premiums paid by employers, individuals, and agencies of the federal and state governments for healthcare services. Health plan revenues are received on a prepaid basis and are recognized as revenue during the month for which the enrolled member is entitled to healthcare services. Premiums received for future months are recorded as unearned premiums.

(o) *Charity and Unsponsored Community Benefit Costs*

The divisions of the Health System have policies that provide for serving those without the ability to pay. The policies also provide for discounted sliding scale payments based on the income and assets of the person responsible for the bill. In addition to direct charity, the Health System's divisions also provide services that benefit the poor and others in the communities they serve. The cost of providing these community benefits can exceed the revenue sources available.

Information for the Health System for the years ended December 31, 2010 and 2009 is summarized below:

		2010	2009
		(In thousands of dollars)	
Cost of charity care provided	$	197,815	200,057
Unpaid cost of Medicaid services		233,083	215,769
Education and research programs, net cost		76,349	61,679
Nonbilled services, net cost		39,856	36,465
Negative margin services and other, net cost		69,706	67,697
Unsponsored community benefit costs	$	616,809	581,667
Percentage of total operating expenses, excluding purchased healthcare		8.7%	8.7%

The cost of charity care provided is based on each division's aggregate relationship of costs to charges. The unpaid cost of Medicaid services is the cost of treating Medicaid patients in excess of government payments. Education includes the unpaid cost of training health professionals, such as medical residents. Research programs include the unpaid cost of controlled studies of therapeutic protocols and development of new treatment protocols. Nonbilled services include the cost of services for which neither the patient or insurance is billed or for which a nominal fee has been assessed. Negative margin services include programs for which net patient service revenue is less than cost incurred to provide the service to meet a need in the community. Nonbilled and negative margin services benefit the poor and the broader community but are not expected to be financially self-supporting.

(p) *Net Nonoperating Gains*

Net nonoperating gains primarily include investment income, unrealized gains on trading securities, equity earnings from the Health System's participation in certain unconsolidated joint ventures, income from recipient organizations, and other income. For the year ended December 31, 2009, net nonoperating gains also includes losses related to a curtailment charge related to the freeze of the defined benefit plan as described in note 8.

(q) *Excess of Revenues over Expenses*

Excess of revenues over expenses includes the Health System's operating and investing activities. Changes in unrestricted net assets not included in excess of revenues over expenses include net

(Continued)

assets released from restriction for the purchase of property, certain changes in funded status of postretirement benefit plans, and other.

(r) Income Taxes

The Health System and substantially all of the various corporations within the Health System have been recognized as exempt from federal income taxes, except on unrelated business income, under Section 501(c)(3) of the Internal Revenue Code (IRC).

For the taxable corporations, deferred income taxes are provided for the future tax consequences of temporary differences between financial and tax reporting. Deferred tax assets and liabilities are measured based on enacted tax laws and rates expected to apply to taxable income in the years in which temporary differences are expected to be recorded or settled. Income taxes did not have a material impact on the consolidated financial position or results of operations of the Health System as of and for the years ended December 31, 2010 and 2009.

The Health System recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs.

Providence Plan Partners, Providence Health Plan, and Providence Health Assurance are not-for-profit entities and have been recognized as exempt from federal income taxes, except on unrelated business income, as social welfare organizations under Section 501(c)(4) of the IRC.

(s) Recently Issued or Adopted Accounting Standards

In August 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2010-24, *Health Care Entities – Presentation of Insurance Claims and Related Insurance Recoveries*, which clarifies that insurance recoveries should not be netted against a related claim liability. The claim liability amount should be calculated without consideration of insurance recoveries. This standard is effective for the 2011 fiscal year. The adoption of this standard will not have a material impact on the Health System's consolidated financial statements.

In August 2010, the FASB issued ASU No. 2010-23, *Health Care Entities – Measuring Charity Care for Disclosure*, which requires a standardized process be used by health care entities that provide charity care to determine the measurement basis. Cost will be used as the measurement basis for disclosure purposes and should be broken down between direct and indirect costs for providing charity care. This standard is effective for the 2011 fiscal year. The adoption of this standard will not have a material impact on the Health System's consolidated financial statements.

In April 2009, the FASB issued Accounting Standards Codification (ASC) Subtopic 958-805 (Subtopic 958-805), *Not-for-Profit Entities, Business Combinations*, which establishes principles and requirements for determining whether a combination is a merger or an acquisition; and determines what information to disclose to enable users of financial statements to evaluate the nature and financial effects of a merger or an acquisition. Additionally, Subtopic 958-805 sets forth guidance on subsequent accounting for goodwill and other intangible assets acquired in an acquisition and amendments related to noncontrolling interests in consolidated financial statements. Noncontrolling interests of consolidated joint ventures as of and for the year ended December 31, 2009 were not significant. The effective date, and date of adoption, of Subtopic 958-805 for the Health System was January 1, 2010. The adoption of this new accounting pronouncement did not have a significant impact to consolidated financial statements.

(t) Health Care Reform

The Patient Protection and Affordable Care Act (PPACA) and the Health Care and Education Reconciliation Act (Reconciliation Act) were both signed by President Obama in the first calendar quarter of 2010. The legislation went into effect upon signing with provisions to become effective over the next seven years. This legislation is expected to broadly impact the Health System's operations, including patient access, service reimbursement rates, and reporting requirements. The Health System has evaluated those provisions, which went into effect upon signing noting they did not have a significant impact on the consolidated financial statements. The Health System has not yet determined the financial statement impact that this legislation might cause as further provisions become effective.

(u) Reclassifications

Certain reclassifications have been made to prior year amounts to conform to the current year presentation to more consistently present financial information between years.

A reclassification was recorded as of December 31, 2009 in the consolidated statements of cash flows, to reduce financing activities and increase investing activities in the amount of $93,753,000 to separately report the net cash flows resulting from changes in the investment and obligation amounts related to the Health System's securities lending program.

(3) Investments

(a) Management-Designated Cash and Investments and Funds Held by Trustee

The composition of management-designated cash and investments and funds held by trustee at December 31, 2010 and 2009 is set forth in the following table. Investments are stated at fair value.

	2010	2009
	(In thousands of dollars)	
Management-designated cash and investments:		
Cash and cash equivalents	$ 462,705	580,457
Domestic equity securities:		
Mutual funds:		
Large capitalization	30,326	37,420
Medium-small capitalization	19,049	23,505
Other	2,094	2,584
Consumer and financial services	24,393	30,100
Technology	21,259	26,233
Energy and other industries	35,143	43,367
Foreign equity securities:		
Mutual funds:		
Large capitalization	28,093	12,909
Medium-small capitalization	4,374	2,010
International and emerging markets	24,269	11,152
Other industries	12,885	5,921
Collective investment funds	438,933	361,572
Debt securities – U.S. Treasury	988,398	618,739
Debt securities – State Treasury	18,108	2,648
Foreign debt securities	8,892	12,180
Domestic corporate debt securities	521,441	455,927
Foreign corporate debt securities	72,224	51,326
Mortgage-backed securities:		
Commercial	66,433	58,857
Residential	11,760	10,418
Collateralized debt obligations	48,559	5,903
Other	36,616	68,043
Total management-designated cash and investments	$ 2,875,954	2,421,271

		2010	2009
		(In thousands of dollars)	
Funds held by trustee:			
Cash and cash equivalents	$	83,527	172,336
Domestic equity securities:			
Mutual funds:			
Large capitalization		9,744	—
Small capitalization and other		6,655	2
Debt securities – U.S. Treasury		57,343	40,229
Domestic corporate debt securities		20,397	20,483
Foreign corporate debt securities		5,039	—
Mortgage-backed securities:			
Commercial		5,689	6,804
Residential		3,509	1,749
Other debt obligations		6,324	—
Other		29,990	24,431
Total funds held by trustee	$	228,217	266,034

The Health System's funds held by trustee are segregated from other cash and investments for various purposes. Included in funds held by trustee are $29,556,000 and $87,972,000 obtained from borrowings under the Health System's master trust indenture for construction and other ongoing projects as of December 31, 2010 and 2009, respectively. The Health System also holds $176,416,000 and $157,287,000 at December 31, 2010 and 2009, respectively, related to the self-insurance and pension trusts. Within the self-insured trusts, the balance of funds held by trustee is based on management's assessment of annual need. Any additional investments are considered management-designated. The remainder of funds held by trustee are for the Health System's borrowing arrangements and other items.

The Health System does not have significant exposures to sub-prime asset-backed securities as amounts of these securities are less than 1% of assets whose use is limited.

The Health System has designated its investment portfolio as trading, which results in all gains and losses being recognized currently as nonoperating activity.

Investment income from management-designated cash and investments and funds held by trustee are comprised of the following for the years ended December 31, 2010 and 2009:

		2010	2009
		(In thousands of dollars)	
Nonoperating income:			
Interest income	$	67,514	56,057
Net realized gains (losses) on sale of investments		42,672	(273,767)
Net unrealized gains on trading securities		56,232	297,711

(b) Collective Investment Funds

Collective investment funds include investments that are held by a trust company that handles a pooled group of trust accounts. These funds hold investments comprised of publicly traded domestic equity and debt securities, whose fair value is readily determinable. The Health System holds six funds and has no unfunded commitments or provisions significantly impacting liquidity at December 31, 2010.

(c) Securities Lending Agreements

The Health System has securities lending agreements with financial institutions that serve as the lending agent. These agreements authorize the lending agents to lend securities owned by the Health System to an approved list of borrowers. Under the agreements, the lending agents are responsible for negotiating each loan for an unspecified term while retaining the power to terminate the loan at any time. At the time each loan is made, the lending agents require collateral equal to 102% of the market value of the loaned securities and accrued interest. While any securities are loaned, the Health System retains all rights of ownership, except it waives its right to vote such securities. The collateral related to the securities loaned totaled $139,920,000 and $110,771,000 at December 31, 2010 and 2009, respectively. In connection with securities lending activities the Health System has recognized a net investment loss of $2,255,000 and $3,178,000, for the years ended December 31, 2010 and 2009, respectively. Net investment gains and losses are included in net nonoperating gains in the accompanying consolidated statements of operations.

(4) Fair Value of Financial Instruments

ASC Topic 820 (Topic 820), *Fair Value Measurements and Disclosures*, 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 measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which a fair measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

The following table presents assets and liabilities that are measured at fair value on a recurring basis (including items that are required to be measured at fair value) at December 31, 2010:

	December 31, 2010	Fair value measurements at reporting date using – Level 1	Level 2	Level 3
		(In thousands of dollars)		
Assets:				
Management-designated cash and investments:				
Cash and cash equivalents	$ 462,705	462,705	—	—
Domestic equity securities:				
Mutual funds:				
Large capitalization	30,326	30,326	—	—
Medium-small capitalization	19,049	19,049	—	—
Other	2,094	2,094	—	—
Consumer and financial services	24,393	24,393	—	—
Technology	21,259	21,259	—	—
Energy and other industries	35,143	35,143	—	—
Foreign equity securities:				
Mutual funds:				
Large capitalization	28,093	28,093	—	—
Medium-small capitalization	4,374	4,374	—	—
International and emerging markets	24,269	24,269	—	—
Other industries	12,885	12,885	—	—
Collective investment funds	438,933	—	438,933	—
Debt securities – U.S. Treasury	988,398	523,275	465,123	—
Debt securities – State Treasury	18,108	1,656	16,452	—
Foreign debt securities	8,892	—	8,892	—
Domestic corporate debt securities	521,441	34,102	487,339	—
Foreign corporate debt securities	72,224	—	72,224	—
Mortgage-backed securities:				
Commercial	66,433	—	66,433	—
Residential	11,760	—	11,760	—
Collateralized debt obligations	48,559	—	48,559	—
Other	36,616	6,297	30,319	—
Total	$ 2,875,954	1,229,920	1,646,034	—

	December 31, 2010	Fair value measurements at reporting date using		
		Level 1	Level 2	Level 3
		(In thousands of dollars)		
Funds held by trustee:				
Cash and cash equivalents	$ 83,527	83,527	—	—
Domestic equity securities:				
Mutual Funds:				
Large capitalization	9,744	9,744	—	—
Small capitalization and other	6,655	6,655	—	—
Debt securities – U.S. Treasury	57,343	57,343	—	—
Domestic corporate debt securities	20,397	—	20,397	—
Foreign corporate debt securities	5,039	—	5,039	—
Mortgage-backed securities				
Commercial	5,689	—	5,689	—
Residential	3,509	—	3,509	—
Other debt obligations	6,324	—	6,324	—
Other	29,990	—	29,990	—
Total	$ 228,217	157,269	70,948	—
Assets under securities lending	$ 139,920	53,396	86,524	—
Gift annuities, trusts, and other	37,036	18,552	15,518	2,966
Liabilities:				
Liabilities under securities lending	$ 142,345	53,397	88,948	—

The fair value estimates of the collective investment funds are estimates determined by management using various information sources, including information provided by the fund managers. The collective investment funds classified in Level 2 consist of shares or units in the investment funds as opposed to direct interests in the fund's underlying holdings, which are marketable securities. Because the net asset value reported by each fund is used as a practical expedient to estimate the fair value of the Health System's interest therein, its classification in Level 2 is based on the Health System's ability to redeem its interest at or near the balance sheet date. The classification in the fair value hierarchy is not necessarily an indication of the risks, liquidity, or degree of difficulty in estimating the fair value of each investment's underlying assets and liabilities.

The following table presents assets and liabilities that are measured at fair value on a recurring basis (including items that are required to be measured at fair value) at December 31, 2009:

	December 31, 2009	Fair value measurements at reporting date using Level 1	Level 2	Level 3
		(In thousands of dollars)		
Assets:				
Management-designated cash and investments:				
Cash and cash equivalents	$ 580,457	580,457	—	—
Domestic equity securities:				
Mutual funds:				
Large capitalization	37,420	37,420	—	—
Medium-small capitalization	23,505	23,505	—	—
Other	2,584	2,584	—	—
Consumer and financial services	30,100	30,100	—	—
Technology	26,233	26,233	—	—
Energy and other industries	43,367	43,367	—	—
Foreign equity securities:				
Mutual funds:				
Large capitalization	12,909	12,909	—	—
Medium-small capitalization	2,010	2,010	—	—
International and emerging markets	11,152	11,152	—	—
Other industries	5,921	5,921	—	—
Collective investment funds	361,572	—	361,572	—
Debt securities – U.S. Treasury	618,739	342,429	276,310	—
Debt securities – State Treasury	2,648	2,648	—	—
Foreign debt securities	12,180	—	12,180	—
Domestic corporate debt securities	455,927	28,671	427,256	—
Foreign corporate debt securities	51,326	—	51,326	—
Mortgage-backed securities:				
Commercial	58,857	—	58,857	—
Residential	10,418	—	10,418	—
Collateralized debt obligations	5,903	5,903	—	—
Other	68,043	62,351	5,692	—
Total	$ 2,421,271	1,217,660	1,203,611	—

	December 31, 2009	Fair value measurements at reporting date using Level 1	Level 2	Level 3
		(In thousands of dollars)		
Funds held by trustee:				
Cash and cash equivalents	$ 172,336	172,336	—	—
Domestic equity securities				
Mutual funds				
Small capitalization and other	2	2	—	—
Debt securities –				
U.S. Treasury	40,229	40,229	—	—
Domestic corporate debt securities	20,483	—	20,483	—
Mortgage-backed securities				
Commercial	6,804	—	6,804	—
Residential	1,749	—	1,749	—
Other	24,431	13	24,418	—
Total	$ 266,034	212,580	53,454	—
Assets under securities lending	$ 110,771	57,458	53,313	—
Gift annuities, trusts, and other	38,394	21,756	15,284	1,354
Liabilities:				
Liabilities under securities lending	$ 114,597	57,575	57,022	—

The following table presents the Health System's activity for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) as defined in Topic 820 for the years ended December 31, 2010 and 2009 (in thousands of dollars):

	Assets			Liabilities
	Collective investment funds	**Gift annuities, trusts, and other**	**Assets held under securities lending**	**Liabilities under securities lending**
Balance at December 31, 2008	$ 8,545	1,215	4,301	6,517
Total realized and unrealized (losses) gains, net	—	34	—	—
Purchases, issuance, and settlements (net)	—	105	(4,301)	(6,517)
Transfers in and/or out of Level 3 (net)	(8,545)	—	—	—
Balance at December 31, 2009		1,354	—	—
Total realized and unrealized (losses) gains, net	—	185	—	—
Transfers in and/or out of Level 3 (net)	—	1,427	—	—
Balance at December 31, 2010	$ —	2,966	—	—

The fair value of management-designated cash and investments, funds held for long-term purposes, and funds held by trustee, which are the amounts reported in the consolidated balance sheets, are estimated based on quoted market prices. For long-term debt, the fair value is based on Level 2 inputs, such as the discounted value of the future cash flows using current rates for debt with the same remaining maturities, considering the existing call premium and protection. The carrying value and fair value of long-term debt, including accrued interest, was $2,235,707,000 and $2,259,167,000, respectively, as of December 31, 2010, and $2,080,703,000 and $2,129,182,000, respectively, as of December 31, 2009.

Other financial instruments of the Health System include cash and cash equivalents and other receivables. The carrying amount of these instruments approximates fair value because these items mature in less than one year. The carrying amount of other long-term investments approximates fair value.

(5) Property, Plant, and Equipment

Property, plant, and equipment and the total accumulated depreciation at December 31, 2010 and 2009 are shown below:

	Approximate useful life (years)	2010	2009
		(In thousands of dollars)	
Land and improvements	5 – 25	$ 538,933	492,456
Buildings and improvements	5 – 40	3,060,726	2,964,625
Equipment:			
Fixed	5 – 25	811,290	803,050
Major movable and minor	3 – 20	2,291,500	2,379,131
Rental property	15 – 40	819,230	742,321
Construction in progress	—	699,415	477,946
		8,221,094	7,859,529
Less accumulated depreciation		3,948,882	3,876,081
Property, plant, and equipment, net		$ 4,272,212	3,983,448

Rental property represents buildings and related improvements that are owned by the Health System, the majority of which are medical office buildings that are leased to non-employed physicians.

Construction in progress primarily represents renewal and replacement of various facilities in the Health System's operating divisions.

(6) Other Assets

Other assets at December 31, 2010 and 2009 are as follows:

	2010	2009
	(In thousands of dollars)	
Unamortized financing costs, net	$ 20,786	19,199
Investment in joint ventures	93,148	72,906
Interest in noncontrolled foundations	15,542	11,745
Notes receivable	34,596	42,243
Long-term reinsurance receivable	24,325	27,875
Goodwill	28,931	6,570
Other	47,497	27,473
Total other assets	$ 264,825	208,011

The Health System participates in various joint ventures for the purpose of furthering its healthcare mission. These joint venture agreements exist in all geographic locations in which the Health System operates. The primary purposes of the ventures are to provide outpatient services such as laboratory, outpatient surgery, and medical imaging. Six of these joint ventures, located in Anchorage, Alaska, Spokane, Washington, Portland, Oregon, and Mission Hills, California are controlled by the Health System and consequently are consolidated in the financial statements of the Health System. All other joint ventures are accounted for under the equity method of accounting. The Health System recorded earnings from equity of $45,535,000 and $37,465,000 for the years ended December 31, 2010 and 2009, respectively, which are included in other operating revenues in the accompanying consolidated statements of operations.

Noncontrolling interests in consolidated joint ventures, included in unrestricted net assets of $43,410,000, is primarily comprised of the joint venture Pathology Associates Medical Laboratories (PAML) of approximately $38,210,000 at December 31, 2010. The Health System is an 85% owner of PAML at December 31, 2010; the venture was created during 2010. Noncontrolling interests as of December 31, 2009 were not significant to the financial statements.

The Health System entered into agreements to acquire various physician practices during 2010 for the aggregate purchase price of $37,000,000, which was paid through a combination of cash and notes payable to the former owners of the practices. Goodwill, totaling $22,000,000, was recorded based on the amounts for which the purchase price exceeded the fair value of the net assets acquired.

(7) Short-Term and Long-Term Debt

Short-term and long-term debt at December 31, 2010 and 2009 consists of the following:

	2010	2009
	(In thousands of dollars)	
Master trust debt:		
Series 1985, AIDEA Revenue Bonds (Sisters of Providence)	$ —	970
Series 1996, CHFFA Revenue Bonds (Sisters of Providence)	5,515	10,275
Series 1997, Direct Obligation Notes (Sisters of Providence)	7,035	8,730
Series 2001A, WHCFA Revenue Bonds (Providence Health System)	105,200	105,200
Series 2001B, WHCFA Revenue Bonds (Providence Health System)	—	5,850
Series 2003C, AIDEA Revenue Bonds (Providence Health System)	—	9,500
Series 2003H, AIDEA Revenue Bonds (Providence Health System)	27,800	27,800
Series 2003, HFACC Revenue Bonds (Providence Health System)	211,525	211,525

	2010	2009
	(In thousands of dollars)	
Series 2004, HFAMC Revenue Bonds (Providence Health System)	$ 95,995	97,305
Series 2005, Direct Obligation Notes (Providence Health System)	53,090	54,595
Series 2006A, WHCFA Revenue Bonds (Providence Health & Services)	210,555	210,555
Series 2006B, MFFA Revenue Bonds (Providence Health & Services)	68,430	68,430
Series 2006C, WHCFA Revenue Bonds (Providence Health & Services)	69,425	69,425
Series 2006D, WHCFA Revenue Bonds (Providence Health & Services)	69,275	69,275
Series 2006E, WHCFA Revenue Bonds (Providence Health & Services)	26,350	26,350
Series 2006H, AIDEA Revenue Bonds (Providence Health & Services)	54,355	54,355
Series 2008C, CHFFA Revenue Bonds (Providence Health & Services)	280,325	286,195
Series 2009A, Direct Obligation Notes (Providence Health & Services)	250,000	250,000
Series 2009B, CHFFA Revenue Bonds (Providence Health & Services)	150,000	150,000
Series 2010A, WHCFA Revenue Bonds (Providence Health & Services)	174,240	—
Commercial Paper, Series 2008A	194,000	194,000
US Bank Credit Facility	60,000	60,000
Master trust debt at par value	2,113,115	1,970,335
Premiums and discounts, net	(4,293)	(3,114)
Master trust debt, including premiums and discounts, net	2,108,822	1,967,221
Other long-term debt	98,836	86,644
Loans from unconsolidated affiliate	—	2,424
Total long-term debt	$ 2,207,658	2,056,289

(Continued)

		2010	2009
		(In thousands of dollars)	
Current portion of long-term debt	$	48,145	48,675
Long-term debt subject to short-term remarketing agreements		200,200	211,525
Short-term master trust debt		254,000	254,000
Long-term debt, classified as a long-term liability		1,705,313	1,542,089
Total long-term debt	$	2,207,658	2,056,289

Providence Health & Services – Washington; Providence Health & Services – Oregon (exclusive of Providence Plan Partners); Providence Health System – Southern California (exclusive of Medical Institute of Little Company of Mary, Lifecare Ventures, Inc., and TrinityCare Hospice); St. Joseph Hospital Corporation, and St. Patrick Hospital and Health Sciences Center, exclusive of related housing and foundations, are the members of an Obligated Group formed for issuing debt under a master trust indenture. Members of the Obligated Group are jointly and severally responsible for the debt of the other members of the Obligated Group. The master trust indenture and bond trust indentures for each debt issue require the Obligated Group to meet certain financial covenants.

Loans from unconsolidated affiliate outstanding at December 31, 2009 were at various interest rates and have no stated repayment terms.

The Health System recorded a loss due to extinguishment of debt of $748,000 in 2010, which was recorded in net nonoperating gains in the accompanying consolidated statement of operations.

(a) Master Trust Debt Classified as Short-Term

Hospital Facility Authority of Clackamas County, Oregon (HFACC) Revenue Bonds, Series 2003D, E, F, and G

The Series 2003D, E, F, and G bonds were issued in May 2003 as auction rate bonds. In October 2008, the bonds were converted to a unit pricing mode pursuant to the Series 2003 D, E, F, and G Trust Indenture. Under the unit pricing mode, the interest reset period varies with each remarketing and ranges between one and 270 days. In connection with the revised terms under the unit pricing mode, the remaining balance was reclassified to short-term debt. The average interest rate in effect on December 31, 2010 was 0.34%. Annual scheduled principal payments range from $11,325,000 in 2011 to $18,175,000 in 2033.

Commercial Paper, Series 2008A

During 2008, the Health System issued $194,000,000 in commercial paper. The Health System used $167,425,000 of the commercial paper proceeds to redeem the Series 2006F, Series 2006G, and Series 2006I Direct Obligation Variable Rate Notes. The remaining proceeds were used for various projects throughout the Health System. During 2010, the Health System made principal and interest payments on matured commercial paper and reissued new commercial paper, maintaining a balance ranging between $144,000,000 and $194,000,000 throughout the year.

U.S. Bank Credit Facility

The Health System has a $150,000,000 Credit Facility with U.S. Bank, of which $60,000,000 in borrowings were outstanding at December 31, 2010 and 2009, respectively. The interest rate in effect on December 31, 2010 was 0.76%, and the maturity date is September 30, 2011. The interest rate is based on LIBOR plus 0.85%.

(b) Master Trust Debt Classified as Long-Term Debt

California Health Facilities Financing Authority (CHFFA) Health Facility Revenue Bonds, Series 1996

The Series 1996 bonds were issued in February 1996. The outstanding bonds bear interest at rates ranging from 5.375% to 6.0% payable semiannually on April 1 and October 1. Annual principal payments range from $805,000 in 2011 to $1,045,000 in 2016.

Direct Obligation Notes, Series 1997

The Series 1997 bonds were issued in March 1997. The outstanding bonds bear an interest rate of 7.7% payable semiannually on April 1 and October 1. Annual principal payments range from $1,825,000 in 2011 to $750,000 in 2017.

Washington Health Care Facilities Authority (WHCFA) Revenue Bonds, Series 2001A

The Series 2001A bonds were issued in June 2001. The outstanding bonds bear interest at rates ranging from 4.6% to 5.625% payable semiannually on April 1 and October 1. Annual principal payments range from $7,565,000 beginning in 2011 to $12,245,000 in 2021.

AIDEA Revenue Bonds, Series 2003H

The Series 2003H bonds were issued in September 2003. The outstanding bonds bear interest at rates ranging from 4.625% to 5.25% payable semiannually on April 1 and October 1. Annual principal payments range from $9,300,000 in 2012 to $4,600,000 in 2015.

Hospital Facilities Authority of Multnomah County, Oregon (HFAMC) Revenue Bonds, Series 2004

The Series 2004 bonds were issued in July 2004. The outstanding bonds bear interest at rates ranging from 4.125% to 5.5% payable semiannually on April 1 and October 1. Annual principal payments range from $6,640,000 in 2011 to $9,185,000 in 2024.

Direct Obligation Notes, Series 2005

The Series 2005 bonds were issued in July 2005. The outstanding bonds bear interest at rates ranging from 4.79% to 5.39% payable semiannually on April 1 and October 1. Annual principal payments range from $1,580,000 in 2011 to $4,160,000 in 2030.

WHCFA Revenue Bonds, Series 2006A

The Series 2006A bonds were issued in June 2006. The outstanding bonds bear interest at rates ranging from 4.5% to 5.0% payable semiannually on April 1 and October 1. Annual principal payments range from $1,495,000 in 2027 to $57,415,000 in 2036.

Montana Facility Finance Authority (MFFA) Revenue Bonds, Series 2006B

The Series 2006B bonds were issued in June 2006. The outstanding bonds bear interest at rates ranging from 4.0% to 5.0% payable semiannually on April 1 and October 1. Annual principal payments range from $3,255,000 beginning in 2012 to $6,240,000 in 2026.

WHCFA Revenue Bonds, Series 2006C

The Series 2006C bonds were issued in June 2006 as 28-day auction rate bonds. In April 2008, the bonds were converted to fixed rate pursuant to the terms of the Series 2006C Trust Indenture. The bonds bear interest of 5.25% payable semiannually on April 1 and October 1. Annual principal payments range from $6,700,000 beginning in 2025 to $8,825,000 in 2033.

WHCFA Revenue Bonds, Series 2006D

The Series 2006D bonds were issued in June 2006 as 28-day auction rate bonds. In April 2008, the bonds were converted to fixed rate pursuant to the terms of the Series 2006D Trust Indenture. The bonds bear interest of 5.25% payable semiannually on April 1 and October 1. Annual principal payments range from $6,625,000 beginning in 2025 to $8,875,000 in 2033.

WHCFA Revenue Bonds, Series 2006E

The Series 2006E bonds were issued in June 2006 as 28-day auction rate bonds. In April 2008, the bonds were converted to fixed rate pursuant to the terms of the Series 2006E Trust Indenture. The bonds bear interest of 5.25% payable semiannually on April 1 and October 1. Annual principal payments range from $2,550,000 beginning in 2025 to $3,350,000 in 2033.

AIDEA Revenue Bonds, Series 2006H

The Series 2006H bonds were issued in November 2006. The outstanding bonds bear an interest rate of 5.0% payable semiannually on April 1 and October 1. Annual principal payments range from $2,545,000 beginning in 2022 to $4,905,000 in 2036.

CHFFA, Series 2008C

The Series 2008C bonds were issued in November 2008. The outstanding bonds bear interest at rates ranging from 5.0% to 6.50% payable semiannually on April 1 and October 1. Annual principal payments range from $1,100,000 in 2011 to $50,000,000 in 2038. In October 2010, $2,070,000 of outstanding bonds were extinguished.

Direct Obligation Notes, Series 2009A

The Series 2009A bonds were issued in May 2009. The outstanding bonds bear interest at rates ranging from 5.05% to 6.25% payable semiannually on April 1 and October 1. Principal payments range from $85,000,000 in 2014 to $100,000,000 in 2019.

CHFFA, Series 2009B

The Series 2009B bonds were issued in July 2009. The outstanding bonds bear an interest rate of 5.5% payable semiannually on April 1 and October 1. Annual principal payments range from $2,470,000 in 2034 to $83,775,000 in 2039.

WHCFA, Series 2010A

The Series 2010A bonds were issued in June 2010. The outstanding bonds bear interest at rates ranging from 4.875% to 5.25% payable semiannually on April 1 and October 1. Annual principal payments range from $11,285,000 in 2030 to $23,275,000 in 2039.

(c) Other Long-Term Debt

The following is other long-term debt of the Health System at December 31, 2010:

Notes Payable

In association with the purchase of Axminster Medical Group (Axminster) in December 2010, the Health System has a note payable of $18,000,000 due to the ex-shareholders of Axminster at December 31, 2010. The interest rate in effect on December 31, 2010 was 3.25%. Installment payments are due annually on December 31, with the maturity date on December 31, 2014. The interest rate is based on prime.

HFACC Revenue Bonds, Series 2005

The Series 2005 bonds were issued in May 2005. The $13,480,000 of outstanding bonds at December 31, 2010 bear interest at rates ranging from 4.0% to 5.5% payable semiannually on April 1 and October 1. Annual principal payments range from $1,250,000 in 2011 to $810,000 in 2026.

HFACC Revenue Bonds, Series 2002

The Series 2002 bonds were issued in April 2002. The $10,090,000 of outstanding bonds at December 31, 2010 bear interest at rates ranging from 4.6% to 5.5% payable semiannually on April 1 and October 1. Annual principal payments range from $365,000 in 2011 to $2,130,000 in 2022.

HFACC Revenue Bonds, Series 1999

The Series 1999 bonds were issued in September 1999. The $5,570,000 of outstanding bonds at December 31, 2010 bear interest at rates ranging from 5.75% to 6.00% payable semiannually on April 1 and October 1. Annual principal payments range from $165,000 in 2011 to $1,270,000 in 2019.

(Continued)

Scheduled principal payments of long-term debt, considering all obligations under the master trust indenture as due according to their long-term amortization schedule, for the next five years and thereafter are as follows:

	Master trust	Other	Total
		(In thousands of dollars)	
2011	$ 30,840	17,305	48,145
2012	32,325	16,698	49,023
2013	33,055	14,310	47,365
2014	114,865	11,358	126,223
2015	30,600	5,086	35,686
Thereafter	1,617,430	34,079	1,651,509
Scheduled principal payments of long-term debt	1,859,115	$ 98,836	1,957,951
Short-term master trust debt	254,000		
Total master trust debt	$ 2,113,115		

Leases

The Health System leases various medical and office equipment and buildings under operating leases. Future minimum lease commitments under noncancelable operating leases for the next five years and thereafter are as follows (in thousands of dollars):

2011	$ 49,521
2012	44,191
2013	39,893
2014	35,671
2015	39,324
Thereafter	182,383
	$ 390,983

Rental expense was $81,203,000 and $75,646,000 for the years ended December 31, 2010 and 2009, respectively, and is included in other expenses in the accompanying consolidated statements of operations.

(8) Retirement Plans

The Health System sponsors defined contribution plans, including the Providence Health & Services 401(a) Service Plan (the Service Plan) and the Providence Health & Services 401(k) Plan (the 401(k) Plan). The Service Plan was effective January 1, 2010. The Health System did not contribute to the Service Plan in 2010, but has accrued a liability of $127,000,000 as of December 31, 2010 related to contributions, which has been accrued in current portion of retirement plan obligations on the accompanying consolidated balance sheets. Total 401(k) Plan expense, primarily related to contributions, totaled $4,434,000 and $3,698,000 in 2010 and 2009, respectively.

The Health System has a noncontributory cash balance plan covering substantially all nonexecutive employees called the Providence Health & Services Cash Balance Retirement Plan (the Cash Balance Plan); and a noncontributory supplemental executive retirement plan (the SERP) covering certain employees who were employed in certain key positions or pay grades or that have been designated by the Health System. The plan benefits, for both plans, are based on defined average compensation and years of service. The vesting period for both plans is five years. The Health System's funding policy is based on the actuarially determined cost method, and includes normal service cost and prior service costs amortized over a 20-year period. The Cash Balance Plan and the SERP each meet the definition of a defined benefit plan. Under the Cash Balance Plan and the SERP, each employee carries an individual account balance. The Health System makes a defined, annual contribution and provides a defined interest credit to each employee's account.

During 2010, in connection with the Willamette Falls affiliation, the Willamette Falls Pension Plan was added as a defined benefit plan sponsored by the Health System. The Willamette Falls Pension Plan is also a noncontributory plan covering the employees of Providence Willamette Falls. The plan benefits are based on years of service and compensation during an employee's period of employment. Vesting is based on elapsed time. The funding policy is based on the actuarially determined cost method, and includes normal service cost and prior service costs amortized over a 20-year period. Under the Willamette Falls Pension Plan, each employee carries an individual account balance.

The Cash Balance Plan, the SERP, and the Willamette Falls Pension Plan are collectively "the defined benefit plans."

The Health System also sponsors the Providence Health & Services Matching Plan (the Matching Plan). The plan is a money purchase pension plan, which provides for the Health System to make matching contributions to the plan based on employee contributions to the Providence Health & Services Tax Deferred Annuity Plan. The Matching Plan contribution vesting period is five years.

The Health System's contributions to these pension plans for the years ended December 31, 2010 and 2009 were $71,511,000 and $184,375,000, respectively.

In April 2009, the Board of Directors of the Health System approved an amendment to freeze the Cash Balance Plan, the SERP, and the Matching Plan effective as of December 31, 2009. As a result, the Health System incurred $29,683,000 of expense related to the curtailment in 2009, which is included in net nonoperating gains on the accompanying consolidated statement of operations. In conjunction with the freeze, the majority of participants are no longer accruing a service credit under these plans. There were a certain number of participants who accrued a service credit under these plans in 2010, as the plan freeze was not ratified by their union until 2010.

The measurement dates for the defined benefit plans are December 31, 2010 and 2009, respectively. A rollforward of the change in benefit obligation and change in the fair value of plan assets for the defined benefit plans is as follows:

		2010	2009
		(In thousands of dollars)	
Change in projected benefit obligation:			
Projected benefit obligation at beginning of year	$	1,765,725	1,789,522
Business combination – Willamette Falls		—	49,490
Service cost		18,355	115,392
Interest cost		97,352	112,824
Plan amendments/curtailment		—	(331,736)
Actuarial loss		124,677	135,457
Benefits paid and other		(150,108)	(105,224)
Projected benefit obligation at end of year		1,856,001	1,765,725
Change in fair value of plan assets:			
Fair value of plan assets at beginning of year		1,233,747	932,301
Business combination – Willamette Falls		—	33,689
Actual return on plan assets		82,903	238,236
Employer contributions		46,572	134,745
Benefits paid and other		(150,108)	(105,224)
Fair value of plan assets at end of year		1,213,114	1,233,747
Funded status		(642,887)	(531,978)
Unrecognized net actuarial loss		466,282	337,335
Unrecognized prior service cost		—	441
Net amount recognized	$	(176,605)	(194,202)
Amounts recognized in the consolidated balance sheets consist of:			
Current liabilities	$	(9,245)	(16,034)
Noncurrent liabilities		(633,642)	(515,943)
Unrestricted net assets		466,282	337,775
Net amount recognized	$	(176,605)	(194,202)
Weighted average assumptions:			
Discount rate		5.20%	5.80%
Rate of increase in compensation levels		3.36	3.50
Long-term rate of return on assets		7.00	8.00

(Continued)

Net periodic pension cost for the defined benefit plans for 2010 and 2009 is included in employee benefits in the accompanying consolidated statements of operations and includes the following components:

		2010	2009
		(In thousands of dollars)	
Components of net periodic pension cost:			
Service cost	$	18,355	115,392
Interest cost		97,352	112,824
Expected return on plan assets		(92,137)	(105,489)
Amortization of prior service cost		78	5,978
Recognized net actuarial loss		1,937	10,526
Curtailment		3,389	29,683
Net periodic pension cost	$	28,974	168,914

The accumulated benefit obligation was $1,856,001,000 and $1,765,725,000 at December 31, 2010 and 2009, respectively.

Total expense for all of the Health System's retirement programs for the years ended December 31, 2010 and 2009 was $77,377,000 and $183,473,000, respectively, and is included in employee benefits in the accompanying consolidated statements of operations. Additionally, $3,389,000 of expense was incurred in 2010 related to the curtailment, and is included in net nonoperating gains in the accompanying consolidated statements of operations.

The following pension benefit payments reflect expected future service. Payments expected to be paid over the next 10 years are as follows (in thousands of dollars):

2011	$	205,540
2012		207,497
2013		203,884
2014		193,205
2015 – 2019		877,750
	$	1,687,876

The Health System expects to contribute approximately $30,703,000 to the defined benefit pension plans in 2011.

The expected long-term rate of return on plan assets is the expected average rate of return on the funds invested currently and on funds to be invested in the future in order to provide for the benefits included in the projected benefit obligation. The Health System used 7.0% and 8.0% in calculating the 2010 and 2009 expense amounts. This assumption is based on capital market assumptions and the plan's target asset allocation.

The Health System continues to monitor the expected long-term rate of return. If changes in those parameters cause 7.0% to be outside of a reasonable range of expected returns or if actual plan returns, over an extended period of time, suggest that general market assumptions are not representative of expected plan results, the Health System may revise this estimate prospectively.

Target asset allocation and expected long-term rate of return on assets (ELTRA) at December 31 was as follows:

	2010 and 2009 Target	2010 ELTRA	2009 ELTRA
Cash and cash equivalents	5%	0.5% – 2%	0.01% – 1.2%
Equity securities	35	5% – 8%	6% – 9%
Debt securities	50	3% – 4%	4% – 7%
Other securities	10	7% – 10%	7% – 11%
Total	100%	7.00%	7.00%

The following table presents the Health System's pension plan assets measured at fair value at December 31, 2010:

	December 31, 2010	Fair value measurements at reporting date using Level 1	Level 2	Level 3
		(In thousands of dollars)		
Assets:				
Cash and cash equivalents	$ 31,663	31,663	—	—
Domestic equity securities:				
Mutual funds:				
Large capitalization	14,597	14,597	—	—
Medium-small cap and other	11,864	11,864	—	—
Emerging markets	74,082	74,082	—	—
Term bonds	60,150	60,150	—	—
Capital goods	41,163	41,163	—	—
Consumer services	99,513	99,513	—	—
Technology	24,940	24,940	—	—
Energy	20,698	20,698	—	—
Other	29,349	29,333	16	—
Foreign equity securities:				
Capital goods	55,754	55,754	—	—
Consumer services	60,252	60,252	—	—
Energy	26,929	26,929	—	—
Financial services	14,539	14,539	—	—
Healthcare	18,798	18,798	—	—
Technology and other	5,538	5,538	—	—
Debt securities – state and government	122,893	—	122,893	—
Foreign debt securities	2,065	—	2,065	—
Domestic corporate debt securities	186,344	—	186,344	—
Foreign corporate debt securities	11,555	—	11,555	—
Mortgage-backed securities:				
Commercial	7,435	—	7,435	—
Residential	227,641	—	227,641	—
Asset-backed securities	7,715	—	7,715	—
Derivatives – futures/options	1,310	—	1,310	—
Venture capital/partnerships	1,476	—	—	1,476
Hedge funds	49,697	—	49,697	—
Other	5,154	5,154	—	—
Total	$ 1,213,114	594,967	616,671	1,476

The following table presents the Health System's pension plan assets measured at fair value at December 31, 2009:

	December 31, 2009	Fair value measurements at reporting date using Level 1	Level 2	Level 3
		(In thousands of dollars)		
Assets:				
Cash and cash equivalents	$ 90,518	90,518	—	—
Domestic equity securities:				
Mutual funds:				
Large capitalization	17,964	17,964	—	—
Medium-small cap and other	14,601	14,601	—	—
Emerging markets	91,176	91,176	—	—
Term bonds	74,029	74,029	—	—
Capital goods	50,661	50,661	—	—
Consumer services	122,474	122,474	—	—
Technology	30,695	30,695	—	—
Energy	25,474	25,474	—	—
Other	36,148	36,121	27	—
Foreign equity securities:				
Capital goods	72,407	72,407	—	—
Consumer services	78,249	78,249	—	—
Energy	34,973	34,973	—	—
Financial services	18,881	18,881	—	—
Healthcare	24,413	24,413	—	—
Technology and other	7,192	7,192	—	—
Debt securities – state and government	52,438	—	52,438	—
Domestic corporate debt securities	70,969	—	70,969	—
Foreign corporate debt securities	1,698	—	1,698	—
Mortgage-backed securities:				
Commercial	3,838	—	3,838	—
Residential	117,519	—	117,519	—
Asset-backed securities	18,445	—	18,445	—
Real estate fund	43,664	—	43,664	—
Derivatives – futures/options	24,914	—	24,914	—
Venture capital/partnerships	3,645	—	—	3,645
Hedge funds	102,478	—	102,478	—
Other	4,284	3,606	678	—
Total	$ 1,233,747	793,434	436,668	3,645

The fair value estimates of certain funds are estimates determined by management using various information sources, including information provided by the fund managers. Certain funds classified in

Level 2 consist of shares or units in the investment funds as opposed to direct interests in the fund's underlying holdings, which are marketable securities. Because the net asset value reported by each fund is used as a practical expedient to estimate the fair value of the Health System's interest therein, its classification in Level 2 is based on the Health System's ability to redeem its interest at or near the balance sheet date. The classification in the fair value hierarchy is not necessarily an indication of the risks, liquidity, or degree of difficulty in estimating the fair value of each investment's underlying assets and liabilities.

The following table presents the Health System's activity for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended December 31, 2010 (in thousands of dollars):

	Venture capital/ partnerships
Balance at December 31, 2008	$ —
Total realized and unrealized (losses) gains, net:	
Included in income	499
Included in net assets	—
Purchases, issuance, and settlements (net)	3,146
Transfers in and/or out of Level 3 (net)	—
Balance at December 31, 2009	3,645
Total realized and unrealized (losses) gains, net:	
Included in income	542
Included in net assets	—
Purchases, issuance, and settlements (net)	(2,711)
Transfers in and/or out of Level 3 (net)	—
Balance at December 31, 2010	$ 1,476

(9) Self-Insurance Liability

The Health System maintains excess coverage with independent insurance carriers, on a claims-made basis. The Health System accrues estimated self-insured professional and general liability and workers' compensation insurance claims based on management's estimate of the ultimate costs for both reported claims and actuarially determined estimates of claims incurred-but-not-reported.

At December 31, 2010 and 2009, the liability for future costs of professional and general liability claims was $170,109,000 and $179,580,000, respectively. At December 31, 2010 and 2009, the workers' compensation obligation was $139,267,000 and $133,787,000, respectively, in the accompanying consolidated balance sheets. At December 31, 2010 and 2009, $225,469,000 and $217,068,000, respectively, of these amounts were included as self-insurance liability, net of current portion, with the remainder included within current portion of self-insurance liability, in the accompanying consolidated balance sheets.

(10) Commitments

The Health System has committed to several construction projects and other purchase commitments with an estimated cost of $256,635,000, all of which is remaining to be spent as of December 31, 2010.

(11) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at December 31, 2010 and 2009:

		2010	2009
		(In thousands of dollars)	
Program support	$	72,031	65,217
Low-income housing		28,472	29,410
Capital acquisition and other		59,362	74,892
Total temporarily restricted net assets	$	159,865	169,519

The Health System's fundraising foundations have obtained contributions to support the various programs offered by the Health System. Many of these contributions remain temporarily restricted as of December 31, 2010 and 2009 because the time or purpose restrictions stipulated by the donor have not been met. Total fundraising expenses were $8,821,000 and $8,568,000 for the years ended December 31, 2010 and 2009, respectively. Generally, program support consists of items that will defray the cost of operating certain patient care activities of the Health System.

Other revenues included $33,293,000 and $34,053,000 of assets released from restriction for the years ended December 31, 2010 and 2009, respectively.

Permanently restricted net assets are restricted to investments in perpetuity, the income of which is expendable primarily for program support.

(12) Litigation and Contingencies

The healthcare industry is subject to numerous laws and regulations from federal, state, and local governments. Compliance with these laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time. Government monitoring and enforcement activity continues with respect to investigations and allegations concerning possible violations by healthcare providers of regulations, which could result in the imposition of significant fines and penalties, as well as significant repayments of patient services previously billed. Institutions within the Health System are subject to similar regulatory reviews.

(Continued)

Management is aware of certain asserted and unasserted legal claims and regulatory matters arising in the course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the Health System's future financial position or results of operations.

(13) Functional Expenses

The Health System provides healthcare services to residents within its geographic service areas. Expenses related to providing these services for the years ended December 31, 2010 and 2009 are as follows:

		2010	2009
		(In thousands of dollars)	
Healthcare expenses	$	6,016,572	5,575,660
Purchased healthcare expenses		651,738	674,466
General and administrative expenses		1,083,430	1,096,675
Total operating expenses	$	7,751,740	7,346,801

Schedule 1

PROVIDENCE HEALTH & SERVICES

Consolidating Schedule – Balance Sheet Information

December 31, 2010 (with consolidated totals for 2009)

(In thousands of dollars)

Assets		Alaska Region	Washington/ Montana Region	Oregon Region	Providence Plan Partners	Southern California Region	System office, eliminations, and other	2010 Total Health System	2009 Total Health System
Current assets:									
Cash and cash equivalents	$	76,373	245,293	78,555	26,164	75,043	26,275	527,703	495,363
Short-term management-designated investments		—	—	231,307	—	—	127,000	358,307	213,124
Assets held under securities lending		—	—	—	—	—	139,920	139,920	110,771
Accounts receivable, net		103,874	334,332	247,675	—	198,178	(38,217)	845,842	831,240
Other receivables, net		12,744	80,549	63,402	13,105	46,058	(29,591)	186,267	157,380
Supplies inventory		16,034	49,345	34,064	—	23,728	161	123,332	116,043
Other current assets		2,238	24,474	13,348	2,045	27,153	8,504	77,762	49,353
Current portion of funds held by trustee		—	—	1,152	—	4,161	83,371	88,684	93,489
Total current assets		211,263	733,993	669,503	41,314	374,321	317,423	2,347,817	2,066,763
Assets whose use is limited:									
Management-designated cash and investments		249,121	716,116	712,899	449,438	185,300	204,773	2,517,647	2,208,147
Gift annuities, trusts, and other		669	7,820	17,281	—	7,339	3,927	37,036	38,394
Funds held by trustee		—	9,014	6,639	14,355	16,381	93,144	139,533	172,545
Assets whose use is limited, net		249,790	732,950	736,819	463,793	209,020	301,844	2,694,216	2,419,086
Property, plant, and equipment, net		493,594	1,412,814	1,192,105	86,864	871,756	215,079	4,272,212	3,983,448
Other assets		51,943	133,001	79,118	152	93,462	(92,851)	264,825	208,011
Total assets	$	1,006,590	3,012,758	2,677,545	592,123	1,548,559	741,495	9,579,070	8,677,308
Liabilities and Net Assets									
Current liabilities:									
Current portion of long-term debt	$	1,606	10,077	24,146	—	10,202	2,114	48,145	48,675
Master trust debt classified as short-term		39,350	82,776	201,552	—	—	130,522	454,200	465,525
Accounts payable		28,369	128,455	63,800	1,660	66,932	12,344	301,560	303,270
Accrued compensation		35,694	127,516	122,669	—	69,446	23,273	378,598	347,739
Payable to contractual agencies		2,412	32,877	24,583	2,963	8,833	—	71,668	67,377
Liabilities under securities lending		—	—	—	—	—	142,345	142,345	114,597
Current portion of retirement plan obligations		—	—	—	—	—	136,245	136,245	16,034
Current portion of self-insurance liability		—	4,844	—	—	—	79,063	83,907	96,300
Other current liabilities		6,200	58,345	35,424	136,891	74,898	(121,801)	189,957	158,592
Total current liabilities		113,631	444,890	472,174	141,514	230,311	404,105	1,806,625	1,618,109
Long-term debt, net of current portion		184,597	899,545	133,218	—	556,405	(68,452)	1,705,313	1,542,089
Other long-term liabilities		16,185	18,064	37,770	141	20,107	838,043	930,310	807,783
Total liabilities		314,413	1,362,499	643,162	141,655	806,823	1,173,696	4,442,248	3,967,981
Net assets:									
Unrestricted		682,019	1,601,066	1,959,492	450,468	689,726	(472,949)	4,909,822	4,478,089
Temporarily restricted		8,894	36,572	47,464	—	32,819	34,116	159,865	169,519
Permanently restricted		1,264	12,621	27,427	—	19,191	6,632	67,135	61,719
Total net assets		692,177	1,650,259	2,034,383	450,468	741,736	(432,201)	5,136,822	4,709,327
Total liabilities and net assets	$	1,006,590	3,012,758	2,677,545	592,123	1,548,559	741,495	9,579,070	8,677,308

See accompanying independent auditors’ report.

PROVIDENCE HEALTH & SERVICES

Consolidating Schedule – Statement of Operations Information

December 31, 2010 (with consolidated totals for 2009)

(In thousands of dollars)

	Alaska Region	Washington/ Montana Region	Oregon Region	Providence Plan Partners	Southern California Region	System Office, eliminations, and other	2010 Total Health System	2009 Total Health System
Operating revenues:								
Net patient service revenues	$ 688,015	2,606,294	2,127,559	—	1,414,384	(323,267)	6,512,985	6,180,916
Premium revenues	—	25,152	60,153	1,039,608	—	—	1,124,913	1,099,243
Other revenues	37,956	218,501	181,256	45,794	46,854	(86,304)	444,057	390,023
Total operating revenues	725,971	2,849,947	2,368,968	1,085,402	1,461,238	(409,571)	8,081,955	7,670,182
Operating expenses:								
Salaries and wages	252,090	1,145,436	1,037,808	252	624,076	100,789	3,160,451	2,988,199
Employee benefits	70,879	308,247	246,086	—	155,552	26,984	807,748	764,385
Purchased healthcare	—	13,344	22,156	931,928	12,513	(328,203)	651,738	674,466
Professional fees	10,368	98,307	77,051	2,659	43,091	8,772	240,248	223,010
Supplies	103,638	459,921	335,705	583	208,498	2,089	1,110,434	1,067,653
Purchased services	76,201	304,750	204,312	89,599	158,168	(191,534)	641,496	598,851
Depreciation	51,825	109,218	120,076	2,298	62,020	36,767	382,204	360,233
Interest and amortization	7,561	25,794	7,308	—	25,447	(723)	65,387	68,788
Bad debts	50,071	129,903	57,020	101	53,793	70	290,958	258,356
Other	36,088	139,578	130,246	26,406	60,510	8,248	401,076	342,860
Total operating expenses	658,721	2,734,498	2,237,768	1,053,826	1,403,668	(336,741)	7,751,740	7,346,801
Excess (deficit) of revenues over expenses from operations	67,250	115,449	131,200	31,576	57,570	(72,830)	330,215	323,381
Net nonoperating gains	9,801	27,749	63,496	27,049	10,239	17,049	155,383	37,320
Excess (deficit) of revenues over expenses	77,051	143,198	194,696	58,625	67,809	(55,781)	485,598	360,701
Contributions, grants, and other	405	(1,175)	(1,222)	—	3,037	1,219	2,264	2,344
Net assets released from restriction	395	1,665	2,432	—	17,634	1,625	23,751	18,827
Change in noncontrolling interests in consolidated joint ventures	831	38,210	828	—	3,541	—	43,410	—
Net assets assumed – Willamette Falls Medical Center and Willamette Falls Medical Foundation	—	—	—	—	—	—	—	36,911
Pension related changes	—	—	(1,390)	—	—	(121,900)	(123,290)	376,109
Interdivision transfers	(5,637)	(20,886)	(16,239)	(3,503)	(12,481)	58,746	—	—
Increase (decrease) in unrestricted net assets	$ 73,045	161,012	179,105	55,122	79,540	(116,091)	431,733	794,892

See accompanying independent auditors' report.