Providence Health & Services is a not-for-profit Catholic health care ministry committed to providing for the needs of the communities it serves – especially for those who are poor and vulnerable. Providence's comprehensive scope of services includes 32 hospitals, 400 physician clinics, senior services, supportive housing and many other health and educational services.

Providence 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 2012, spent $823 million on community benefit programs. All Providence regions were able to increase contributions in 2012, with total community benefit exceeding 2011 spending by $172 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, compassionate 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 2012, Providence offered nearly $272 million in free and discounted care. Consistent with other Catholic health care organizations, Providence uses cost not charge to calculate charity care and does not include the unpaid cost of Medicare, Medicaid or bad debt in its cost of charity care numbers.

Sustaining the Providence Mission

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 2012, Providence's net operating income was $204 million and on average, days cash on hand was 175.

The Providence Mission is firmly rooted in the work started more than 157 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.

To learn more about the Providence Mission, please visit www.providence.org.

Combined Financial Performance
Fiscal Year - 2012

Providence Health & Services ("PH&S") reported year-to-date net operating income of $204.1 million which was $45.5 million favorable to budget. Year-to-date performance includes an adjustment to professional liability reserves to appropriately reflect the implementation of risk reduction programs in recent years. This revision in reserve methodology resulted in an operating income benefit of $28.9 million for the year. On a consolidated basis, adjusted admissions are 1.2% favorable to budget and increased over the prior year.

On a year-to-date basis, operating revenue of $10.6 billion was 2.6% or $268.3 million favorable to budget. The most significant drivers of the year-to-date favorable budget performance are the CMS settlement of $36.8 million, recognized in March, and $54.5 million in meaningful use revenue recognized during the year. Year-to-date operating expenses were $222.8 million or 2.2% unfavorable to budget. $83.8 million of the unfavorable expense variance was attributable to salaries and related employee benefits and were 1.5% unfavorable compared to budget. The variances primarily relate to volume, pension and as well as severance-related costs. These impacts were partially offset by improved productivity.

As of December, five acute care sites and 216 clinics representing approximately 1,161 providers are live on the model build of Epic. Year-to-date health system operating expenses include $80.7 million of Epic-related costs. Capital investment in Epic is $217.9 million on a year-to-date basis.

Year-to-date non-operating income was $910.0 million favorable to budget. $766.3 million of the variance relates to the market value of the Swedish Health Services ("Swedish") net assets recorded in recognition of the Swedish and Providence affiliation, with an additional $38.5 million of the variance relating the market value of Facey net assets in the California region recorded in recognition of the affiliation. Year-to-date non-operating income also includes $290.9 million of investment income ($157.1 million favorable to budget) and a $53.6 million unbudgeted loss on refinancing of Swedish bonds. The refinancing of the Swedish bonds was a key step in the affiliation, allowing Providence and Swedish to form a single obligated group. The single obligated group better positions both organizations in the bond market and will result in future interest expense savings for Swedish over the remaining life of the bonds issued.

The following items are unusual items included in year-to-date net income, which are current period items, but not directly related to day-to-day operations:

- Professional Liability: $28.9 million adjustment due to updating actuarial estimates. A portion of the adjustment was recorded in October, with the remaining amount recorded in December. This change positively impacted all regions, with the exception of the Swedish market, which has not yet joined the professional liability trust.
- Meaningful Use: $54.5 million recorded in connection with meaningful use attestations.
- Facey physician affiliation: $38.5 million recorded as an increase to non-operating income. This contribution includes both the historical book value of net assets prior to the affiliation, as well as a $4.9 million write-up to adjust assets and liabilities to fair value.
- Loss on refinancing: $53.6 million recorded in non-operating loss in connection with the refinancing of Swedish bonds.

- Severance accruals: $36.2 million recorded in connection with voluntary and involuntary reductions in force ($22.4 million in Oregon and $13.8 million at Swedish).
- Swedish affiliation: The market value of the Swedish's net assets, $766.3 million, was recorded as an increase in non-operating income. This contribution includes both the historical book value of net assets prior to the affiliation and also a $292.9 million write-up to adjust assets and liabilities to fair value.
- CMS settlements: The system was involved in a CMS class action settlement, which resulted in an additional $36.8 million in net operating income in the month of March, benefitting all regions except for Senior and Community Services and Providence Strategic and Management Services (Corporate Office).

The table below presents consolidated key financial indicators:

Key Financial Indicators	**---- YTD December 2012 ----**		
	Actual	Budget	2011*
Net Operating Income	$204.1m	$158.6m	$238.9m
Operating Margin %	1.9%	1.5%	2.8%
Net Income	$1,216.5m	$261.0m	$361.7m
Charity Care Services % Net Revenue	5.5%	4.6%	5.8%
Inpatient Activity – Inpatient Admissions	320,242	321,206	264,527
Outpatient Activity – Outpatient Revenue	$9,042m	$8,968m	$6,681m
Non-Acute Patient Visits	2,196,283	2,220,178	2,134,554
Physician Care Visits	4,418,741	4,330,364	2,938,665
Health Plan Member Months	4,675,516	4,756,118	4,682,432
CMI Adjusted Length of Stay	2.9	3.1	3.1
Rate - Net Service Revenue/CMAA	$11,323	$11,307	$11,568
Productivity – Labor % Net Revenue	41.8%	42.1%	40.4%
Employee Health PMPY	4,192	4,145	4,115
Supplies % Net Revenue	13.9%	13.9%	13.5%
Efficiency - Expense per CMAA	$11,074	$11,108	$11,153
Accounts Receivable Days	48	50	51

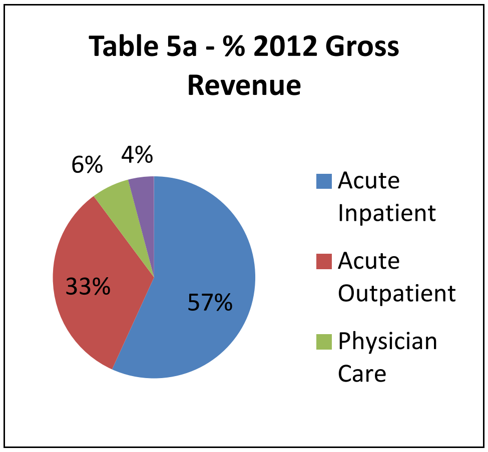
* 2011 results do not include Swedish operations

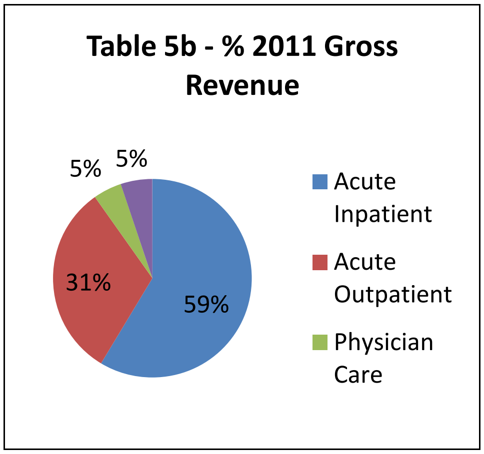
Non-acute patient visits ran 1.1% below budget but 2.9% above prior year-to-date. The budget shortfall occurred in all regions, except Senior and Community Services.

Health plan member months ran 1.7% below budget. Small group enrollment is below budget due to a weaker price position than was anticipated and the market continues to shrink. Additionally, a large Oregon group lost membership in late 2011, which has carried through 2012, but was included in the 2012 budget figures.

Supplies as a percent of net revenue ran 0.2% over budget and 2.7% over prior year. The negative budget performance occurred in the all regions, except Western Washington, Providence Health Care, Montana, and California.

The following tables show comparisons of the source of year-to-date gross revenue for December 2012 and 2011:





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

Table 6 - Balance Sheet Indicators	**---- YTD December 2012 ----**		
	Tracking Goal	Current	FYE Goal
Days of Cash on Hand	Yes	175	165
Long-term Debt to Total Capitalization	Yes	35%	35%
Cash to Debt	No	116%	110%

Days cash on hand includes $400 million of cash earmarked for future pension funding, which management has designated as restricted funds to apply toward the pension liability. This represents approximately 15 days of cash.

Included in the 175 days cash is $68.8 million of project funds related to the ambulatory strategies in Spokane and Northwest Washington and $143.3 million in pension funding, which will be funded to the trustee in first quarter of 2013.

Major Areas of Risk, Opportunities and Focus:

The following are major areas of risk and opportunity that management is currently assessing, monitoring and/or mitigating:

- Declining inpatient utilization
- Declining revenue per case
- Declining cash flow availability and liquidity
- Physician integration and alignment
- Performance of physician services
- Medicaid payment reduction in Washington and Oregon
- Epic implementation
- Implementation of "One" strategies
- Oregon Region financial performance

Todd Hofheins, VP Chief Financial Office

Regional Performance

Alaska Region

Alaska reported year-to-date net operating income of $83.4 million which is $19.2 million favorable to budget and $21.1 million favorable to the prior year.

The month of December continued the trends from the first eleven months of 2012 of better than budgeted performance in expense management (expense per case) and net operating income, and of negative budget performance in the ambulatory setting (outpatient visits, primary care visits) and post-acute setting (long term care days, home health visits, hospice days, and assisted living days).

The Alaska region had year-to-date favorable net operating income ("NOI") variances of $2.3 million related to the CMS settlement, $3.3 million related to meaningful use and $4.0 million related to the professional liability true-up.

Strengths

- Providence Alaska Medical Center – NOI $19.8 million > budget
- YTD operating margin of 11.4%
- Acute admissions 3.0% > budget
- Expense per Case Mix Adjusted Admission ("CMAA") 1.9% < budget
- Decrease of 9 days A/R over 3 months

Weaknesses

- Case mix index 5.7% < budget
- Outpatient visits 9.9% < budget
- Primary Care visits 28.9% < budget
- Long-term Care days 12.5% < budget
- Home Health visits 12.6% < budget

Opportunities

- Epic EMR Donation
- Fairbanks Hospital
- Rural Hospital Alignment
- AK State employee medical plan RFP

Threats

- Specialty Physician Payment Assessment
- Premium Affordability

Western Washington Region

Western Washington Region reported year-to-date net income of $44.3 million that is $63.0 million favorable to budget. This performance is generated by operating revenues that are 2.1% better than budget and also includes a positive benefit of $17.5 million in one-time accounting treatment items at Swedish related to affiliation activity.

The month of December continued the trends from the first eleven months of 2012 of better than budgeted performance in expense per CMAA and acute admissions, and of negative budget performance in net revenue per CMAA.

The Western Washington region recognized the following significant amounts through December:

- $23.6 million related to meaningful use attestations, affecting all three markets.
- $3.4 million related to the professional liability true up (NW and SW markets only)
- $5.7 million in depreciation expense for assets written up during the Swedish valuation.
- $6.6 million net gain in various accounting policy changes for the Swedish market.
- ($53.6) million non-operating loss in connection with the refinancing of Swedish bonds.
- ($14.1) million related to severance in the Swedish market.
- $10.9 million related to a change in pension expense estimates in the Swedish market
- $12.3 million related to the CMS settlement, affecting all three markets.
- $292.9 million related to the fair value adjustment associated with the affiliation was recorded as a non-operating entry. The amount recorded adjusts the assets and liabilities of Swedish to fair market value, which flows through the net income as a one-time gain.

Strengths
- First Hill – NOI $27.2 million > budget
- Swedish Ballard – NOI $8.3 million > budget
- Cherry Hill – NOI $14.9 million > budget
- Swedish Edmonds – NOI $8.3 million > budget
- Expense per CMAA 8.1% < budget
- Acute admissions 4.6% > budget

Weaknesses
- Centralia – NOI $3.9 million < budget
- NW Physicians Group – NOL $4.9 million > budget
- Net service revenue/CMAA 6.0% < budget
- NW A/R days 51 > budgeted days 48
- SW A/R days 58 > budgeted days 44

Opportunities
- Post-affiliation integration planning
- Everett Medicare Advantage
- Providence Medical Group Primary Care Strategy
- Integrated Care Coordination

Threats
- State Medicaid cuts
- King County Competition
- Cash flow availability

<u>Providence Health Care Region (Spokane)</u>

Providence Health Care reported year-to-date net operating income of $42.8 million which was $23.5 million ahead of budget and exceeded the prior year by $34.2 million.

The month of December continued the trends from the first eleven months of 2012 of better than budgeted performance in net income, net service revenue per CMAA, primary care visits and of negative budget performance in expense per CMAA and acute admissions. While monthly operating income performance has been slightly volatile for Providence Health Care throughout the year, year-to-date performance has remained positive since March.

The year-to-date operating income for the Region includes the favorable impact of $6.1 million related to a CMS settlement, $5.8 million related to meaningful use and $3.1 million related to the professional liability true-up.

Strengths

- Sacred Heart – NOI $8.8 million > budget
- Holy Family – NOI $6.7 million > budget
- Primary care visits 29.7% > budget
- Net service revenue/CMAA 6.4% > budget
- Case mix index 4.6% > budget

Weaknesses

- AR days 52 days > budgeted 45 days
- PAML – NOI $1.9 million < budget
- Acute admissions 5.0% < budget
- Paid hours/CMAA 5.4% > budget
- Net Expense/CMAA 4.3% > budget

Opportunities

- Physician alignment strategies
- Valley ambulatory center
- Group Health strategy
- Continued focus on expense management

Threats

- State Medicaid cuts
- Payer mix declines
- Competitive landscape

<u>Southeast Washington Region (Walla Walla)</u>

Southeast Washington region reported year-to-date net operating income $2.7 million. This represents a 1.8% operating margin for the region and was $0.1 million ahead of budget.

The month of December continued the trends from the first eleven months of 2012 of better than budget primary care visits, net revenue per CMAA and of negative budgeted variance in outpatient visits and expense per CMAA.

The Southeast Washington region had a favorable NOI variance of $0.6 million year-to-date related to the CMS settlement and $0.4 million related to the professional liability true up.

Strengths

- St. Mary Medical Center – NOI $1.7 million > budget
- Net service revenue/CMAA 9.0% > budget
- Primary care visits 11.4% > budget

Weaknesses

- Net expense/CMAA 9.0% > budget
- Outpatient visits 9.0% < budget
- Acute admissions 4.6% < budget

- Paid hours/CMAA 6.7% > budget

Opportunities

- Oncology partnership
- Walla Walla clinic

Threats

- State Medicaid cuts
- Increased market competition

<u>Western Montana Region</u>

Western Montana region reported year-to-date net operating income of $13.1 million. This represents a 4.3% operating margin for the region and was $5.3 million ahead of budget.

The month of December continued the trends from the first eleven months of 2012 of better than budgeted performance in expense per CMAA and acute admissions, and of negative budgeted performance in primary care visits.

The Western Montana region had a favorable NOI variance of $1.3 million year-to-date related to the CMS settlement and $0.9 million related to the professional liability true-up.

Strengths

- St. Patrick Hospital – NOI $6.1 million > budget
- EBIDA 17.7% > budget
- Acute admissions 9.3% > budget
- Net Expense/CMAA 0.7% < budget
- Supplies as a % of NOR 2.8% < budget

Weaknesses

- Case mix index 4.9% < budget
- Primary care visits 11.6% < budget

Opportunities

- Western Montana Clinic
- Rural Hospital Alignment

Threats

- Community Medical Center
- Kalispell
- Community Health System

<u>Providence Senior and Community Services Region (“PSCS”)</u>

PSCS reported a net year-to-date operating loss of -$2.2 million. This represents a (1.0%) operating margin for the region and was $5.9 million below budget.

The month of December continued the trends from the first eleven months of 2012 of better than budgeted performance in home health visits, housing and assisted living days and of negative budget performance in net operating income and long-term care patient days.

Strengths

- LTC Divisional Services – NOI $4.6 million >budget
- Home health visits 7.1% > budget
- Housing and assisted living days 2.4% > budget

Weaknesses

- Long-term Care Patient days 7.1% < budget
- Net service revenue 1.8% < budget

Opportunities

- Hospice Length of Stay
- Home Health referrals
- Service line orientation
- Expansion of infusion services

Threats

- Skilled nursing reduction in Medicare reimbursement
- Home health reimbursement reductions
- Increased Hospice and Home Health market competition
- Home Health and Hospice pay for performance rules

Oregon Region

On a year-to-date basis, the Oregon Region reported year-to-date net operating income of $87.6 million, which was $28.2 million behind budget and $72.8 million lower than the prior year. The year-to-date budget variance is primarily related to severance costs, lower than expected meaningful use revenue, and pension costs. The year-to-date performance includes an unfavorable variance of $22.4 million related to severance costs offset by $5.5 million related to a favorable CMS settlement, $7.1 million related to meaningful use, and $10.4 million related to the professional liability true-up.

The month of December continued the trends from the first eleven months of 2012 of better than budgeted expense per CMAA, and of negative budget performance in net revenue per CMAA, primary care visits, outpatient visits and home health visits.

Strengths

- Oregon acute care facilities – NOI $2.9 million > budget
- Health Plan – NOI $2.9 million > budget
- Net expense/CMAA 2.0% < budget
- Property management services - NOI $2.1 million > budget
- Hospice Days 3.2% > budget

Weaknesses

- Regional Services – NOL $19.9 million > budget
- Ambulatory Clinical division – NOL $15.4 million > budget
- Net revenue per CMAA 3.1% < budget
- Outpatient Visits 3.1% < budget
- Health plan membership 1.7% < budget
- Primary Care Visits 8.7% < budget
- Home Health Visits 11.6% < budget
- Housing and Assisted Living Days 9.0% < budget

Opportunities

- Ambulatory center expansion
- Outreach expansion
- Health plan growth

Threats

- OHSU specialists strategy
- Kaiser premium structure
- State insurance reform

<u>California Region</u>

California reported year-to-date basis net operating income of $48.9 million. This represented a 2.7% operating margin and was $1.4 million better than budget.

The month of December continued the trends from the first eleven months of 2012 of better than budgeted performance in net revenue per CMAA and supplies as a percent of net operating revenue, and of negative budget performance in expense per CMAA.

The year-to-date financial results include the $38.5 million contribution related to the Facey affiliation accounting, included in non-operating income, $8.8 million related to the CMS settlement, $13.6 million related to meaningful use and $6.5 million related to the professional liability true-up, all included in operating income.

Strengths

- St. Joseph – NOI $16.1 million > budget
- Tarzana – NOI $7.2 million > budget
- San Pedro – NOI $3.7 million > budget
- Outpatient visits 1.7% > budget
- Supplies as a % of NOR 10.4% < budget
- Net service revenue/CMAA 16.1% > budget
- Affiliation with Facey

Weaknesses

- Holy Cross – NOI $9.5 million < budget
- Primary Care – NOL $12.0 million > budget
- Expense/CMAA 16.4% > budget

Opportunities

- Mission Hills bed expansion
- Burbank cancer center
- Torrance MOB expansion 175,000 new sq. ft.

Threats

- California Financial Crisis
- Pace of MD Consolidation
- PMI Turnaround Pace

<u>System Support Services & Trusts</u>

System support services include Management Services, System Support Services, and Trusts and Pensions. Management Services, including Revenue Cycle, Epic, Information Services, and Supply Chain, were $3.8 million favorable to budget for the month and $8.2 million favorable to budget on a year-to-date basis. The favorable performance for Management Services was driven by Epic. Trusts and pensions were $4.9 million unfavorable to budget for the month of December and $20.0 million unfavorable to budget on a year-to-date basis. Of the year-to-date unfavorable variance, $9.9 million relates to a non-cash updated actuarial projection. The $28.9 million year-to-date professional liability true-up mentioned above is the result of the continued efforts risk management over the past several years. This positive true-up is reflected in the each of the regions' performance rather than the trust entity.

Strengths

- Investment pool performance, reflected in regional results
- Epic YTD operating expenses $25.8 million < budget
- Epic YTD capital expenditures $62.1 million < budget

Weaknesses

- PSMS – NOL $21.3 million > budget
- Pension – NOL $9.9 million > budget

Opportunities

- Swedish affiliation integration plans
- Epic
- ProvSource pricing

Threats

- Cash availability
- Pension funding requirements

Debt Supported by Self-Liquidity

In February 2008, 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 $400 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, 2012

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 *	$ 306.96	$ -	$ 1.72	$ 308.68	1.00	$ 308.68
S&P rated money market funds (> Am)	$ 38.01	$ 23.82	$ 352.34	$ 414.17	1.00	$ 414.17
Highly rated (A-1 or A-1+) dedicated bank line	$ -	$ -	$ -	$ -	1.00	$ -
Highly rated (A-1 or A-1+) money market instruments (< 1yr)	$ -	$ -	$ -	$ -	0.91	$ -
U.S. Treasury Debt Obligations (> 1 year)	$ -	$ 47.15	$ -	$ 47.15	0.91	$ 42.87
U.S. TIPs	$ -	$ 3.48	$ -	$ 3.48	0.87	$ 3.03
U.S. Agencies (> 1 year)	$ -	$ 73.26	$ -	$ 73.26	0.83	$ 61.05
Investment Grade Debt (that is not included above)	$ -	$ 23.82	$ 260.04	$ 283.86	0.67	$ 189.24
Equities**	$ -	$ -	$ 335.54	$ 335.54	0.50	$ 167.77
Non-Investment Grade Debt	$ -	$ -	$ 40.75	$ 40.75	0.40	$ 16.30
Total	$ 344.97	$ 171.54	$ 990.39	$ 1,506.90		$ 1,203.11
Discounted Total	$ 344.97	$ 146.65	$ 711.49			Discounted Total

	Enter amount of Self Liquidity Backed Debt with:		
	Same Day Notice	Next Day Notice	> Next Day Notice
Commercial Paper		$ 50.00	$ 150.00
Variable Rate Demand Note or Obligation	$ 50.20		$ 150.00
Fixed Rate Debt			
Other Securities			
Total	$ 50.20	$ 50.00	$ 300.00
Remaining Discounted Assets	$ 294.77	$ 391.42	$ 802.91
	Same Day +/-	Next Day +/-	> Next Day +/-
	Sufficient	Sufficient	Sufficient

TOTAL DEBT SUPPORTED BY SELF LIQUIDITY	TOTAL REMAINING DISCOUNTED ASSETS
$ 400.20	$ 802.91

Fourth Quarter 2012 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. The following pages provide the requested performance metrics.

Performance Metrics	December 31, 2012 Year-to-Date Actual	Budget	Prior Year
Volume:			
Acute Adjusted Admissions	553,957	549,688	440,583
Total Acute Admissions	320,242	321,206	264,527
Total Acute Patient Days	1,388,872	1,434,009	1,178,924
Acute Outpatient Visits	6,387,700	6,662,583	5,630,605
Primary Care Visits	4,418,741	4,330,364	2,938,665
Long-Term Care Patient Days	432,650	458,771	453,261
Home Health Visits	580,811	601,132	538,294
Hospice Days	656,155	656,272	624,422
Housing and Assisted Living Days	526,667	504,003	518,577
Health Plan Members	4,675,516	4,756,118	4,682,432
Total Occupancy %	60.7%	62.7%	63.2%
Total Average Daily Census	3,795	3,918	3,230
Surgeries:			
Inpatient	92,597	94,143	76,760
Outpatient	146,740	149,124	130,911
Total Surgeries	239,337	243,266	207,671
Emergency Room Visits:			
Inpatient	170,792	171,030	151,518
Outpatient	1,021,123	1,046,720	881,903
Total Emergency visits	1,191,915	1,217,749	1,033,421
Outpatient Visits:			
Outpatient Surgery	146,740	149,124	130,911
Emergency Visits	1,021,123	1,046,720	881,903
Primary Care	4,418,741	4,330,364	2,938,665
Homecare Visits	580,811	601,132	538,294
All Other	5,219,837	5,466,739	4,617,791
Total Outpatient Visits	11,387,252	11,594,078	9,107,564

Performance Metrics	December 31, 2012 Year-to-Date Actual	Budget	Prior Year
Efficiency:			
FTEs	56,667	56,285	45,983
YTD Overall Case-Mix Index	1.4772	1.4448	1.4497
YTD Case-Mix Adj Admissions (CMAA)	818,312	794,167	638,733
YTD Acute Care LOS (case-mix adj)	2.9	3.1	3.1
YTD Net Svc Rev/CMAA	11,323	11,307	11,269
YTD Net Expense/CMAA	11,074	11,108	10,895
YTD Paid Hours/CMAA	144	147	150
YTD Productive Hours/CMAA	127	129	131
FTE's Per Adjusted Occupied Bed	8.63	8.39	8.55
Financial Performance:			
Operating Margin	1.9%	1.5%	2.8%
Total Margin	10.5%	2.5%	4.2%
EBIDA ('000)	1,921,220	973,474	845,079
EBIDA Margin	18.1%	9.4%	10.0%
R12 Days of Total Cash on Hand	175	165	165
Net Patient AR Days (3 mo rolling ave)	50	50	51
Ave Yearly Salary/FTE (w/o benefits)	78,178	77,420	74,001
Employee Benefits as a % of Salaries	26.4%	26.6%	26.0%
Salary Wages as a % of Net Op Rev	41.8%	42.1%	40.4%
Supplies as a % of Net Op Revenue	13.9%	13.9%	13.5%
YTD Supplies Expense/CMAA	1,801	1,804	1,783
YTD Med Supplies Exp/CMAA	1,108	1,044	1,072
Bad Debt & Charity % Gross Svc Rev	4.9%	4.7%	4.9%
Community Benefit: ('000)			
Cost of Charity Care Provided	$272,460	$217,442	$203,660
Medicaid Charity	344,601	306,211	256,568
Education and Research Programs	89,809	68,213	76,229
Unpaid Cost of Other Govt Programs	1,904	1,915	2,836
Negative Margin Services and Other	73,971	72,303	82,913
Non-Billed Services	40,249	30,789	28,996
Total Community Benefit	$822,995	$696,873	$651,202

PROVIDENCE HEALTH & SERVICES

Combined Financial Statements

December 31, 2012 and 2011

(With Independent Auditors' Report Thereon)

KPMG LLP
Suite 2900
1918 Eighth Avenue
Seattle, WA 98101

Independent Auditors' Report

The Board of Directors
Providence Health & Services:

We have audited the accompanying combined financial statements of Providence Health & Services, which comprise the combined balance sheets as of December 31, 2012 and 2011, and the related combined statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these combined 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 combined financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the combined financial statements referred to above present fairly in all material respects, the financial position of Providence Health & Services as of December 31, 2012 and 2011, and the results of their operations and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

Our audit was performed for the purpose of forming an opinion on the combined financial statements as a whole. The supplemental information, included on pages 40 and 41 is presented for the purpose of additional analysis and is not a required part of the combined financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the combined financial statements as a whole.

KPMG LLP

Seattle, Washington
April 8, 2013

PROVIDENCE HEALTH & SERVICES

Combined Balance Sheets

December 31, 2012 and 2011

(In thousands of dollars)

Assets		2012	2011
Current assets:			
Cash and cash equivalents	$	706,664	378,521
Short-term management-designated investments		452,082	417,210
Assets held under securities lending		51,220	86,987
Accounts receivable, less allowance for bad debts of $371,097 in 2012 and $214,433 in 2011		1,261,094	935,604
Other receivables, net		271,133	213,527
Supplies inventory		155,736	125,157
Other current assets		108,150	82,540
Current portion of funds held by trustee		87,366	75,745
Total current assets		3,093,445	2,315,291
Assets whose use is limited:			
Management-designated cash and investments		3,541,564	2,713,050
Gift annuities, trusts, and other		50,345	35,545
Funds held by trustee		125,146	160,243
Assets whose use is limited, net of current portion		3,717,055	2,908,838
Property, plant, and equipment, net		6,236,213	4,679,181
Other assets		367,005	276,369
Total assets	$	13,413,718	10,179,679

(Continued)

PROVIDENCE HEALTH & SERVICES

Combined Balance Sheets

December 31, 2012 and 2011

(In thousands of dollars)

Liabilities and Net Assets	**2012**	**2011**
Current liabilities:		
Current portion of long-term debt	$ 63,376	46,205
Master trust debt classified as short-term	480,201	454,200
Accounts payable	423,307	331,685
Accrued compensation	581,645	431,724
Payable to contractual agencies	131,761	110,594
Liabilities under securities lending	52,708	89,183
Retirement plan obligations	164,709	154,120
Current portion of self-insurance liability	96,445	74,944
Other current liabilities	239,869	199,885
Total current liabilities	2,234,021	1,892,540
Long-term debt, net of current portion	2,943,152	1,797,350
Other long-term liabilities:		
Self-insurance liability, net of current portion	238,408	236,126
Pension benefit obligation	1,192,650	771,183
Other liabilities	131,779	81,783
Total other long-term liabilities	1,562,837	1,089,092
Total liabilities	6,740,010	4,778,982
Net assets:		
Unrestricted:		
Controlling interest	6,319,188	5,116,354
Noncontrolling interest	73,857	62,625
Temporarily restricted	201,961	151,886
Permanently restricted	78,702	69,832
Total net assets	6,673,708	5,400,697
Total liabilities and net assets	$ 13,413,718	10,179,679

See accompanying notes to combined financial statements.

PROVIDENCE HEALTH & SERVICES

Combined Statements of Operations

Years ended December 31, 2012 and 2011

(In thousands of dollars)

		2012	2011
Operating revenues:			
Net patient service revenues	$	9,055,945	6,995,220
Provision for bad debts		(389,890)	(318,334)
Net patient service revenues less provision for bad debts		8,666,055	6,676,886
Premium and capitation revenues		1,333,584	1,215,142
Other revenues		608,610	528,819
Total operating revenues		10,608,249	8,420,847
Operating expenses:			
Salaries and wages		4,430,130	3,402,777
Employee benefits		1,170,276	883,232
Purchased healthcare		733,975	694,273
Professional fees		390,427	280,550
Supplies		1,473,398	1,138,637
Purchased services		802,418	698,682
Depreciation		584,609	407,117
Interest and amortization		120,096	76,236
Other		698,834	600,450
Total operating expenses		10,404,163	8,181,954
Excess of revenues over expenses from operations		204,086	238,893
Net nonoperating gains			
Contribution from Swedish affiliation		766,252	—
Contribution from Facey affiliation		38,546	—
Loss on extinguishment of debt		(53,596)	(2,303)
Investment income, net		290,884	157,836
Pension settlement costs and other		(29,656)	(32,699)
Total net nonoperating gains		1,012,430	122,834
Excess of revenues over expenses		1,216,516	361,727
Net assets released from restriction for capital		17,460	16,909
Change in noncontrolling interests in consolidated joint ventures		11,232	19,215
Pension related changes		(2,862)	(129,236)
Contributions, grants, and other		(28,280)	542
Increase in unrestricted net assets	$	1,214,066	269,157

See accompanying notes to combined financial statements.

PROVIDENCE HEALTH & SERVICES

Combined Statements of Changes in Net Assets

Years ended December 31, 2012 and 2011

(In thousands of dollars)

		Unrestricted: controlling interest	Unrestricted: noncontrolling interest	Temporarily restricted	Permanently restricted	Total net assets
Balance, December 31, 2010	$	4,866,412	43,410	159,865	67,135	5,136,822
Excess of revenues over expenses		361,727	—	—	—	361,727
Contributions, grants, and other		542	—	39,947	2,697	43,186
Net assets released from restriction		16,909	—	(47,926)	—	(31,017)
Change in noncontrolling interests in consolidated joint ventures		—	19,215	—	—	19,215
Pension related changes		(129,236)	—	—	—	(129,236)
Increase (decrease) in net assets		249,942	19,215	(7,979)	2,697	263,875
Balance, December 31, 2011		5,116,354	62,625	151,886	69,832	5,400,697
Excess of revenues over expenses		1,216,516	—	—	—	1,216,516
Restricted contribution from Swedish affiliation		—	—	37,377	6,670	44,047
Contributions, grants, and other		(28,280)	—	66,791	2,200	40,711
Net assets released from restriction		17,460	—	(54,093)	—	(36,633)
Change in noncontrolling interests in consolidated joint ventures		—	11,232	—	—	11,232
Pension related changes		(2,862)	—	—	—	(2,862)
Increase in net assets		1,202,834	11,232	50,075	8,870	1,273,011
Balance, December 31, 2012	$	6,319,188	73,857	201,961	78,702	6,673,708

See accompanying notes to combined financial statements.

PROVIDENCE HEALTH & SERVICES

Combined Statements of Cash Flows

Years ended December 31, 2012 and 2011

(In thousands of dollars)

		2012	2011
Cash flows from operating activities:			
Increase in net assets	$	1,273,011	263,875
Adjustments to reconcile increase in net assets to net cash provided by operating activities:			
Contribution from Swedish affiliation		(810,299)	—
Contribution from Facey affiliation		(38,546)	—
Depreciation and amortization		588,630	411,831
Provision for bad debt		389,890	318,334
Loss on extinguishment of debt		53,596	2,303
Equity income from joint ventures		(37,394)	(61,083)
Restricted contributions and investment income received		(69,411)	(40,048)
Net realized and unrealized gains on investments		(214,616)	(77,419)
Distributions from joint ventures		32,933	70,588
Changes in certain current assets and current liabilities		(189,059)	(298,188)
Change in certain long-term assets and liabilities		(2,591)	158,782
Net cash provided by operating activities		976,144	748,975
Cash flows from investing activities:			
Property, plant, and equipment additions		(726,365)	(816,534)
Proceeds from disposal of property, plant, and equipment		5,427	16,268
Purchases of investments		(3,680,180)	(4,893,104)
Proceeds from sales of investments		3,650,523	4,696,454
Change in securities lending collateral		35,767	52,933
Change in other long-term assets and other		41,389	(39,942)
Change in funds held by trustee, net		(46,718)	10,823
Net cash used in investing activities		(720,157)	(973,102)
Cash flows from financing activities:			
Proceeds from restricted contributions and restricted income		69,411	40,048
Debt borrowings		2,216,664	1,007,449
Debt payments		(2,168,727)	(919,749)
Change in securities lending payable		(36,475)	(53,162)
Payment of deferred financing costs and other		(8,717)	359
Net cash provided by financing activities		72,156	74,945
Increase (decrease) in cash and cash equivalents		328,143	(149,182)
Cash and cash equivalents, beginning of year		378,521	527,703
Cash and cash equivalents, end of year	$	706,664	378,521
Supplemental disclosure of cash flow information:			
Cash paid for interest (net of amounts capitalized)	$	89,193	68,370

See accompanying notes to combined 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 139 professed members and maintains provincial administration offices in Renton, Washington. The members of the Province represent the Congregation in the following:

- Archdiocese of Los Angeles, California
- Archdiocese of Port-au-Prince, Haiti
- Archdiocese of Portland, Oregon
- Archdiocese of Seattle, Washington
- Diocese of Baker, Oregon
- Diocese of Boise, Idaho
- Diocese of Cubao, Philippines
- Diocese of Great Falls – Billings, Montana
- Diocese of Orlando, Florida
- Diocese of Spokane, Washington
- Diocese of Yakima, Washington
- Diocese of Montreal, Canada
- Diocesis Santiago de Maria, El Salvador

(b) Providence Health & Services

The Public Juridic Person, Providence Ministries, is the sole Member of Providence Health & Services and controls certain aspects of the various corporations comprising Providence Health & Services through certain reserved rights.

Providence Ministries sponsors various corporations comprising Providence Health & Services including:

- Providence Health & Services – Washington
- Providence Health & Services – Oregon

(Continued)

- Providence Health System – Southern California (cosponsored by the Congregation and the American Province of the Little Company of Mary Sisters)
- Providence Health & Services – Montana
- Providence St. Joseph Medical Center
- 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
- Providence Ventures, Inc.
- Providence Assurance, Inc.

Providence Ministries and Western HealthConnect (as defined below) are co-Members of Providence Health & Services – Western Washington.

The Health System (as defined below) owns or operates 32 general acute care hospitals, three ambulatory care centers, five medical groups, six long-term care facilities, seven homecare and hospice entities, five assisted living facilities, a high school, a university, 13 low-income housing projects, the Health Plan, a health services contractor, two programs of all inclusive care for the elderly, and 21 controlled fundraising foundations.

The Health System (as defined below) 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, Edmonds, Spokane, and Olympia, Washington; Missoula, Montana; Portland and Medford, Oregon; and Los Angeles, California.

(c) Organizational Changes

Swedish Health Services Affiliation

On February 1, 2012, Providence Health & Services (Providence) and Swedish Health Services (Swedish) (Providence and Swedish are collectively referred to as the Health System) effected an Affiliation Agreement, which financially, clinically, and operationally integrated the two health systems. Pursuant to the Affiliation, Western HealthConnect, which as mentioned above, is a co-Member (with Providence Ministries) of Providence Health & Services – Western Washington, became Swedish's sole Member. Additionally, the Affiliation requires that respective Boards of Directors and corporate officers of Providence, Western HealthConnect, Swedish, and Providence Health & Services – Western Washington are comprised of the same individuals to facilitate co-governance and management oversight of these fully integrated entities. Providence and Swedish have affiliated to create a fully integrated, nonprofit, charitable health care system serving communities throughout Western Washington.

Swedish provides comprehensive inpatient, outpatient, and emergency healthcare services through five acute care hospitals, a network of primary care medical clinics, two emergency service centers, and other medical organizations, primarily in Seattle and the surrounding Washington area. Swedish also operates the Swedish Medical Center Foundation to provide fundraising to further the charitable, educational, healthcare, and scientific activities of Swedish. The results of operations of these entities have been included in the combined statements of operations of the Health System since the February 1, 2012 effective date of the Affiliation.

This transaction was accounted for as an acquisition under Accounting Standards Codification (ASC) 958-805, *Not-for-Profit Entities – Business Combinations*. No consideration was paid by the Health System to acquire the net assets of Swedish. The affiliation resulted in an excess of assets acquired over liabilities assumed, reported as a contribution from Swedish to the Health System of approximately $810,299,000. The unrestricted portion of the contribution of $766,252,000 is included in net nonoperating gains in the accompanying combined statement of operations. The remaining $44,047,000 of the contribution was restricted and is recorded in restricted net assets in the combined statement of changes in net assets.

The following table summarizes the fair value estimates of the Swedish assets acquired and liabilities assumed as of February 1, 2012 (in thousands of dollars):

Cash and cash equivalents	$	68,184
Accounts receivable		286,571
Other receivables		28,884
Other current assets		35,085
Property, plant, and equipment		1,435,836
Management designated investments		579,885
Intangible assets		61,439
Other assets		53,787
Other current liabilities		(288,987)
Long-term debt, net of current portion		(978,965)
Pension benefit obligation		(392,538)
Self-insurance liability		(37,551)
Other liabilities		(41,331)
Total identifiable net assets assumed/contribution	$	810,299

(Continued)

The following are the financial results of Swedish included in the Health System's 2012 combined statement of operations during the eleven-month period from the date of the affiliation through December 31, 2012 (in thousands of dollars):

Total operating revenues	$	1,759,045
Excess of revenues over expenses from operations		44,014
Excess of revenues over expenses		330,219

The following pro forma combined financial information presents the Health System's results as if the affiliation had been reported as of the beginning of the Health System's fiscal year of January 1, 2011:

		2012			2011		
		Actual	**Pro forma**		**Actual**	**Pro forma**	
Total operating revenues	$	10,608,249	10,743,408	(1)	8,420,847	10,206,914	
Excess of revenues over expenses from operations		204,086	198,924	(1)	238,893	177,691	(2)
Excess of revenues over expenses		1,216,516	465,685	(1)	361,727	1,070,646	(3)

(1) Includes the historical results of Swedish for the one-month period ended January 31, 2012 prior to the affiliation, including the impact of purchase accounting adjustments.

(2) Includes additional depreciation related to the fair value adjustments and useful life adjustments recorded related to the affiliation.

(3) Includes the net contribution from the affiliation, in accordance with applicable accounting guidance.

Facey Medical Foundation and Facey Medical Group Affiliation

Effective July 1, 2012, Providence Health System – Southern California entered into an affiliation agreement with Facey Medical Foundation and Facey Medical Group. The Facey Medical Foundation is a nonprofit medical foundation, which operates ten clinics in the North San Fernando, Santa Clarita, San Gabriel and Simi Valleys. These sites are staffed by the Facey Medical Group physicians pursuant to a professional services agreement. No cash or other purchase consideration was transferred to effect the affiliation. The results of operations of these entities have been included in the combined statements of operations of the Health System effective as of the date of affiliation. The affiliation resulted in an excess of assets acquired over liabilities assumed, or a contribution from Facey to the Health System of approximately $38,546,000.

(d) Affiliated Transactions

Inter-affiliate 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 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) Basis of Presentation

The financial statements of the Health System are presented on a combined basis due to the operational interdependence of the organization and because the respective Boards of Directors and corporate officers of Providence and Swedish are comprised of the same individuals. All significant transactions and accounts between divisions and combined affiliates of the Health System have been eliminated. The Health System has performed an evaluation of subsequent events through April 8, 2013, which is the date these combined financial statements were issued.

(b) Use of Estimates

The preparation of the combined 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 combined 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 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 or lease term.

(g) Capitalized Interest

Interest capitalized on amounts expended during construction in process is a component of the cost of additions to be allocated to future periods through the provision for depreciation. Capitalization of interest ceases when the addition is substantially complete and ready for intended use. The Health System capitalized $19,274,000 and $27,200,000 of interest costs during the years ended December 31, 2012 and 2011, 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 and Indefinite Lived Intangible Assets

Goodwill and indefinite lived intangible assets, which are not amortized as they are considered to have an indefinite life, are recorded in other assets as the excess of cost over fair value of the acquired net assets. Goodwill and indefinite lived intangible assets are tested at least annually for impairment. As a result of the Swedish affiliation transaction, approximately $56,406,000 was assigned to indefinite lived intangible assets.

(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 combined 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 combined balance sheets at December 31, 2012 and 2011.

(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 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 combined statements of operations or 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 the Health System's 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 appropriate. Adjustments from finalization of prior years' cost reports and other third-party settlement estimates resulted in an increase in net patient service revenues of $11,017,000 and $12,647,000 for the years ended December 31, 2012 and 2011, respectively. During 2012, the Health System received $36,805,000 related to a settlement from Centers for Medicare & Medicaid Services (CMS).

The composition of significant third-party payors for the years ended December 31, 2012 and 2011, as a percentage of net patient service revenues, is as follows:

	2012	2011
Commercial and other insurance	53%	49%
Medicare	31	32
Medicaid	12	14
Self-pay	4	5
	100%	100%

(n) Provision for Bad Debts

The Health System provides for an allowance against patient accounts receivable for amounts that could become uncollectible. The Health System estimates this allowance based on the aging of accounts receivable, historical collection experience by payor, and other relevant factors. There are various factors that can impact the collection trends, such as changes in the economy, which in turn have an impact on unemployment rates and the number of uninsured and underinsured patients, the increased burden of copayments to be made by patients with insurance coverage and business practices related to collection efforts. These factors continuously change and can have an impact on collection trends and the estimation process used by the Health System. The Health System records a provision for bad debts in the period of services on the basis of past experience, which has historically indicated that many patients are unresponsive or are otherwise unwilling to pay the portion of their bill for which they are financially responsible. The estimates made and changes affecting those estimates for the years ended December 31, 2012 and 2011 are summarized below:

		2012	2011
		(In thousands of dollars)	
Changes in allowance for doubtful accounts:			
Allowance for doubtful accounts at beginning of year	$	214,433	171,047
Write-off of uncollectible accounts, net of recoveries		(233,226)	(274,948)
Provision for bad debts		389,890	318,334
Allowance for doubtful accounts at end of year	$	371,097	214,433

(o) Premium Revenues, Premiums Receivable, Unearned Premiums, and Capitation Revenues

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. Capitation revenues consist of payments made at the beginning of the period and obligate the Health System to render covered services during the period.

(p) Meaningful Use

The Health Information Technology for Economic and Clinical Health Act, part of the American Recovery and Reinvestment Act of 2009, created an incentive program, beginning in 2011, to promote the “meaningful use” of Electronic Health Records (EHR). To qualify, providers must attest that they are using certified EHR in a “meaningful” way by meeting objectives at established thresholds, as defined by CMS. Meaningful use revenues are recognized as grant revenue. Grant revenue is recognized when there is reasonable assurance that the grant will be received and that the organization will comply with the conditions attached to the grant. $54,542,000 and $24,503,000 in meaningful use revenues were recognized for the years ended December 31, 2012 and 2011, respectively, and are included in other operating revenues in the accompanying combined statement of operations. The amount recognized is based on management’s best estimate and is subject to audit and potential retrospective adjustments.

(Continued)

(q) Other Operating Revenue

Other operating revenue includes rental revenue, equity earnings from joint ventures, contributions released from restrictions, cafeteria revenue, and other miscellaneous revenue.

(r) 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 uncompensated care, the Health System's divisions also provide services that benefit the poor and others in the communities they serve.

Information for the Health System for the years ended December 31, 2012 and 2011 is summarized below:

		2012	**2011**
		(In thousands of dollars)	
Cost of charity care provided	$	272,460	203,660
Unpaid cost of Medicaid services		344,601	256,568
Education and research programs, net cost		89,809	76,229
Nonbilled services, net cost		40,249	28,996
Negative margin services and other, net cost		75,875	85,749
Unsponsored community benefit costs	$	822,994	651,202
Percentage of total operating expenses, excluding purchased healthcare		8.5%	8.7%

The cost of charity care provided is calculated 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 in excess of payments received from Medicare and Medicaid for Graduate Medical Education programs. 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. Unpaid cost of Medicaid services, education and research programs, nonbilled services, and negative margin services are net of revenues of $1,134,189,000 and $940,527,000 for the years ended December 31, 2012 and 2011, respectively.

(s) Net Nonoperating Gains

Net nonoperating gains primarily include investment income, income from recipient organizations, and other income. Additionally, contributions from affiliations with Swedish and Facey are included in net nonoperating gains in 2012.

(Continued)

(t) Excess of Revenues over Expenses

Excess of revenues over expenses includes all changes in unrestricted net assets, except for net assets released from restriction for the purchase of property, certain changes in funded status of postretirement benefit plans, net changes in noncontrolling interests in combined joint ventures, and other.

(u) 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 combined financial position or results of operations of the Health System as of and for the years ended December 31, 2012 and 2011.

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.

(v) Recently Issued or Adopted Accounting Standards

In 2012, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-07, *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities*, which provides financial statement users with greater transparency about a health care entity's net patient service revenue and the related allowance for doubtful accounts. The amendments require health care entities to present the provision for bad debts related to patient service revenue as a deduction from patient service revenue (net of contractual allowances and discounts) on their statement of operations. This standard was effective for the 2012 fiscal year and was applied on a retrospective basis to 2011.

(w) Health Care Reform

As enacted, the Health Reform Law will change how healthcare services are covered, delivered and reimbursed through expanded coverage of uninsured individuals, reduced growth in Medicare program spending, reductions in Medicare and Medicaid Disproportionate Share Hospital (DSH) payments, and the establishment of programs in which reimbursement is tied to quality and integration. In addition, the law reforms certain aspects of health insurance, expands existing efforts to tie Medicare and Medicaid payments to performance and quality, and contains provisions intended to strengthen fraud and abuse enforcement. Further, it provides for a value-based purchasing program, the establishment of Accountable Care Organizations (ACO's) and bundled payment pilot programs. On June 28, 2012, the United States Supreme Court upheld the constitutionality of the individual mandate provisions of the Health Reform Law but struck down the provisions that would have allowed Health and Human Services (HHS) to penalize states that do not implement the Medicaid expansion provisions with the loss of existing federal Medicaid funding. States that choose not to implement the Medicaid expansion will forego funding established by the Health Reform Law to cover most of the expansion costs.

(x) 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.

(3) 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 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 combined 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 $3,460,347,000 and $3,758,316,000, respectively, as of December 31, 2012, and $2,310,466,000 and $2,464,850,000, respectively, as of December 31, 2011.

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.

(a) Collective Investment Funds

Collective investment funds include investments that are held by a trust company that handles a pooled group of trust accounts. The Health System holds seven funds and has no unfunded commitments or provisions significantly impacting liquidity at December 31, 2012. The underlying holdings of these funds are primarily comprised of publicly traded domestic equity and debt securities, whose fair value is readily determinable.

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.

(b) 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 $51,220,000 and $86,987,000 at December 31, 2012 and 2011, respectively. In connection with securities lending activities the Health System has recognized a net investment loss of $1,365,000 and $1,984,000, for the years ended December 31, 2012 and 2011, respectively. Net investment gains and losses are included in net nonoperating gains in the accompanying combined statements of operations.

The following table presents assets (other than management-designated cash and investments and funds held by trustee) 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, 2012:

	December 31, 2012	Fair value measurements at reporting date using Level 1	Level 2	Level 3
		(In thousands of dollars)		
Assets:				
Assets under securities lending	$ 51,220	48,675	2,545	—
Gift annuities, trusts and other	50,345	22,316	7,260	20,769
Liabilities:				
Liabilities under securities lending	$ 52,708	37,127	15,581	—

The following table presents assets (other than management-designated cash and investments and funds held by trustee) 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, 2011:

	December 31, 2011	Fair value measurements at reporting date using Level 1	Level 2	Level 3
		(In thousands of dollars)		
Assets:				
Assets under securities lending	$ 86,987	81,089	5,898	—
Gift annuities, trusts and other	35,545	16,180	8,363	11,002
Liabilities:				
Liabilities under securities lending	$ 89,183	80,456	8,727	—

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, 2012 and 2011 (in thousands of dollars):

		Gift annuities, trusts, and other	Management designated cash and investments
Balance at December 31, 2010	$	2,966	—
Total realized and unrealized (losses) gains, net		99	—
Total purchases		3,329	—
Total sales		(872)	—
Transfers into Level 3		5,480	—
Balance at December 31, 2011		11,002	—
Total realized and unrealized gains (losses), net		312	(1,639)
Total purchases		12,584	3,465
Total sales		(3,518)	—
Transfers into Level 3		389	2,699
Balance at December 31, 2012	$	20,769	4,525

There were no significant transfers between assets classified as Level 1 and Level 2 during the year ended December 31, 2012.

Level 3 assets include charitable remainder trusts and real property. Fair values of charitable remainder trusts were estimated using an income approach. Fair values of real property were estimated using a market approach.

(4) 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, 2012 is set forth in the following tables. Investments are stated at fair value.

		December 31, 2012	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	$	179,814	179,814	—	—
Domestic equity securities:					
Mutual funds:					
Large capitalization		306,540	306,540	—	—
Med-small capitalization		83,149	83,149	—	—
Other		342,961	342,961	—	—
Capital goods		33,602	33,602	—	—
Consumer services		85,563	85,563	—	—
Energy		31,720	31,720	—	—
Financial services		48,984	48,984	—	—
Technology		47,758	47,758	—	—
Healthcare and other		138,778	138,778	—	—
Foreign equity securities:					
Mutual funds		291,637	291,637	—	—
Other industries		26,059	26,059	—	—
Collective investment funds		378,646	—	378,646	—
Debt securities – U.S. Treasury and agency		983,836	624,831	359,005	—
Debt securities – State Treasury		36,773	1,415	35,358	—
Domestic corporate debt securities		600,114	11,144	588,970	—
Foreign corporate debt securities		193,237	296	192,941	—
Mortgage-backed securities:					
Commercial		42,511	—	42,511	—
Residential		62,379	—	62,379	—
Collateralized debt obligations		60,116	—	60,116	—
Other		19,469	1,702	13,242	4,525
Total	$	3,993,646	2,255,953	1,733,168	4,525

	December 31, 2012	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	$ 45,574	45,574	—	—
Domestic equity securities:				
Mutual funds	30,957	30,957	—	—
Debt securities – U.S. Treasury	67,465	67,465	—	—
Domestic corporate debt securities	34,046	—	34,046	—
Foreign corporate debt securities	17,526	—	17,526	—
Mortgage-backed securities	9,775	—	9,775	—
Other	7,169	2,812	4,357	—
Total	$ 212,512	146,808	65,704	—

The composition of management-designated cash and investments and funds held by trustee at December 31, 2011 is set forth in the following tables. Investments are stated at fair value.

	December 31, 2011	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	$ 216,418	216,418	—	—
Domestic equity securities:				
Mutual funds:				
Large capitalization	118,524	118,524	—	—
Med-small capitalization	94,171	94,171	—	—
Other	56,544	56,544	—	—
Capital goods	30,162	30,162	—	—
Consumer services	60,469	60,469	—	—
Energy	37,486	37,486	—	—
Financial services	27,760	27,760	—	—
Technology	34,279	34,279	—	—
Healthcare and other	36,647	36,647	—	—

	December 31, 2011	Fair value measurements at reporting date using		
		Level 1	Level 2	Level 3
		(In thousands of dollars)		
Foreign equity securities:				
Mutual funds	$ 248,210	248,210	—	—
Other industries	29,453	29,453	—	—
Collective investment funds	426,215	—	426,215	—
Debt securities – U.S. Treasury and agency	950,651	409,492	541,159	—
Debt securities – State Treasury	26,636	1,503	25,133	—
Domestic corporate debt securities	425,254	4,122	421,132	—
Foreign corporate debt securities	159,898	—	159,898	—
Mortgage-backed securities:				
Commercial	62,279	—	62,279	—
Residential	29,460	—	29,460	—
Collateralized debt obligations	46,149	—	46,149	—
Other	13,595	10,470	3,125	—
Total	$ 3,130,260	1,415,710	1,714,550	—
Funds held by trustee:				
Cash and cash equivalents	$ 68,720	68,720	—	—
Domestic equity securities:				
Mutual funds	38,037	38,037	—	—
Debt securities – U.S. Treasury	62,150	62,150	—	—
Domestic corporate debt securities	29,256	—	29,256	—
Foreign corporate debt securities	20,497	—	20,497	—
Mortgage-backed securities	8,868	—	8,868	—
Other	8,460	3,998	4,462	—
Total	$ 235,988	172,905	63,083	—

The Health System's funds held by trustee are segregated from other cash and investments for various purposes. Included in funds held by trustee as of December 31, 2012 and 2011, respectively, are $3,052,000 and $33,145,000 obtained from borrowings under the Health System's master trust indenture for construction and other ongoing projects. The Health System also includes in funds held by trustee $192,299,000 and $185,742,000 at December 31, 2012 and 2011, respectively, related to the self-insurance and pension trusts. Within the self-insured trusts, the balance is based on management's assessment of annual need. Any additional investments are considered management-designated.

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

(Continued)

Investment income from management-designated cash and investments and funds held by trustee are included in net nonoperating gains and are comprised of the following for the years ended December 31, 2012 and 2011:

		2012	2011
		(In thousands of dollars)	
Interest income	$	82,124	77,086
Net realized gains on sale of investments		128,744	54,347
Net unrealized gains on trading securities		80,016	26,403
Total	$	290,884	157,836

(5) Property, Plant, and Equipment

Property, plant, and equipment and the total accumulated depreciation at December 31, 2012 and 2011 are shown below:

	Approximate useful life (years)		2012	2011
			(In thousands of dollars)	
Land	—	$	570,026	358,741
Buildings and improvements	5 – 60		4,870,030	3,868,159
Equipment:				
Fixed	5 – 25		894,992	863,707
Major movable and minor	3 – 20		3,283,715	2,504,566
Rental property	15 – 40		866,229	862,905
Construction in progress	—		648,574	567,645
			11,133,566	9,025,723
Less accumulated depreciation			4,897,353	4,346,542
Property, plant, and equipment, net		$	6,236,213	4,679,181

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 nonemployed physicians.

Construction in progress primarily represents renewal and replacement of various facilities in the Health System’s operating divisions, as well as costs capitalized related to software development.

(6) Other Assets

Other assets at December 31, 2012 and 2011 are as follows:

		2012	2011
		(In thousands of dollars)	
Unamortized financing costs, net	$	29,144	20,427
Investment in non-consolidated joint ventures		88,597	81,648
Interest in noncontrolled foundations		20,655	20,563
Notes receivable		54,353	55,070
Long-term reinsurance receivable		26,500	24,225
Goodwill and intangibles		125,660	54,038
Other		22,096	20,398
Total other assets	$	367,005	276,369

The Health System participates in various joint ventures for the purpose of furthering its healthcare mission. These joint ventures 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. Various joint ventures, throughout the Health System, are controlled and consequently are combined 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 method investees of $37,394,000 and $61,083,000 for the years ended December 31, 2012 and 2011, respectively, the majority of which are included in other operating revenues in the accompanying combined statements of operations.

(7) Short-Term and Long-Term Debt

The Health System has borrowed Master Trust debt issued through the following:

- California Health Facilities Financing Authority (CHFFA)
- Alaska Industrial Development and Export Authority (AIDEA)
- Hospital Facilities Authority of Multnomah County (HFAMC)
- Washington Health Care Facilities Authority (WHCFA)
- Montana Facility Finance Authority (MFFA)
- Oregon Facilities Authority (OFA)

Short-term and long-term unpaid principal at December 31, 2012 and 2011 consists of the following:

	Maturing through	Coupon rates	Unpaid principal 2012	Unpaid principal 2011
			(In thousands of dollars)	
Master trust debt:				
Fixed:				
Series 1996, CHFFA Revenue Bonds	2016	5.40%	$ 3,865	4,710
Series 1997, Direct Obligation Notes	2017	7.72	3,245	5,210
Series 2003H, AIDEA Revenue Bonds	2015	5.00	18,500	27,800
Series 2004, HFAMC Revenue Bonds	2024	5.25	84,355	89,355
Series 2005, Direct Obligation Notes	2030	4.93	49,855	51,510
Series 2006A, WHCFA Revenue Bonds	2036	5.00	210,555	210,555
Series 2006B, MFFA Revenue Bonds	2026	4.00	65,175	68,430
Series 2006C, WHCFA Revenue Bonds	2033	5.25	69,425	69,425
Series 2006D, WHCFA Revenue Bonds	2033	5.25	69,275	69,275
Series 2006E, WHCFA Revenue Bonds	2033	5.25	26,350	26,350
Series 2006H, AIDEA Revenue Bonds	2036	5.00	54,355	54,355
Series 2008C, CHFFA Revenue Bonds	2038	5.00	276,725	279,225
Series 2009A, Direct Obligation Notes	2019	5.05	250,000	250,000
Series 2009B, CHFFA Revenue Bonds	2039	5.50	150,000	150,000
Series 2010A, WHCFA Revenue Bonds	2039	4.875	174,240	174,240
Series 2011A, AIDEA Revenue Bonds	2041	5.00	122,720	122,720
Series 2011B, WHCFA Revenue Bonds	2021	2.00	83,345	91,170
Series 2011C, OFA Revenue Bonds	2026	2.00	22,355	22,355
Series 2012A, WHCFA Revenue Bonds	2042	2.00	511,370	—
Series 2012B, WHCFA Revenue Bonds	2042	4 – 5.00	100,000	—
Total fixed			2,345,710	1,766,685
Variable:				
Series 2003D, E, F, G, HFACC Revenue Bonds	2033	0.18	200,200	200,200
Series 2012C, WHCFA Revenue Bonds	2042	0.13	80,000	—
Series 2012D, WHCFA Revenue Bonds	2042	0.13	80,000	—
Series 2012E, Direct Obligation Notes	2042	0.22	239,760	—
Total variable			599,960	200,200
Commercial Paper, Series 2008A	2013	0.22	194,000	194,000
U.S. Bank Credit Facility	2013	0.56	86,001	60,000
Unpaid principal, master trust debt			3,225,671	2,220,885
Premiums and discounts, net			$ 57,399	11,395
Master trust debt, including premiums and discounts, net			3,283,070	2,232,280
Other long-term debt			203,659	65,475
Total debt			$ 3,486,729	2,297,755

		2012	2011
		(In thousands of dollars)	
Current portion of long-term debt	$	63,376	46,205
Long-term debt subject to short-term remarketing agreements		200,200	200,200
Short-term master trust debt		280,001	254,000
Long-term debt, classified as a long-term liability		2,943,152	1,797,350
Total debt	$	3,486,729	2,297,755

Providence Health & Services – Washington; Providence Health & Services – Western Washington; Western HealthConnect; Swedish Health Services; 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); Providence St. Joseph Medical Center, and Providence Health & Services – Montana, exclusive of related housing projects financed by the U.S. Department of Housing and Urban Development 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 all borrowings under the master trust indenture 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.

In July 2012, the Health System issued $1,011,130,000 of WHCFA fixed rate and variable rate bonds. A portion of the proceeds were used to redeem $821,844,000 of existing Swedish debt. In connection with these redemptions, Swedish Health Services (exclusive of Swedish Edmonds and the Swedish Medical Center Foundation), became a member of the Obligated Group. The Series 2012C, D, and E bonds are variable rate demand bonds (VRDBs) and bear interest at weekly rates. These bonds are supported by stand-by bond purchase agreements, the terms of which define material adverse changes and mitigate subjectivity and provide liquidity beyond one year, and accordingly result in long-term classification on the accompanying combined balance sheets.

In connection with the Series 2012A-E issuances and the Series 2011C issuance, the Health System recorded losses due to extinguishment of debt of $53,596,000 and $2,303,000 in 2012 and 2011, respectively, which were recorded in net nonoperating gains in the accompanying combined statement of operations.

(a) Master Trust Debt Classified as Short-Term

Hospital Facility Authority of Clackamas County, Oregon 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 due to the reset periods and remarketing, therefore the balance could become due and payable in 2013. The average interest rate in effect on December 31, 2012 was 0.18%. Annual scheduled principal payments range from $3,500,000 in 2016 to $18,175,000 in 2033.

Commercial Paper, Series 2008A

The Health System participates in a commercial paper program. During 2012, 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. The average interest rate in effect during 2012 was 0.22%.

U.S. Bank Credit Facility

The Health System has a $150,000,000 Credit Facility with U.S. Bank, of which $86,001,000 in borrowings was outstanding at December 31, 2012. The interest rate in effect on December 31, 2012 was 0.56%, and the maturity date is September 30, 2013. The interest rate is based on LIBOR plus 0.35%.

(b) Other Long-Term Debt

Other long-term debt primarily includes bonds that are not under the master trust indenture, capital leases, and notes payable. Other long-term debt at December 31, 2012 and 2011 consists of the following:

		2012	**2011**
		(In thousands of dollars)	
Capital leases	$	136,371	13,088
Notes payable		55,000	36,151
Bonds not under master trust indenture and other		12,288	16,236
Total other long-term debt	$	203,659	65,475

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)		
2013	$ 36,980	26,396	63,376
2014	123,650	25,298	148,948
2015	40,300	16,893	57,193
2016	107,265	18,651	125,916
2017	44,400	8,785	53,185
Thereafter	2,593,075	107,636	2,700,711
Scheduled principal payments of long-term debt	2,945,670	$ 203,659	3,149,329
Short-term master trust debt	280,001		
Total master trust debt	$ 3,225,671		

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):

2013	$ 101,962
2014	86,947
2015	67,345
2016	55,370
2017	50,815
Thereafter	481,178
	$ 843,617

Rental expense was $166,407,000 and $91,604,000 for the years ended December 31, 2012 and 2011, respectively, and is included in other expenses in the accompanying combined statements of operations.

(8) Retirement Plans

(a) Defined Benefit Plans

Cash Balance Retirement Plan

The Health System had a noncontributory cash balance plan covering substantially all Providence employees called the Providence Health & Services Cash Balance Retirement Plan Trust (the Cash

Balance Plan). The plan was frozen effective December 31, 2009. The plan benefits are based on defined average compensation and years of service. The plan has a five year cliff vesting schedule. 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. Under the Cash Balance Plan, each employee carries an individual account balance. The Health System makes an annual contribution and provides an annual interest credit to each employee's account.

Supplemental Executive Retirement Plan

The Health System has 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 was frozen effective December 31, 2009. The plan benefits were based on defined average compensation and years of service. The vesting period for the plan requires an executive attain age 55 with at least five years of eligible service. 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. Under the SERP, each employee carries an individual account balance. The Health System makes an annual contribution and provides an annual interest credit to each employee's account.

Swedish Health Services Pension Plan

The Swedish Health Services Pension Plan (the Pension Plan) is a noncontributory plan covering a majority of Swedish employees, and provides benefits based on number of years of credited service and compensation earned during the participation in the Pension Plan. The Pension Plan is frozen to all former and existing nonrepresented employees and to all new participants. Only represented employees that were active in the plan on December 31, 2009 remain in the plan actively accruing benefits. Swedish makes annual contributions to the Pension Plan.

Willamette Falls Pension Plan

The Willamette Falls Pension Plan is also a noncontributory plan covering a majority of employees at Providence Willamette Falls. The plan was frozen effective February 2008. The plan benefits are based on years of service and compensation during an employee's period of employment. 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 monthly annuity benefit.

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

The Health System's contributions to these defined benefit plans for the years ended December 31, 2012 and 2011 were $89,983,000 and $49,474,000, respectively.

The measurement dates for the defined benefit plans are December 31, 2012 and 2011, 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:

		2012	2011
		(In thousands of dollars)	
Change in projected benefit obligation:			
Projected benefit obligation at beginning of year	$	1,884,190	1,856,001
Swedish affiliation		891,599	—
Service cost		24,149	4,215
Interest cost		126,393	91,186
Plan amendments		—	11,330
Actuarial loss		147,887	65,594
Benefits paid and other		(178,201)	(144,136)
Projected benefit obligation at end of year		2,896,017	1,884,190
Change in fair value of plan assets:			
Fair value of plan assets at beginning of year		1,107,543	1,213,114
Swedish affiliation		499,061	—
Actual return on plan assets		177,751	(10,909)
Employer contributions		89,983	49,474
Benefits paid and other		(178,201)	(144,136)
Fair value of plan assets at end of year		1,696,137	1,107,543
Funded status		(1,199,880)	(776,647)
Unrecognized net actuarial loss		574,703	570,581
Unrecognized prior service cost		10,070	11,330
Net amount recognized	$	(615,107)	(194,736)
Amounts recognized in the consolidated balance sheets consist of:			
Current liabilities	$	(7,230)	(5,464)
Noncurrent liabilities		(1,192,650)	(771,183)
Unrestricted net assets		584,773	581,911
Net amount recognized	$	(615,107)	(194,736)
Weighted average assumptions:			
Discount rate		4.10%	4.90%
Rate of increase in compensation levels		3.09	3.29
Long-term rate of return on assets		7.00	7.00

Net periodic pension cost for the defined benefit plans for 2012 and 2011 includes the following components:

		2012	2011
		(In thousands of dollars)	
Components of net periodic pension cost:			
Service cost	$	24,149	4,215
Interest cost		126,393	91,241
Expected return on plan assets		(106,509)	(83,566)
Amortization of prior service cost		1,259	—
Recognized net actuarial loss		38,553	23,215
Settlement expense		33,971	32,500
Net periodic pension cost	$	117,816	67,605

Total expense for all of the Health System's defined benefit plans for the years ended December 31, 2012 and 2011 was $117,816,000 and $67,605,000, respectively. Included in the total expense is $33,971,000 and $32,500,000 of settlement costs that were incurred in 2012 and 2011, respectively, related to settlements that were greater than the sum of the service cost and interest cost components of net periodic pension cost. This settlement expense is included in net nonoperating gains in the accompanying combined statements of operations. The remaining expense is included in employee benefits in the accompanying combined statements of operations.

The accumulated benefit obligation was $2,833,430,000 and $1,884,190,000 at December 31, 2012 and 2011, respectively.

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):

2013	$	191,105
2014		198,422
2015		198,339
2016		200,987
2017 – 2022		1,162,347
	$	1,951,200

The Health System expects to contribute approximately $74,000,000 to the defined benefit plans in 2013.

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% in calculating the 2012 and 2011 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:

	2012 and 2011 Target	**2012 ELTRA**	**2011 ELTRA**
Cash and cash equivalents	5%	0.5% – 2%	0.5% – 2%
Equity securities	35	5% – 8%	5% – 8%
Debt securities	50	3% – 4%	3% – 4%
Other securities	10	7% – 10%	7% – 10%
Total	100%	7.00%	7.00%

The following table presents the Health System's defined benefit plan assets measured at fair value at December 31, 2012:

		December 31, 2012	Fair value measurements at reporting date using Level 1	Level 2	Level 3
			(In thousands of dollars)		
Assets:					
Cash and cash equivalents	$	53,774	53,774	—	—
Domestic equity securities:					
Mutual funds:					
Large capitalization		280,326	280,326	—	—
Medium-small cap and other		1,635	1,635	—	—
Capital goods		46,574	46,574	—	—
Consumer services		45,601	45,601	—	—
Technology		36,065	36,065	—	—
Other		65,597	65,597	—	—
Foreign equity securities:					
Mutual funds:					
Large capitalization		96,270	96,270	—	—
Capital goods		40,885	40,885	—	—
Consumer services		17,626	17,626	—	—
Energy		23,309	23,309	—	—
Financial services		16,912	16,912	—	—
Healthcare		15,041	15,041	—	—
Technology and other		9,814	9,814	—	—
Debt securities – state and government		138,185	—	138,185	—
Domestic corporate debt securities		305,820	—	305,820	—
Foreign corporate debt securities		20,488	—	20,488	—
Mortgage-backed securities:					
Commercial		15,601	—	15,601	—
Residential		106,266	—	106,266	—
Asset-backed securities		14,240	—	14,240	—
Hedge funds		165,667	—	165,667	
Collective investment funds		177,100	—	177,100	—
Other		3,341	3,341	—	—
Total	$	1,696,137	752,770	943,367	—

The following table presents the Health System's defined benefit plan assets measured at fair value at December 31, 2011:

	December 31, 2011	Fair value measurements at reporting date using Level 1	Level 2	Level 3
		(In thousands of dollars)		
Assets:				
Cash and cash equivalents	$ 22,119	22,119	—	—
Domestic equity securities:				
Mutual funds:				
Large capitalization	53,729	53,729	—	—
Medium-small cap and other	1,450	1,450	—	—
Capital goods	45,708	45,708	—	—
Consumer services	30,890	30,890	—	—
Technology	25,712	25,712	—	—
Other	51,882	51,882	—	—
Foreign equity securities:				
Mutual funds:				
Large capitalization	5,157	5,157	—	—
Capital goods	45,784	45,784	—	—
Consumer services	20,201	20,201	—	—
Energy	22,484	22,484	—	—
Financial services	15,098	15,098	—	—
Healthcare	20,565	20,565	—	—
Technology and other	7,914	7,914	—	—
Debt securities – state and government	129,888	—	129,888	—
Domestic corporate debt securities	182,479	—	182,479	—
Foreign corporate debt securities	22,921	—	22,921	—
Mortgage-backed securities:				—
Commercial	6,873	—	6,873	—
Residential	136,386	—	136,386	—
Asset-backed securities	6,754	—	6,754	—
Hedge funds	122,915	—	122,915	—
Collective investment funds	125,418	—	125,418	—
Other	5,216	4,998	218	—
Total	$ 1,107,543	373,691	733,852	—

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, 2012 (in thousands of dollars):

		Venture capital/ partnerships
Balance at December 31, 2010	$	1,476
Total realized and unrealized (losses) gains, net:		
Included in income		(1,476)
Balance at December 31, 2011		—
Total realized and unrealized (losses) gains, net:		
Included in income		—
Balance at December 31, 2012	$	—

(b) Defined Contribution Plans

401(a) Service Plan

The Health System sponsors the Providence Health & Services 401(a) Service Plan (the Service Plan). The Service Plan covers substantially all Providence employees, with contributions based on defined eligible compensation and years of service. The plan has a five year cliff vesting schedule. The Health System contributed $135,195,000 to the Service Plan in 2012 related to 2011, and has accrued a liability of $138,439,000 as of December 31, 2012 related to contributions, which has been included in the current portion of retirement plan obligations on the accompanying combined balance sheets.

403(b) Value Plan

The Health System also sponsors the Providence Health & Services 403(b) Value Plan (the Value Plan). The plan is a defined contribution plan, which includes a qualified cash or deferred arrangement, for the benefit of eligible employees. Vesting is immediate. Total Value Plan expense, primarily related to contributions, was $80,465,000 and $53,602,000 in 2012 and 2011, respectively.

(9) Self-Insurance Liability

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. Insurance coverage in excess of the per occurrence self-insured retention, has been secured with insurers or reinsurers for specified amounts for professional, general and workers' compensation liabilities. Decisions relating to the limit and scope of the self-insured layer and the amounts of excess insurance purchased are reviewed each year, subject to management's analysis of actuarial loss projections and the price and availability of acceptable commercial insurance.

At December 31, 2012 and 2011, the estimated liability for future costs of professional and general liability claims was $190,934,000 and $178,854,000, respectively. At December 31, 2012 and 2011, the estimated workers' compensation obligation was $143,919,000 and $132,216,000, respectively, in the accompanying combined balance sheets. At December 31, 2012 and 2011, $238,408,000 and $236,126,000, 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 combined balance sheets.

(10) Commitments

Firm purchase commitments, primarily related to construction, software, and supplies, at December 31, 2012, were approximately $226,000,000.

(11) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at December 31, 2012 and 2011:

		2012	2011
		(In thousands of dollars)	
Program support	$	135,119	100,656
Low-income housing		26,612	27,533
Capital acquisition and other		40,230	23,697
Total temporarily restricted net assets	$	201,961	151,886

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, 2012 and 2011 because the time or purpose restrictions stipulated by the donor have not been met. Total fundraising expenses were $10,742,000 and $8,731,000 for the years ended December 31, 2012 and 2011, 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 $36,633,000 and $31,017,000 of assets released from restriction for operations for the years ended December 31, 2012 and 2011, respectively.

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

(Continued)

(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.

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 combined financial statements.

(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, 2012 and 2011 are as follows:

		2012	2011
		(In thousands of dollars)	
Healthcare expenses	$	7,598,002	6,146,425
Purchased healthcare expenses		733,975	694,273
General and administrative expenses		2,072,186	1,341,256
Total operating expenses	$	10,404,163	8,181,954

Schedule 1

PROVIDENCE HEALTH & SERVICES

Supplemental Schedule – Balance Sheet Information

December 31, 2012 (with combined totals for 2011)

(In thousands of dollars)

Assets		Alaska	Washington	Montana	Oregon	Providence Plan Partners	Southern California	System office, eliminations, and other	2012 Total Health System	2011 Total Health System
Current assets:										
Cash and cash equivalents	$	26,173	266,238	6,831	97,667	30,032	108,339	171,384	706,664	378,521
Short-term management-designated investments		—	—	—	283,038	—	13,788	155,256	452,082	417,210
Assets held under securities lending		—	—	—	—	—	—	51,220	51,220	86,987
Accounts receivable, net		126,638	633,103	43,023	277,175	—	230,631	(49,476)	1,261,094	935,604
Other receivables, net		17,007	1,340,475	31,264	86,906	19,545	82,668	(1,306,732)	271,133	213,527
Supplies inventory		14,057	64,862	6,044	35,348	—	25,461	9,964	155,736	125,157
Other current assets		1,840	44,876	2,374	24,956	3,047	14,148	16,909	108,150	82,540
Current portion of funds held by trustee		25	3,016	—	1,221	—	—	83,104	87,366	75,745
Total current assets		185,740	2,352,570	89,536	806,311	52,624	475,035	(868,371)	3,093,445	2,315,291
Assets whose use is limited:										
Management-designated cash and investments		396,504	1,034,371	44,330	724,564	540,711	199,834	601,250	3,541,564	2,713,050
Gift annuities, trusts, and other		454	7,472	2,058	24,066	—	13,659	2,636	50,345	35,545
Funds held by trustee		—	—	—	1,484	14,372	—	109,290	125,146	160,243
Assets whose use is limited, net		396,958	1,041,843	46,388	750,114	555,083	213,493	713,176	3,717,055	2,908,838
Property, plant, and equipment, net		618,570	2,746,175	90,898	1,176,011	77,262	876,930	650,367	6,236,213	4,679,181
Other assets		61,193	269,127	29,475	71,199	765	95,866	(160,620)	367,005	276,369
Total assets	$	1,262,461	6,409,715	256,297	2,803,635	685,734	1,661,324	334,552	13,413,718	10,179,679
Liabilities and Net Assets										
Current liabilities:										
Current portion of long-term debt	$	11,765	25,290	3,775	8,068	—	13,812	666	63,376	46,205
Master trust debt classified as short-term		39,350	82,136	640	201,680	—	—	156,395	480,201	454,200
Accounts payable		18,017	194,409	11,993	68,359	2,457	75,226	52,846	423,307	331,685
Accrued compensation		41,650	217,984	10,394	148,251	—	79,236	84,130	581,645	431,724
Payable to contractual agencies		4,594	68,548	1,582	29,095	7,816	20,126	—	131,761	110,594
Liabilities under securities lending		—	—	—	—	—	—	52,708	52,708	89,183
Retirement plan obligations		—	1,894	—	—	—	—	162,815	164,709	154,120
Current portion of self-insurance liability		—	13,342	—	—	—	—	83,103	96,445	74,944
Other current liabilities		6,960	1,409,687	28,172	52,919	164,289	78,508	(1,500,666)	239,869	199,885
Total current liabilities		122,336	2,013,290	56,556	508,372	174,562	266,908	(908,003)	2,234,021	1,892,540
Long-term debt, net of current portion (1)		287,913	1,947,372	65,354	118,424	—	551,883	(27,794)	2,943,152	1,797,350
Other long-term liabilities		15,722	514,184	6,909	42,050	741	25,707	957,524	1,562,837	1,089,092
Total liabilities		425,971	4,474,846	128,819	668,846	175,303	844,498	21,727	6,740,010	4,778,982
Net assets:										
Unrestricted		825,791	1,834,049	123,085	2,061,634	510,431	763,040	275,015	6,393,045	5,178,979
Temporarily restricted		9,263	81,613	3,470	44,225	—	32,603	30,787	201,961	151,886
Permanently restricted		1,436	19,207	923	28,930	—	21,183	7,023	78,702	69,832
Total net assets		836,490	1,934,869	127,478	2,134,789	510,431	816,826	312,825	6,673,708	5,400,697
Total liabilities and net assets	$	1,262,461	6,409,715	256,297	2,803,635	685,734	1,661,324	334,552	13,413,718	10,179,679

(1) The Obligated Group debt is joint and several for the Obligated Group members, however, the balance sheets of the individual entities only include their allocated portions.

See accompanying independent auditors' report.

Schedule 2

PROVIDENCE HEALTH & SERVICES

Supplemental Schedule – Statement of Operations Information

December 31, 2012 (with combined totals for 2011)

(In thousands of dollars)

	Alaska	Washington	Montana	Oregon	Providence Plan Partners	Southern California	System office, eliminations, and other	2012 Total Health System	2011 Total Health System
Operating revenues:									
Net patient service revenues	$ 719,363	4,427,890	291,529	2,309,558	—	1,652,385	(344,780)	9,055,945	6,995,220
Provision for bad debts	(38,430)	(230,276)	(15,613)	(55,186)	—	(50,432)	47	(389,890)	(318,334)
Net patient service revenues less provision for bad debts	680,933	4,197,614	275,916	2,254,372	—	1,601,953	(344,733)	8,666,055	6,676,886
Premium and capitation revenues	—	30,278	—	68,293	1,119,573	115,440	—	1,333,584	1,215,142
Other revenues	49,781	333,690	24,609	191,927	48,285	65,151	(104,833)	608,610	528,819
Total operating revenues	730,714	4,561,582	300,525	2,514,592	1,167,858	1,782,544	(449,566)	10,608,249	8,420,847
Operating expenses:									
Salaries and wages	274,506	1,904,448	104,736	1,093,516	580	689,080	363,264	4,430,130	3,402,777
Employee benefits	78,702	500,295	30,083	269,938	1,864	194,320	95,074	1,170,276	883,232
Purchased healthcare	—	20,811	—	24,344	1,004,088	34,429	(349,697)	733,975	694,273
Professional fees	12,048	136,519	10,154	79,728	6,129	121,191	24,658	390,427	280,550
Supplies	101,873	718,020	50,252	370,290	503	218,375	14,085	1,473,398	1,138,637
Purchased services	91,591	610,717	65,612	333,193	106,706	201,461	(606,862)	802,418	698,682
Depreciation	51,885	255,350	11,786	120,054	1,888	84,239	59,407	584,609	407,117
Interest and amortization	9,069	70,288	3,500	6,534	—	36,390	(5,685)	120,096	76,236
Other	27,603	257,544	11,336	148,687	26,212	154,131	73,321	698,834	600,450
Total operating expenses	647,277	4,473,992	287,459	2,446,284	1,147,970	1,733,616	(332,435)	10,404,163	8,181,954
Excess (deficit) of revenues over expenses from operations	83,437	87,590	13,066	68,308	19,888	48,928	(117,131)	204,086	238,893
Net nonoperating gains	19,339	326,098	2,015	89,796	26,672	52,382	496,128	1,012,430	122,834
Excess of revenues over expenses	102,776	413,688	15,081	158,104	46,560	101,310	378,997	1,216,516	361,727
Net assets released from restriction	145	8,739	—	3,326	—	4,307	943	17,460	16,909
Change in noncontrolling interests in consolidated joint ventures	(57)	10,778	—	389	—	122	—	11,232	19,215
Pension related changes	—	(55,810)	—	(2,386)	—	—	55,334	(2,862)	(129,236)
Interdivision transfers	(16,433)	(155,290)	(18,332)	(158,812)	(3,000)	(35,657)	387,524	—	—
Contributions, grants, and other	(139)	450,322	(50)	(1,951)	—	(948)	(475,514)	(28,280)	542
Increase (decrease) in unrestricted net assets	$ 86,292	672,427	(3,301)	(1,330)	43,560	69,134	347,284	1,214,066	269,157

See accompanying independent auditors’ report.