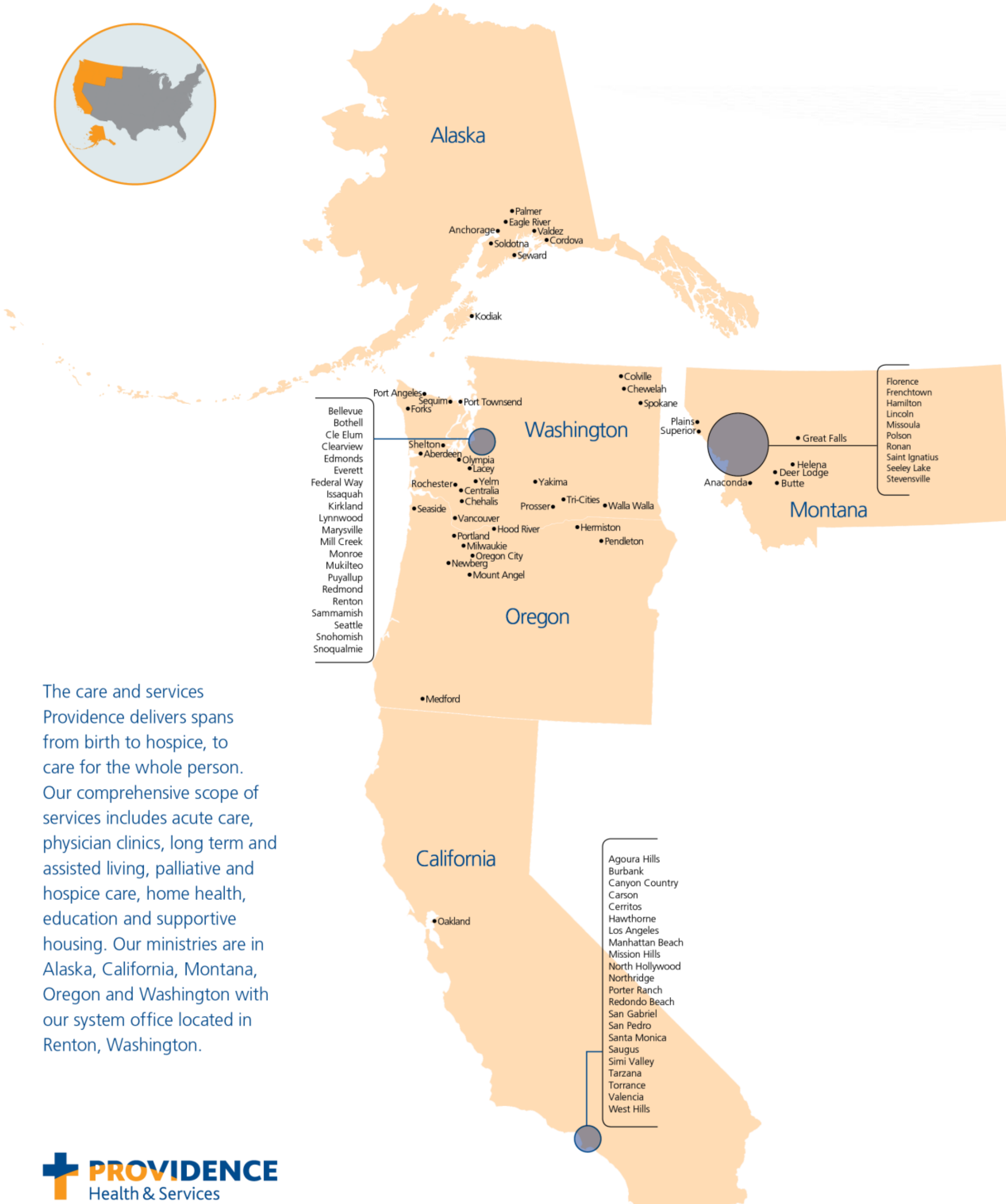
Management's Discussion and Analysis of Financial Condition and Results of Operations

Fiscal Year 2014

Todd Hofheins, Executive Vice President and Chief Financial Officer



The care and services Providence delivers spans from birth to hospice, to care for the whole person. Our comprehensive scope of services includes acute care, physician clinics, long term and assisted living, palliative and hospice care, home health, education and supportive housing. Our ministries are in Alaska, California, Montana, Oregon and Washington with our system office located in Renton, Washington.

PROVIDENCE Health & Services

Introduction to Management's Discussion and Analysis

Management's discussion and analysis provide additional narrative explanation of the financial condition, operational results and cash flow of Providence Health & Services to increase understanding of the health system's combined financial statements.

The discussion and analysis, which should be read in conjunction with the accompanying Combined Financial Statements, includes the following sections:

1. Core strategy
2. Mission and community benefit
3. Growth and Development
4. Financial performance
5. Liquidity and capital resources

1. Core strategy: Creating healthier communities, together

As health care evolves, Providence is responding with a vision and core strategy to transform and innovate at scale. Across five states, Providence and its affiliates continue to pioneer how care is delivered by sharing one strategic plan designed to improve the health of entire populations by supporting the well-being of each person we serve. This plan supports our vision, "*Together, we answer the call of every person we serve: Know me, care for me, ease my way®*," which is our promise to our patients, customers and communities.

Our core strategy of "*Creating healthier communities, together*" is supported by five specific areas of focus in our strategic plan:

- Inspire: We must first inspire and develop our people.
- Know: To serve our communities effectively, we are building enduring relationships with consumers.
- Partner: Providing the best care requires new alignments with clinicians and care teams.
- Adapt: We'll develop and thrive under new care delivery and economic models.
- Adopt: To serve more people we will grow by optimizing expert-to-expert capabilities.

Through innovation, excellence, good stewardship and working together across Providence, we will continue to lead change to improve the health of our communities.

2. Mission and community benefit

Community benefit spending is one important way Providence lives its Mission, and in the face of rapidly changing health care, our commitment to care for everyone remains unchanged. Through programs and donations, health education, charity care, medical research and more, Providence provided $848 million in community benefit in 2014.

Providence cares for everyone, regardless of their ability to pay. In 2014, we provided more than $205 million in free and discounted care. Many people who were previously uninsured now have access to health care through Medicaid expansion and the insurance exchanges. In the future, this coverage can help people access preventive care and address medical conditions before they are serious enough to need treatment in an emergency department. Because access to insurance is so important, our financial counselors helped 20,200 community members enroll in the coverage that best meets their needs in Alaska, California, Montana, Oregon and Washington.

In 2014, we served 26 percent more Medicaid patients due to insurance coverage expansion. In an environment of decreased reimbursement for government-sponsored medical care, community benefits related to the unpaid costs of Medicaid were $444 million, compared with $404 million in the prior year. We also increased the community benefit-related acute care services by 7.7 percent, representing more than 84,000 admissions.

Providence served 1 million more people in 2014 than in 2013, for a total of 3.3 million unique patients. While we expanded patients served, the cost of providing charity care decreased in 2014 compared with the prior year. This cost shift was primarily due to expanded coverage offered under the Affordable Care Act.

> As people of Providence, we reveal God's love for all, especially the poor and vulnerable, through our compassionate service.

3. Growth and development

As a thriving organization, we remain focused on and committed to growth through three channels:

- Acquisition and affiliation
- Organic growth within our existing communities
- New products and services

Acquisition and Affiliation Growth

Our growth is based on three key criteria, (1) fit within our contiguous markets (2) alignment with culture and strategy and (3) adds complementary competencies.

During 2014, Pacific Medical Centers in Seattle and Kadlec Regional Medical Center in Richland, Wash., affiliated with Providence, and Saint John's Health Center and the John Wayne Cancer Institute in Santa Monica, Calif., joined the health system. The combined transactions added 536 acute care licensed beds, 33,000 adjusted admissions, $1 billion in annual revenue and $1.3 billion in assets.

Each of these relationships adds strategic capabilities to the health system:

- Saint John's Health Center's primary service area was complementary to the existing Providence hospital and provider networks. Saint John's and the John Wayne Cancer Institute enhance a contiguous Providence network in Los Angeles County.
- Pacific Medical Centers add population expertise to the Providence Washington network. The 150 providers at PacMed have a reputation for providing high-quality care, high patient satisfaction, and efficient population care management. They are a designated provider of comprehensive health care for military families and retirees in 12 counties.

- Kadlec Regional Medical Center allows Providence to provide a more clinically integrated system of care for southeast Washington and northeast Oregon and allows patients to receive higher levels of care closer to home. The increased economies of scale and local access create a more appealing health care network for payers, employers and providers in the region.

New Products and Services

In addition to traditional areas of growth, Providence is developing new products and services to better serve our patients and communities.

Making specialty medication accessible and affordable: We are actively growing our specialty pharmacy, Cardena Health, to effectively manage care, cost and clinical outcomes of our most vulnerable, complex and expensive patient populations. Our specialty pharmacy has been providing services for 10 years, is licensed in 11 states, and is accredited by both Joint Commission and URAC. In 2014, we realized 22 percent growth in volume, with 54 percent growth in revenue, exceeding $88 million in net revenues. Significant growth in 2014 can be attributed to transition of Swedish employees from Diplomat Specialty Pharmacy, access to Biogen Idec limited drug distribution channel, addition of Premera MedAdvantage members and introduction of oral tablets for treating Hepatitis C.

Growth in 2015 is expected to continue with the addition of 40,000 covered lives enrolled in Providence Health Plan, inclusion of Cardena to the Pfizer oncology limited distribution network and repositioning operations toward serving all Providence markets across five states.

Finding better solutions faster: We are developing an innovation ecosystem in which technology companies that solve important problems in health care work with Providence to deliver higher quality health care at a lower cost, with a better customer experience for consumers, patients and clinicians.

To achieve this, we've established three groups within Providence:

- Providence Ventures is a $150 million venture fund that identifies, validates and tests early stage health IT, consumer health and med-tech companies that solve big problems integrated health care systems care about. Our value proposition to early stage companies is the ability to pressure test, co-develop and prove new technologies through a rigorous, data-driven approach that leverages our health system experts in our evaluation. Providence Ventures supports some of these companies through equity investments and co-development partnerships. Providence currently running more than 12 pilot projects with early stage companies and has made four investments.
- The Digital Innovation Group builds new software services for three customer groups: patients/consumers, clinicians and infrastructure (APIs) for technology partners. The group's goal is to create a seamless experience for consumers, patients and clinicians who engage with Providence. The group is composed of software development teams who write and integrate software to support this goal. For example, they have created www.healthexpress.com, a telehealth product available to customers in Washington and Oregon. The group's next-generation technology will deliver care on the patients' terms: where, when and how they want their health care and personalized to their needs.
- The Consumer Innovation Group incubates consumer-focused health businesses. This group has three goals: 1) improve the health of our communities, thereby reducing their health care cost

burden; 2) diversify our revenue streams from only taking care of the sick to keeping people healthy; 3) maintain our relationships with patients between episodes of care.

Rewarding quality, not quantity: The Providence-Swedish Health Alliance, an accountable care organization, deploys a new economic model that fundamentally rebalances the health care value equation. Instead of a service contract based on each service, test, procedure or clinical intervention, our providers are held to quality metrics to keep healthy employees healthy, effectively treat illnesses, and help people better manage their chronic conditions. By improving the health of each plan member, we're helping to lower health care costs all around.

Our commercial ACO efforts are focused on two large self-insured employers, Boeing Co. and Intel Corp. These arrangements offer members a number of enhanced services, all at a predictable cost. Extensive work is underway to share clinical best practices and standardize medical management protocols across the provider networks serving our members.

The number of members covered in these types of arrangements grew from 308,000 in 2013 to 459,000 by December 2014, representing growth of 49 percent. Providence realized net gains related to these contracts of $6.4 million in 2014, primarily related to Medicare Advantage arrangements. We continue to invest in the infrastructure, including care management, data analytics, clinical design and network formation needed to support our transition to alternative payment methods and increased accountability for clinical outcomes, member experience and predictable costs.

An integrated finance and data reporting structure is in development to provide clinicians and ACO leadership with timely feedback on our performance, as well as identification of actionable opportunities for improvement. This will be supported by modifications to physician compensation plans over time to align incentives with clinical, quality and cost outcomes.

> Together, we answer the call of every person we serve: Know me, care for me, ease my way.

4. Financial performance

Operating income was $219 million with a 1.8 percent operating margin for the 12 months ended Dec. 31, 2014, which was $89 million ahead of budget. Net income for the same period was $771 million, which was $453 million ahead of budget, driven by affiliation contributions and investment performance. Operations benefited from strong revenues that grew 12.1 percent over the prior year compared with expense growth of 10.5 percent. Operations have generated $1.1 billion of EBIDA (earnings before depreciation, interest and amortization) and affiliation contributions. Cash reserves of $6 billion as of December 2014 represented 190 days cash on hand. This provided 130.9 percent cash coverage of current debt, which was down from 132.8 percent for the prior year.

Capital spending in 2014 included the completion of the system-wide Epic implementation, inclusive of the newly affiliated Saint John's Health Center in Santa Monica, Calif. This marks the successful end of the three-year Epic implementation, one of the largest and fastest electronic health record implementations and a significant investment in the quality of care. The results of the health system do not include the managed care portions of the Washington and California provider tax programs, estimated at $50 million, due to the delay in CMS approvals.

The table below presents consolidated key financial indicators.

Key Financial Indicators	YTD December 2014			
	Actual	Budget	Organic Growth Actual*	2013
Net Operating Income	$219.2m	$130.1m	$167.0m	$37.7m
Operating Margin %	1.8%	1.1%	1.4%	0.3%
Net Income	$771.4m	$318.2m	$255.9m	$253.3m
EBIDA	$1.13b	$1.15b	$1.06b	$984.4m
Total Community Benefit	$848.4m	$949.9m	$811.5m	$950.7m
Accounts Receivable Days	50	49	51	54
Days of Cash on Hand	190	159	194	181
Long-term Debt to Total Capitalization	33.8%	32.6%	33.3%	33.5%
Cash to Debt	130.9%	120.2%	139.9%	132.8%

**Excludes Saint John's, PacMed and Kadlec.*

Volume

2014 acute care admissions of 333,263 were 4 percent behind budget and slightly higher than prior year. Observation visits of 57,965 were 21.6 percent behind budget on a year-to-date basis and slightly lower than prior year. Surgeries of 320,631 were better than budget by 5.4 percent. Inpatient surgeries were below budget by 2 percent, offset by outpatient surgeries that were better than budget by 11.5 percent, demonstrating the transition of care from acute to ambulatory settings. Outpatient emergency visits were 7.9 percent ahead of budget, with 1,152,536 visits compared with 1,062,787 in the prior year. The expanded coverage through Medicaid expansion was a significant driver of the increased emergency visits.

Physician visits of 7.2 million were 17.8 percent greater than prior year. Continuum services, which include long-term care, hospice, supportive housing, assisted living and home health, provided 2,271,517 visits and were 0.9 percent higher than prior year. The net impact of the volumes above resulted in gross revenues that were slightly above budget, but with a change in the mix of services provided. Inpatient gross revenue was below budget by $278 million. This amount was offset by a favorable variance in outpatient gross revenue.

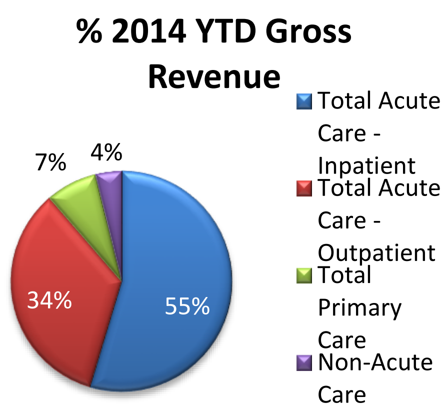
The table below presents consolidated key volume indicators.

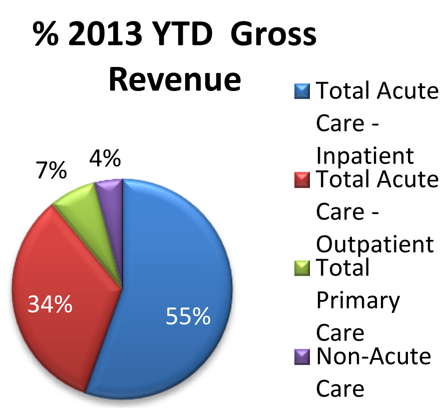
Key Volume Indicators	YTD December 2014

	Actual	Budget	Organic Growth Actual*	2013
Inpatient Activity - Inpatient Admissions	333,263	347,212	314,968	319,785
Outpatient Activity - Outpatient Revenue	$10,847m	$10,166m	$10,306m	$9,748m
Non-Acute Patient Visits	2,271,517	2,316,268	2,271,517	2,250,386
Physician Care Visits	7,239,520	7,264,355	6,802,788	6,146,744
Connected Lives - Member Months	5,147,335	5,117,343	5,147,234	4,757,236
CMI Adjusted Length of Stay (Days)	2.9	2.9	2.9	2.9
Rate - Net Service Revenue/CMAA	$11,505	$11,610	$11,491	$11,182
Observations	57,965	73,896	56,601	59,966

**Excludes Saint John's, PacMed and Kadlec.*

The following charts show comparisons of the source of YTD gross revenue for December 2014 and December 2013.



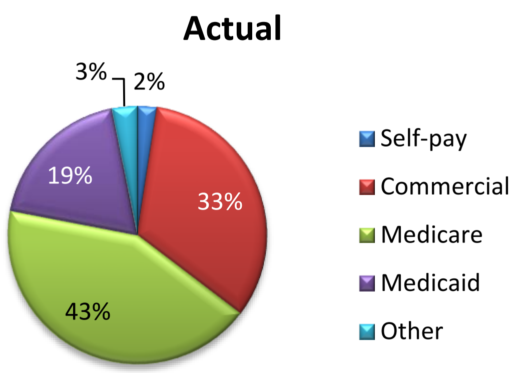


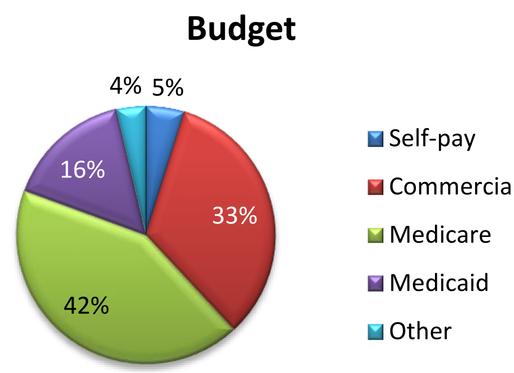
Revenue

2014 operating revenue was $190 million ahead of budget and 12.1 percent greater than prior year. Net service revenue accounted for $105 million of the favorable variance, driven largely by the impact of Medicaid expansion. Capitated and premium revenue of $1.7 billion was $79 million ahead of budget and $238 million greater than prior year. The PacMed affiliation represented $96 million of new capitated revenue growth over prior year. Capitated and premium revenue represented 13 percent of the health system's total operating revenue through December. Meaningful use funding of $54.6 million was recognized in other operating revenue. All hospitals in the health system finished the CMS fiscal year 2014 reporting period (Oct. 2013-Sep. 2014) with passing report cards for meaningful use and 93 percent of total providers are currently passing the incentive program requirements.

December Operating Revenue	Month to Date		Year to Date		Prior Year
(in millions)	Actual	Budget	Actual	Budget	Actual
IP Net Service Revenue	$437.2	$529.6	$5,305.5	$5,400.7	$4,713.0
OP Net Service Revenue	290.7	305.7	3,145.0	3,514.2	3,033.3
Medical Group	112.9	99.5	1,232.4	1,141.4	1,025.1
Continuum Services	24.4	26.1	611.7	307.0	586.0
Bad Debt	(32.3)	(31.9)	(193)	(367.1)	(299.8)
Capitated & Premium Revenue	146.4	138.8	1,683	1,603.5	1,445.1
Other Revenue	67.1	64.9	696.4	691.6	633.8
Total Operating Revenue	$1,046.5	$1,132.7	$12,481.0	$12,291.4	$11,136.7

The following tables show comparisons of the source of actual and budgeted payer mix based on gross revenue through December 2014.





As a result of Medicaid expansion programs and Providence's initiatives to assist patients in their Medicaid enrollment, 2014 self-pay volumes as reflected by gross revenues decreased by 46 percent, or $656 million from prior year, and Medicaid gross revenues have increased 29 percent, or $1.3 billion. The year-to-date impact of this payer shift was an increase in net patient revenue of $138 million.

Operating Expenses

2014 operating expenses were $101 million unfavorable to budget, driven by purchased medical services related to capitated and premium contracts. These claims and medical expenses representing medical services purchased outside of the health system were $53 million greater than budget due to growth in enrollment and capitated revenue, as discussed above. Operating expenses, excluding these purchased medical expenses, were $48 million unfavorable to budget. Labor, employee benefits and purchased services combined were $92 million favorable to budget. FTEs of 65,378 were 1.8 percent, or 1,186 FTEs, favorable to budget. FTEs increased 6,073 over prior year; 5,267 of the increase were due to the impact of the recent affiliations with Inland Northwest Health Services, Saint John's Health Center, Pacific Medical Centers and Kadlec Regional Medical Center. Employee benefits were $74 million favorable to budget. The combined pension, workers' compensation and employee medical and dental costs have been managed to result in no increase over the prior year. Per member per month (PMPM) employee medical costs were down 10.7 percent over the prior year.

Purchased services were $7 million better than budget. This performance reflects the continued improvement of the shared administrative services for the health system and completion of the Epic implementation. Supply expenses were $192 million, or 12 percent, behind budget through December. While year-to-date performance was strong with supplies as a percentage of revenue at 16.9 percent, growth in specialty and oncology drugs and in specialized surgeries are driving up supply costs.

The table below presents consolidated key efficiency indicators.

Key Efficiency Indicators	YTD December 2014			
	Actual	Budget	Organic Growth Actual*	2013
FTEs	65,378	66,565	61,025	59,306
Productivity - Labor % Net Service Rev.	51.1%	53.0%	51.2%	52.0%
Supplies % Net Service Revenue	16.9%	16.1%	16.8%	16.6%
Efficiency - Expense per CMAA	$11,267	$11,470	$11,252	$11,139

**Excludes Saint John's, PacMed and Kadlec.*

Non-Operating Gain (Loss)

There was a non-operating loss in December of $16 million compared with a budgeted gain of $16 million. Year-to-date non-operating gains were $552 million which was $364 million ahead of budget, driven by affiliation contributions and investment performance. Non-operating income associated with these gains from affiliations was $476 million. Investment income on a year-to-date basis was $178 million.

New Store Growth

During 2014, the health system completed several affiliations with other organizations that complement our clinical network and contribute additional competencies to better serve our patients and communities. The key indicators of the new-store growth are reported below. As part of the affiliations process, the financial positions of the new partners were adjusted to reflect the current market value. On a year-to-date basis, $476 million has been recorded in non-operating income associated with these affiliations.

	St John's	PacMed	Kadlec	
Affiliation date	March 1, 2014	May 1, 2014	June 14, 2014	Total
Key Statistics				
Acute admissions	10,266	0	8,029	18,295
Acute outpatient & physician visits	193,947	204,927	295,037	693,911
FTEs	1,324	648	2,381	4,353
Financial Information	10 months ended	8 months ended	6.5 months ended	
Revenue (000's)	277,863	134,367	236,404	648,634
Expense (000's)	222,331	139,062	235,090	596,483
Operating income (000's)	55,532	(4,695)	1,314	52,151
Assets (000's)	464,508	121,362	502,839	1,088,709
Liabilities (000's)	189,722	41,134	303,933	534,789
Net assets (000's)	274,786	80,228	198,906	553,920

Consolidated Financial Performance
December 2014

Debt Supported by Self-Liquidity

PH&S has authorized $200 million in taxable commercial paper that is supported by self-liquidity. As of December 31, 2014, none of the commercial paper was outstanding.

The System reports monthly on its cash and investment balances available to retire maturing short-term debt in the event notes cannot be remarketed. The table below summarizes the information provided to the rating agencies at the end of the December 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, 2014

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 *	$ 1,012.70	$ -	$ -	$ 1,012.70	1.00	$ 1,012.70
S&P rated money market funds (> Am)	$ 132.77	$ -	$ -	$ 132.77	1.00	$ 132.77
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)	$ -	$ -	$ 519.00	$ 519.00	0.91	$ 471.82
U.S. TIPs	$ -	$ -	$ 41.14	$ 41.14	0.87	$ 35.77
U.S. Agencies (> 1 year)	$ -	$ -	$ 7.44	$ 7.44	0.83	$ 6.20
Investment Grade Debt (that is not included above)	$ -	$ -	$ -	$ -	0.67	$ -
Equities**	$ -	$ -	$ 458.22	$ 458.22	0.50	$ 229.11
Non-Investment Grade Debt	$ -	$ -	$ 55.23	$ 55.23	0.40	$ 22.09
Total	$ 1,145.47	$ -	$ 1,081.02	$ 2,226.49		$ 1,910.46
Discounted Total	$ 1,145.47	$ -	$ 764.99			Discounted Total

	Enter amount of Self Liquidity Backed Debt with:		
	Same Day Notice	Next Day Notice	> Next Day Notice
Commercial Paper		$ 100.00	$ 100.00
Variable Rate Demand Note or Obligation	$ -		$ -
Fixed Rate Debt			
Other Securities			
Total	$ -	$ 100.00	$ 100.00
Remaining Discounted Assets	$ 1,145.47	$ 1,045.47	$ 1,710.46
	Same Day +/-	Next Day +/-	> Next Day +/-
	Sufficient	Sufficient	Sufficient

TOTAL DEBT SUPPORTED BY SELF LIQUIDITY	TOTAL REMAINING DISCOUNTED ASSETS
$ 200.00	$ 1,710.46

Fourth Quarter 2014 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, 2014 Year-To-Date**		
	Actual	Budget	Prior Year
Volume:			
Acute Adjusted Admissions	602,468	607,170	567,186
Total Acute Admissions	333,263	347,212	319,785
Total Acute Patient Days	1,495,451	1,517,380	1,406,857
Acute Outpatient Visits	7,905,337	6,856,724	6,469,525
Total Observations	57,965	73,896	59,966
Primary Care Visits	6,881,113	7,264,355	6,146,744
Long-Term Care Patient Days	411,517	435,221	426,025
Home Health Visits	667,708	642,813	622,364
Hospice Days	628,182	712,046	640,409
Housing and Assisted Living Days	564,110	526,188	561,588
Health Plan Members	5,147,335	5,117,343	4,757,236
Total Occupancy %	59.5%	61.0%	61.7%
Total Average Daily Census	4,097	4,157	3,854
Surgeries:			
Inpatient	106,414	137,410	129,117
Outpatient	120,890	166,759	164,699
Total Surgeries	227,304	304,169	293,816
Emergency Room Visits:			
Inpatient	179,129	187,461	165,793
Outpatient	1,152,536	1,068,014	1,062,787
Total Emergency Room Visits	1,331,665	1,255,475	1,228,580
Outpatient Visits:			
Outpatient Surgery	185,986	164,699	164,699
Emergency Visits	1,152,536	1,062,787	1,062,787
Primary Care	7,239,520	6,146,744	6,146,744
Homecare Visits	667,708	622,364	622,364
Observations	57,965	59,966	59,966
All Other	6,091,016	5,242,039	5,242,039
Total Outpatient Visits	15,394,730	13,298,599	13,298,599

Performance Metrics	December 31, 2014 Year-To-Date		
	Actual	Budget	Prior Year
Efficiency:			
FTEs	63,869	64,858	59,306
YTD Overall Case-Mix Index	1.5699	1.5240	1.5350
YTD Case-Mix Adj Admissions	945,794	925,345	870,656
YTD Acute Care LOS (CMAA)	2.9	2.9	2.9
YTD Net Svc Rev/CMAA	11,499	11,610	11,182
YTD Net Expense/CMAA	11,267	11,470	11,139
YTD Paid Hours/CMAA	140	146	142
YTD Productive Hours/CMAA	124	130	125
FTE's Per Adjusted Occupied Bed	8.62	8.92	8.68
Financial Performance:			
Operating Margin	1.8%	1.1%	0.3%
Total Margin	5.9%	2.5%	2.2%
EBIDA ('000)	1,608,794	1,146,330	984,381
EBIDA Margin	12.9%	9.3%	8.8%
R12 Days of Total Cash on Hand	190	159	181
Net Patient AR Days 3 mo rolling	50	49	54
Ave Yearly Salary/FTE w/o benefits	82,171	81,093	80,075
Employee Benefits as a % of Salaries	23.2%	24.6%	24.5%
Salaries Wages as a % of Net Svc Rev	52.0%	52.6%	52.4%
Supplies as a % of Net Svc Rev	17.7%	16.0%	16.9%
YTD Supplies Expense/CMAA	1,895	1,730	1,761
Debt to Total Net Asset Ratio	33.8	32.6	33.5
Cash to Debt Ratio	130.9	120.2	132.8
Current Ratio	1.5	2.1	1.6
Bad Debt and Charity as a % Grs Rev	2.4%	4.5%	4.7%
Community Benefit: ('000)			
Cost of Charity Care Provided	205,555	290,742	312,839
Medicaid Charity	443,623	438,991	404,138
Education and Research Programs	96,988	107,448	115,554
Unpaid Cost of Other Govt Programs	1,157	2,346	1,915
Negative Margin Services and Other	57,355	78,405	77,565
Non-Billed Services	43,806	32,017	38,656
Total Community Benefit Costs	848,484	949,949	950,667

KPMG

PROVIDENCE HEALTH & SERVICES

Combined Financial Statements

December 31, 2014 and 2013

(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, 2014 and 2013, 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 Combined 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, 2014 and 2013, and the results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the combined financial statements as a whole. The supplemental information, included on pages 42 and 43 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
March 16, 2015

PROVIDENCE HEALTH & SERVICES

Combined Balance Sheets

December 31, 2014 and 2013

(In thousands of dollars)

Assets		2014	2013
Current assets:			
Cash and cash equivalents	$	1,237,337	852,965
Short-term management-designated investments		199,338	189,545
Accounts receivable, less allowance for bad debts of $289,908 in 2014 and $358,966 in 2013		1,419,495	1,336,803
Other receivables, net		375,185	293,737
Supplies inventory		185,821	171,833
Other current assets		203,337	96,960
Current portion of funds held by trustee		76,365	93,473
Total current assets		3,696,878	3,035,316
Assets whose use is limited:			
Management-designated cash and investments		4,601,153	4,173,407
Gift annuities, trusts, and other		53,954	53,836
Funds held by trustee		179,473	119,510
Assets whose use is limited, net of current portion		4,834,580	4,346,753
Property, plant, and equipment, net		6,622,566	6,204,617
Other assets		568,884	382,711
Total assets	$	15,722,908	13,969,397

(Continued)

PROVIDENCE HEALTH & SERVICES

Combined Balance Sheets

December 31, 2014 and 2013

(In thousands of dollars)

Liabilities and Net Assets		**2014**	**2013**
Current liabilities:			
Current portion of long-term debt	$	202,287	160,383
Master trust debt classified as short-term		12,500	32,075
Accounts payable		521,942	436,622
Accrued compensation		738,075	620,029
Payable to contractual agencies		151,778	127,882
Retirement plan obligations		185,517	184,065
Current portion of self-insurance liability		108,943	100,834
Other current liabilities		465,865	266,551
Total current liabilities		2,386,907	1,928,441
Long-term debt, net of current portion		3,844,262	3,498,246
Other long-term liabilities:			
Self-insurance liability, net of current portion		274,541	261,317
Pension benefit obligation		1,040,939	812,528
Other liabilities		227,099	151,380
Total other long-term liabilities		1,542,579	1,225,225
Total liabilities		7,773,748	6,651,912
Net assets:			
Unrestricted:			
Controlling interest		7,492,324	6,964,906
Noncontrolling interest		45,302	44,718
Temporarily restricted		305,277	223,548
Permanently restricted		106,257	84,313
Total net assets		7,949,160	7,317,485
Total liabilities and net assets	$	15,722,908	13,969,397

See accompanying notes to combined financial statements.

PROVIDENCE HEALTH & SERVICES

Combined Statements of Operations

Years ended December 31, 2014 and 2013

(In thousands of dollars)

		2014	2013
Operating revenues:			
Net patient service revenues	$	10,294,637	9,357,529
Provision for bad debts		(193,018)	(299,791)
Net patient service revenues less provision for bad debts		10,101,619	9,057,738
Premium and capitation revenues		1,682,968	1,445,107
Other revenues		696,390	633,835
Total operating revenues		12,480,977	11,136,680
Operating expenses:			
Salaries and wages		5,248,196	4,748,873
Employee benefits		1,220,078	1,161,130
Purchased healthcare		909,154	767,161
Professional fees		514,990	463,838
Supplies		1,792,707	1,533,092
Purchased services		977,247	944,487
Depreciation		676,357	596,623
Interest		155,343	129,289
Amortization		5,671	5,200
Other		762,082	749,316
Total operating expenses		12,261,825	11,099,009
Excess of revenues over expenses from operations		219,152	37,671
Net nonoperating gains:			
Gains from affiliations		476,110	—
Loss on extinguishment of debt		(85,522)	(1,671)
Investment income, net		178,043	247,572
Pension settlement costs and other		(16,361)	(30,302)
Total net nonoperating gains		552,270	215,599
Excess of revenues over expenses		771,422	253,270
Net assets released from restriction for capital		13,646	10,786
Change in noncontrolling interests in consolidated joint ventures		584	(29,139)
Pension related changes		(249,011)	385,702
Contributions, grants, and other		(8,639)	(4,040)
Increase in unrestricted net assets	$	528,002	616,579

See accompanying notes to combined financial statements.

PROVIDENCE HEALTH & SERVICES

Combined Statements of Changes in Net Assets

Years ended December 31, 2014 and 2013

(In thousands of dollars)

	Unrestricted: controlling interest	Unrestricted: noncontrolling interest	Temporarily restricted	Permanently restricted	Total net assets
Balance, December 31, 2012	$ 6,319,188	73,857	201,961	78,702	6,673,708
Excess of revenues over expenses	253,270	—	—	—	253,270
Contributions, grants, and other	(4,040)	—	78,519	5,611	80,090
Net assets released from restriction	10,786	—	(56,932)	—	(46,146)
Change in noncontrolling interests in consolidated joint ventures	—	(29,139)	—	—	(29,139)
Pension related changes	385,702	—	—	—	385,702
Increase (decrease) in net assets	645,718	(29,139)	21,587	5,611	643,777
Balance, December 31, 2013	6,964,906	44,718	223,548	84,313	7,317,485
Excess of revenues over expenses	771,422	—	—	—	771,422
Restricted contributions from affiliations	—	—	50,401	14,515	64,916
Contributions, grants, and other	(8,639)	—	93,563	7,429	92,353
Net assets released from restriction	13,646	—	(62,235)	—	(48,589)
Change in noncontrolling interests in consolidated joint ventures	—	584	—	—	584
Pension related changes	(249,011)	—	—	—	(249,011)
Increase in net assets	527,418	584	81,729	21,944	631,675
Balance, December 31, 2014	$ 7,492,324	45,302	305,277	106,257	7,949,160

See accompanying notes to combined financial statements.

PROVIDENCE HEALTH & SERVICES

Combined Statements of Cash Flows

Years ended December 31, 2014 and 2013

(In thousands of dollars)

		2014	2013
Cash flows from operating activities:			
Increase in net assets	$	631,675	643,777
Adjustments to reconcile increase in net assets to net cash provided by operating activities:			
Gains from affiliations		(541,026)	—
Depreciation and amortization		682,028	601,823
Provision for bad debt		193,018	299,791
Loss on extinguishment of debt		85,522	1,671
Equity income from joint ventures		(39,159)	(37,732)
Restricted contributions and investment income received		(94,024)	(70,953)
Net realized and unrealized gains on investments		(109,622)	(172,629)
Distributions from joint ventures		37,687	27,121
Changes in certain current assets and current liabilities		(21,062)	(306,641)
Change in certain long-term assets and liabilities		266,280	(337,612)
Net cash provided by operating activities		1,091,317	648,616
Cash flows from investing activities:			
Property, plant, and equipment additions		(537,301)	(574,551)
Proceeds from disposal of property, plant, and equipment		6,901	12,387
Purchases of investments		(5,555,329)	(3,703,909)
Proceeds from sales of investments		5,340,773	3,503,741
Change in other long-term assets and other		11,199	33,567
Change in funds held by trustee, net		(35,630)	(471)
Cash paid for affiliations, net of cash acquired		(98,958)	—
Net cash used in investing activities		(868,345)	(729,236)
Cash flows from financing activities:			
Proceeds from restricted contributions and restricted income		94,024	70,953
Debt borrowings		1,193,228	1,464,771
Debt payments		(1,112,836)	(1,262,511)
Other financing activities		(13,016)	(46,292)
Net cash provided by financing activities		161,400	226,921
Increase in cash and cash equivalents		384,372	146,301
Cash and cash equivalents, beginning of year		852,965	706,664
Cash and cash equivalents, end of year	$	1,237,337	852,965
Supplemental disclosure of cash flow information:			
Cash paid for interest (net of amounts capitalized)	$	136,066	117,540

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 136 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 Portland, Oregon
- Archdiocese of Seattle, Washington
- Archdiocese of San Antonio, Texas
- Diocese of Baker, Oregon
- Diocese of Cubao, Philippines
- 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
- Providence Health System – Southern California (cosponsored by the Congregation and the American Province of the Little Company of Mary Sisters)
- Providence Health & Services – Montana

(Continued)

- 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.
- Inland Northwest Health Services

Providence Ministries and Western HealthConnect are co-Members of Providence Health & Services – Western Washington.

Western HealthConnect, a secular Washington nonprofit corporation, is the sole corporate member of the following organizations:

- Swedish Health Services
- Swedish Edmonds
- Kadlec Regional Medical Center
- PacMed Clinics D/B/A Pacific Medical Centers
- Western HealthConnect Ventures, Inc.
- Health Connect Partners

Providence Health & Services and Western HealthConnect, inclusive of all sponsored and corporate members, are collectively referred to as the Health System.

The Health System owns or operates 34 general acute care hospitals, three ambulatory care centers, six 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 23 controlled fundraising foundations.

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

(c) Tax Exempt Status

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(a) of the Internal Revenue Code (IRC) as an organization described in Section 501(c)(3) of the IRC.

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.

(d) Organizational Changes

Affiliation Activity

Effective March 1, 2014, the Health System entered into an affiliation agreement with Sisters of Charity of Leavenworth Health System (SCL) to transfer sponsorship of Saint John's Health Center (Saint John's) to the Health System. Saint John's operates a nonprofit medical center, a cancer institute, and physician clinics to serve the Santa Monica, California community and surrounding area. The fair value of the net assets acquired was $430,728,000, which included $64,487,000 in restricted net assets. Unrestricted net assets of $366,241,000 exceeded total cash consideration of $186,217,000. The Health System recognized a gain from affiliation in the amount of $180,024,000 as the excess of the fair value of the unrestricted net assets over total consideration. The $64,487,000 of restricted net assets is recorded in restricted net assets in the combined statement of changes in net assets. The results of operations of Saint John's entities have been included in the combined statements of operations of the Health System effective as of the date of affiliation.

Effective May 1, 2014, the Health System entered into an affiliation agreement with PacMed Clinics (PacMed). PacMed is a private, nonprofit, multi-specialty medical group with nine clinics in the Puget Sound area and more than 150 primary care and specialty providers at the date of affiliation. Pursuant to the affiliation agreement, Western HealthConnect became PacMed's sole corporate Member. No cash or other purchase consideration was transferred to effect the affiliation. The results of operations of PacMed 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 PacMed to the Health System of $84,717,000, which is included in gain from affiliation.

Effective June 13, 2014, the Health System entered into an affiliation agreement with Kadlec Health System (Kadlec). Kadlec operates a nonprofit medical center, a neurological resource center, a supporting foundation, and physician clinics to serve the tri-cities area of Kennewick, Pasco, and Richland, Washington. Pursuant to the affiliation agreement, Western HealthConnect became the sole member of Kadlec. No cash or other purchase consideration was transferred to effect the affiliation. The results of operations of Kadlec 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 Kadlec to the Health System of $211,798,000. The unrestricted portion of the contribution of $211,369,000 is included in gain from affiliation in the accompanying combined statement of operations. The remaining $429,000 of the contribution is recorded in restricted net assets in the combined statement of changes in net assets.

The financial results of the affiliated entities discussed above are included in the Health System's 2014 combined statement of operations from the effective date of each respective affiliation through December 31, 2014. The following table summarizes the aggregate amounts included in the 2014 combined statement of operations (in thousands of dollars) related to the affiliated entities, excluding gain from affiliations:

Total operating revenues	$	648,634
Excess of revenues over expenses from operations		52,151
Excess of revenues over expenses		39,369

The following table summarizes the aggregate amounts included in the December 31, 2014 combined balance sheets related to the affiliated entities discussed above (in thousands of dollars):

Cash and investments	$	201,534
Accounts receivable, net of allowances		103,444
Property, plant, and equipment, net		594,323
Other assets		189,408
Total assets	$	1,088,709
Accounts payable and accrued compensation	$	93,604
Long-term debt, net of current portion		343,614
Other liabilities		97,571
Total liabilities		534,789
Net assets		553,920
Total liabilities and net assets	$	1,088,709

(e) 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.

(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 Health & Services and Western HealthConnect 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 March 16, 2015, 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 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 $4,044,000 and $13,073,000 of interest costs during the years ended December 31, 2014 and 2013, 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.

(j) Intangible Assets with a Finite Life

Intangible assets that are determined to have a finite life are recorded in other assets. Such assets are amortized by the straight-line method, which allocates the cost of tangible property equally over the asset's estimated useful life or agreement term.

(k) 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, equity securities, hedge funds, and collective investment funds 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.

(l) 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.

(m) 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.

(n) 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 $31,098,000 and $8,176,000 for the years ended December 31, 2014 and 2013, respectively.

The composition of significant third-party payors for the years ended December 31, 2014 and 2013, as a percentage of net patient service revenues, is as follows:

	2014	**2013**
Commercial and other insurance	52%	52%
Medicare	33	33
Medicaid	14	12
Self-pay	1	3
	100%	100%

(o) 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 provision for bad debts in 2014 has decreased from 2013 as a result of the expansion of Medicaid programs and initiatives to assist patients in their Medicaid enrollment. 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, 2014 and 2013 are summarized below:

		2014	**2013**
		(In thousands of dollars)	
Changes in allowance for doubtful accounts:			
Allowance for doubtful accounts at beginning of year	$	358,966	371,097
Write-off of uncollectible accounts, net of recoveries		(262,076)	(311,922)
Provision for bad debts		193,018	299,791
Allowance for doubtful accounts at end of year	$	289,908	358,966

(p) 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.

(q) 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. $54,583,000 and $60,560,000 in meaningful use revenues were recognized for the years ended December 31, 2014 and 2013, respectively, and are included in other operating revenues in the accompanying combined statements of operations. The amount recognized is based on management's best estimate and is subject to audit and potential retrospective adjustments.

(r) Other Operating Revenues

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

(s) 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, 2014 and 2013 is summarized below:

		2014	**2013**
		(In thousands of dollars)	
Cost of charity care provided	$	205,555	312,839
Unpaid cost of Medicaid services		443,623	404,138
Unsponsored community benefit costs	$	649,178	716,977

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. Unpaid cost of Medicaid services are net of revenues of $1,377,866,000 and $906,117,000 for the years ended December 31, 2014 and 2013, respectively.

(t) Net Nonoperating Gains

Net nonoperating gains primarily include investment income from trading securities, income from recipient organizations, pension settlement costs, and other income. Additionally, contributions from affiliations with Saint John's, PacMed, and Kadlec are included in net nonoperating gains in 2014.

(u) 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.

(v) Income and Other Taxes

The Health System recognizes the effect of income tax positions only if those positions are more likely than not of being sustained upon an audit by the taxing authority. 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.

Various states in which the Health System operates have instituted a provider tax on certain patient service revenues at qualifying hospitals to increase funding from other sources and obtain additional Federal funds to support increased payments to providers for Medicaid services. These taxes are included in other expenses in the accompanying combined statements of operations. These programs resulted in enhanced payments from these states in the way of lump sum payments and per claim increases. These enhanced payments are included in net patient service revenues in the accompanying combined statements of operations.

(w) Recently Issued or Adopted Accounting Standards

In May 2014, the FASB issued ASU 2014-09, a comprehensive new revenue recognition model that requires an entity to recognize revenue to depict the transfer of goods or services to customers at an amount that reflects the consideration it expects to receive in exchange for those goods or services. The amendments in the ASU can be applied either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying the update recognized at the date of the initial application along with additional disclosures. The Health System is currently evaluating the impact of ASU 2014-09, including the methods of implementation, which is effective for the fiscal year beginning on January 1, 2017.

(x) Reclassifications

Certain reclassifications have been made to prior year amounts to conform to the current year presentation.

(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. Valuation for certain investments is based on the net asset value (NAV) or its equivalent provided by fund administrators.
- Level 3 inputs are unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which a fair value 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 $4,097,789,000 and $4,421,616,000, respectively, as of December 31, 2014, and $3,725,358,000 and $3,789,289,000, respectively, as of December 31, 2013.

Other financial instruments of the Health System include cash and cash equivalents and other current assets and liabilities. The carrying amount of these instruments approximates fair value because these items mature in less than one year.

The Health System participates in various funds that are not actively marketed on an open exchange. These investments are classified in Levels 2 and 3 and consist of shares or units in investment funds as opposed to direct interests in the funds' underlying holdings, which may be marketable. Because the NAV, or its equivalent, reported by each fund manager is used as a practical expedient to estimate the fair value of the Health System's interest therein, its classification in Level 2 or 3 is based on the Health System's ability to redeem its interest at or near the balance sheet date. If the interest can be redeemed in the near term, the investment is classified as Level 2. 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 investments underlying assets and liabilities. Management believes that the carrying amounts of these financial instruments, provided by the fund managers, are reasonable estimates of fair value.

The following table presents information for investments where the NAV, or its equivalent, was used as a practical expedient to measure fair value at December 31, 2014.

		Fair value (in thousands of dollars)	Redemption frequency	Redemption notice period
Hedge Fund – Relative value	$	159,753	Quarterly	60 – 90 days
Hedge Fund – Risk parity		148,543	Monthly	5 – 15 days
Hedge Fund – Growth		265,095	Monthly	10 – 60 days
Hedge Fund – Diversified		123,229	Monthly	2 – 90 days
Hedge Fund – Other		151,936	Monthly or Quarterly	30 – 90 days
Collective Investment Funds – Fixed income		219,397	Daily, Monthly or Quarterly	6 – 30 days
Collective Investment Funds – Equities		81,417	Daily	3 days

Hedge funds are portfolios of investments that use advanced investment strategies such as leveraged, long, short and derivative positions in both domestic and international markets with the goal of diversifying portfolio risk and generating return. The Health System's investments in hedge funds include $131,163,000 subject to lockup provisions that limit the Health System's ability to access cash for one year from the initial investment.

Collective investment funds are funds that pursue diversification of domestic and foreign equity and fixed income securities. The Health System's investments in collective investment funds have no lockup provisions or other restrictions, other than outlined in the table above, that limit its ability to access cash.

(Continued)

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, 2014:

	December 31, 2014	Fair value measurements at reporting date using: Level 1	Level 2	Level 3
		(In thousands of dollars)		
Assets:				
Gift annuities, trusts and other	$ 53,954	20,454	9,118	24,382

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, 2013:

	December 31, 2013	Fair value measurements at reporting date using: Level 1	Level 2	Level 3
		(In thousands of dollars)		
Assets:				
Gift annuities, trusts and other	$ 53,836	25,996	6,493	21,347

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, 2014 and 2013 (in thousands of dollars):

		Gift annuities, trusts, and other	Management designated cash and investments (note 4)
Balance at December 31, 2012	$	20,769	4,525
Total realized and unrealized gains (losses), net		(862)	81
Total purchases		2,932	—
Total sales		(1,745)	(3)
Transfers into Level 3		253	—
Balance at December 31, 2013		21,347	4,603
Total realized and unrealized gains (losses), net		(308)	(1,286)
Total purchases		1,418	130,500
Total sales		(1,072)	—
Transfers into Level 3		2,997	—
Balance at December 31, 2014	$	24,382	133,817

There were no significant transfers between assets classified as Level 1 and Level 2 during the years ended December 31, 2014 and 2013.

Level 3 assets include hedge funds, charitable remainder trusts, and real property. Fair values of hedge funds were estimated using a market approach. 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, 2014 is set forth in the following tables. Investments are stated at fair value.

	December 31, 2014	Fair value measurements at reporting date using Level 1	Level 2	Level 3
	(In thousands of dollars)			
Management-designated cash and investments:				
Cash and cash equivalents	$ 401,728	401,728	—	—
Domestic equity securities:				
Mutual funds:				
Large capitalization	139,544	139,544	—	—
Medium-small capitalization and other	143,501	143,501	—	—
Consumer services	269,565	269,565	—	—
Financial services	129,676	129,676	—	—
Technology	105,950	105,950	—	—
Other industries	120,761	120,761	—	—
Foreign equity securities:				
Mutual funds				
Large capitalization	177,185	177,185	—	—
Medium-small capitalization and other	39,315	39,315	—	—
Other industries	83,455	83,455	—	—
Debt securities – U.S. Treasury	1,211,814	1,054,362	157,452	—
Debt securities – State Treasury	21,926	81	21,845	—
Domestic corporate debt securities	532,840	—	532,840	—
Foreign corporate debt securities	96,487	—	96,487	—
Hedge Funds				
Relative value	159,753	—	115,057	44,696
Risk parity	148,543	—	148,543	—
Growth	265,095	—	265,095	—
Diversified	123,229	—	123,229	—
Other	151,936	—	65,469	86,467
Collective Investment Funds				
Equities	219,397	—	219,397	—
Fixed Income	81,417	—	81,417	—
Other	177,374	12,216	162,504	2,654
Total	$ 4,800,491	2,677,339	1,989,335	133,817

	December 31, 2014	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	$ 85,038	85,038	—	—
Domestic equity securities:				
Mutual funds	21,991	21,991	—	—
Other industries	168	168	—	—
Foreign equity securities:				
Mutual funds	1,889	1,889	—	—
Other industries	11	11	—	—
Debt securities – U.S. Treasury	84,725	82,125	2,600	—
Domestic corporate debt securities	32,017	—	32,017	—
Foreign corporate debt securities	19,953	—	19,953	—
Mortgage-backed securities	5,956	—	5,956	—
Other	4,090	—	4,090	—
Total	$ 255,838	191,222	64,616	—

(Continued)

The composition of management-designated cash and investments and funds held by trustee at December 31, 2013 is set forth in the following tables. Investments are stated at fair value.

	December 31, 2013	Fair value measurements at reporting date using		
		Level 1	Level 2	Level 3
	(In thousands of dollars)			
Management-designated cash and investments:				
Cash and cash equivalents	$ 263,085	263,085	—	—
Domestic equity securities:				
Mutual funds:				
Large capitalization	464,348	464,348	—	—
Med-small capitalization	116,927	116,927	—	—
Other	313,526	313,526	—	—
Capital goods	54,126	54,126	—	—
Consumer services	83,169	83,169	—	—
Energy	35,019	35,019	—	—
Financial services	62,818	62,818	—	—
Technology	55,948	55,948	—	—
Healthcare and other	57,132	57,132	—	—
Foreign equity securities:				
Mutual funds	359,341	359,341	—	—
Other industries	42,341	42,341	—	—
Collective investment funds	401,059	—	401,059	—
Debt securities – U.S. Treasury and agency	983,841	773,463	210,378	—
Debt securities – State Treasury	29,477	—	29,477	—
Domestic corporate debt securities	603,186	—	603,186	—
Foreign corporate debt securities	196,347	—	196,347	—
Mortgage-backed securities:				
Commercial	57,147	—	57,147	—
Residential	87,219	—	87,219	—
Collateralized debt obligations	74,087	—	74,087	—
Other	22,809	464	17,742	4,603
Total	$ 4,362,952	2,681,707	1,676,642	4,603

	December 31, 2013	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	$ 44,835	44,835	—	—
Domestic equity securities:				
Mutual funds	33,346	33,346	—	—
Other industries	170	170	—	—
Foreign equity securities:				
Mutual funds	2,894	2,894	—	—
Other industries	9	9	—	—
Debt securities – U.S. Treasury	67,955	67,955	—	—
Domestic corporate debt securities	33,503	—	33,503	—
Foreign corporate debt securities	15,508	—	15,508	—
Mortgage-backed securities	7,728	—	7,728	—
Other	7,035	94	6,941	—
Total	$ 212,983	149,303	63,680	—

The Health System's funds held by trustee are segregated from other cash and investments for various purposes, including compliance with regulatory requirements. Included in funds held by trustee as of December 31, 2014 and 2013, respectively, are $51,433,000 and $4,177,000 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 $190,819,000 and $189,075,000 at December 31, 2014 and 2013, 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.

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, 2014 and 2013:

	2014	2013
	(In thousands of dollars)	
Interest income	$ 71,108	82,921
Net realized gains on sale of investments	365,413	117,062
Change in net unrealized (losses) gains on trading securities	(258,478)	47,589
Total	$ 178,043	247,572

(5) Property, Plant, and Equipment

Property, plant, and equipment and the total accumulated depreciation at December 31, 2014 and 2013 are shown below:

	Approximate useful life (years)		2014	2013
			(In thousands of dollars)	
Land	—	$	756,304	586,659
Buildings and improvements	5–60		5,643,827	5,061,647
Equipment:				
Fixed	5–25		1,041,956	932,531
Major movable and minor	3–20		4,138,703	3,662,617
Rental property	15–40		898,609	875,310
Construction in progress	—		216,549	552,211
			12,695,948	11,670,975
Less accumulated depreciation			6,073,382	5,466,358
Property, plant, and equipment, net		$	6,622,566	6,204,617

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, 2014 and 2013 are as follows:

		2014	2013
		(In thousands of dollars)	
Unamortized financing costs, net	$	35,744	34,035
Investment in nonconsolidated joint ventures		116,747	102,508
Interest in noncontrolled foundations		136,597	21,779
Notes receivable		37,989	51,473
Long-term reinsurance receivable		39,530	40,325
Goodwill and intangibles		163,540	118,367
Other		38,737	14,224
Total other assets	$	568,884	382,711

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 $39,159,000 and $37,732,000 for the years ended December 31, 2014 and 2013, 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, 2014 and 2013 consists of the following:

	Maturing through	Coupon rates	Unpaid principal 2014	Unpaid principal 2013
			(In thousands of dollars)	
Master trust debt:				
Fixed:				
Series 1996, CHFFA Revenue Bonds	2016	4.00 – 6.00%	$ 2,035	2,975
Series 1997, Direct Obligation Notes	2017	7.70%	2,090	2,690
Series 2003H, AIDEA Revenue Bonds	2015	4.63 – 5.25%	4,600	8,500
Series 2005, Direct Obligation Notes	2030	4.31 – 5.39%	46,295	48,120
Series 2006A, WHCFA Revenue Bonds	2036	4.50 – 5.00%	210,555	210,555
Series 2006B, MFFA Revenue Bonds	2026	4.00 – 5.00%	58,170	62,380
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	3.00 – 6.50%	17,715	272,725
Series 2009A, Direct Obligation Notes	2019	5.05 – 6.25%	165,000	250,000
Series 2009B, CHFFA Revenue Bonds	2039	5.50%	150,000	150,000
Series 2010A, WHCFA Revenue Bonds	2039	4.88 – 5.25%	174,240	174,240
Series 2011A, AIDEA Revenue Bonds	2041	5.00 – 5.50%	122,720	122,720
Series 2011B, WHCFA Revenue Bonds	2021	2.00 – 5.00%	67,390	75,785
Series 2011C, OFA Revenue Bonds	2026	3.50 – 5.00%	20,405	22,355
Series 2012A, WHCFA Revenue Bonds	2042	2.00 – 5.00%	503,955	509,165
Series 2012B, WHCFA Revenue Bonds	2042	4.00 – 5.00%	100,000	100,000
Series 2013A, OFA Revenue Bonds	2024	2.00 – 5.00%	72,515	78,190
Series 2013D, Direct Obligation Notes	2023	4.38%	252,285	252,285
Series 2014A, CHFFA Revenue Bonds	2038	2.00 – 5.00%	275,850	—
Series 2014B, CHFFA Revenue Bonds	2044	4.25 – 5.00%	118,740	—
Series 2014C, WHCFA Revenue Bonds	2044	4.00 – 5.00%	92,245	—
Series 2014D, WHCFA Revenue Bonds	2041	5.00%	178,770	—
Total fixed			2,854,980	2,562,090
Variable:				
Series 2012C, WHCFA Revenue Bonds	2042	0.07%	80,000	80,000
Series 2012D, WHCFA Revenue Bonds	2042	0.07%	80,000	80,000
Series 2012E, Direct Obligation Notes	2042	0.12%	235,705	237,785
Series 2013C, OFA Revenue Bonds	2022	0.83%	148,750	161,675
Series 2013E, Direct Obligation Notes	2017	1.08%	322,250	322,250
Total variable			866,705	881,710
U.S. Bank Credit Facility	2015	0.52%	12,500	—
Unpaid principal, master trust debt			3,734,185	3,443,800
Premiums and discounts, net			123,941	59,455
Master trust debt, including premiums and discounts, net			3,858,126	3,503,255
Other long-term debt			200,923	187,449
Total debt			$ 4,059,049	3,690,704

		2014	2013
		(In thousands of dollars)	
Current portion of long-term debt	$	202,287	160,383
Short-term master trust debt		12,500	32,075
Long-term debt, classified as a long-term liability		3,844,262	3,498,246
Total debt	$	4,059,049	3,690,704

An Obligated Group was 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. The members of the Obligated Group include the following:

- Providence Health & Services – Washington (exclusive of Inland Northwest Health Services)
- Western HealthConnect
- 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., TrinityCare Hospice, and Facey)
- Providence St. Joseph Medical Center, and Providence Health & Services – Montana

The Obligated Group excludes related housing projects financed by the U.S. Department of Housing and Urban Development and foundations.

In June 2014, the Health System issued $275,850,000 of Series 2014A CHFFA fixed rate revenue bonds. The proceeds were used for the partial redemption of Series 2008C CHFFA bonds.

In August 2014, the Health System issued $118,740,000 of Series 2014B CHFFA fixed rate revenue bonds. The proceeds were used to redeem Series 2013F Commercial Paper, which was issued to finance the purchase of Saint John’s. In connection with the Series 2014B issuance, Saint John’s became a member of the Obligated Group.

In September 2014, the Health System issued $92,245,000 of Series 2014C WHCFA fixed rate revenue bonds. The proceeds were used for the partial redemption of Series 2009A PHS Direct Obligation bonds. In connection with the Series 2014C issuance, Swedish Edmonds and PacMed became members of the Obligated Group.

In November 2014, the Health System issued $178,770,000 of Series 2014D WHCFA fixed rate revenue bonds. The proceeds were used to redeem Series 2006B WHCFA revenue bonds, Series 2006A WHCFA revenue bonds, Series 2010 WHCFA revenue bonds, and Series 2012 WHCFA revenue bonds, which were issued by Kadlec prior to the affiliation. In connection with the Series 2014D issuance, Kadlec became a member of the Obligated Group.

In September 2013, the Health System issued $239,865,000 of OFA comprised of fixed rate bonds and variable rate bonds; and $574,535,000 direct obligation notes comprised of a fixed rate issue and a variable rate issue. The proceeds were used to redeem Series 2003D-G HFACC bonds, advance refund the Series 2004 HFAMC bonds, redeem and cancel the outstanding Series 2008A Commercial Paper Notes and repay the outstanding US Bank Revolving Credit Facility. The Series 2013C bonds were initially issued in Index Floating Rate Mode which will be subject to mandatory purchase on the day following the end of the Initial Index Floating Rate Period as more fully described in the respective Official Statement. The Obligated Group is unconditionally obligated to pay the purchase price of the Series 2013C bonds if remarketing proceeds are insufficient to make such payment. The remarketing provision is not supported by a stand-by bond purchase agreement and accordingly the amount subject to the mandatory tender provision has resulted in short-term classification on the accompanying combined balance sheets.

In connection with the Series 2014A-D issuances and the Series 2013A-E issuances, the Health System recorded losses due to extinguishment of debt of $85,522,000 and $1,671,000 in 2014 and 2013, respectively, which were recorded in net nonoperating gains in the accompanying combined statement of operations.

(a) Master Trust Debt Classified as Short-Term

Oregon Facilities Authority (OFA) Revenue Bonds, Series 2013C

The Series 2013C bonds were issued in September 2013 as variable rate debt with a mandatory tender provision that requires the Health System to fund any shortfall upon remarketing of bonds at intervals defined by the offering statement. As a result $32,075,000 subject to the mandatory tender was classified as short-term debt at December 31, 2013 as the balance could have become due and payable in 2014. In 2014 the Series 2013C bonds were remarketed under the terms defined by the offering statement, resulting in the mandatory tender provision being extended to 2017. Accordingly, the related short-term debt was reclassified as long-term debt at December 31, 2014.

Commercial Paper, Series 2008A

The Health System participated in a commercial paper program through September 2013. The commercial paper program was redeemed through the issuance of the Series 2013 E direct obligation bonds.

U.S. Bank Credit Facility

The Health System has a $150,000,000 Credit Facility with U.S. Bank, of which $12,500,000 in borrowings was outstanding at December 31, 2014.

(b) Other Long-Term Debt

Other long-term debt primarily includes capital leases, notes payable, and bonds that are not under the master trust indenture. Other long-term debt at December 31, 2014 and 2013 consists of the following:

	2014	2013
	(In thousands of dollars)	
Capital leases	$ 114,963	124,237
Notes payable	74,381	52,335
Bonds not under master trust indenture and other	11,579	10,877
Total other long-term debt	$ 200,923	187,449

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)	
2015	$ 177,460	24,827	202,287
2016	222,580	27,371	249,951
2017	160,175	15,422	175,597
2018	60,890	10,388	71,278
2019	165,895	9,494	175,389
Thereafter	2,934,685	113,421	3,048,106
Scheduled principal payments of long-term debt	3,721,685	$ 200,923	3,922,608
Short-term master trust debt	12,500		
Total master trust debt	$ 3,734,185		

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):

2015	$	115,899
2016		97,451
2017		82,936
2018		72,777
2019		58,082
Thereafter		546,052
	$	973,197

Rental expense was $193,875,000 and $181,239,000 for the years ended December 31, 2014 and 2013, 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. The Health System 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, 2014 and 2013 were $100,380,000 and $87,647,000, respectively.

The measurement dates for the defined benefit plans are December 31, 2014 and 2013. 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:

	2014	2013
	(In thousands of dollars)	
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	$ 2,592,617	2,896,017
Service cost	22,851	32,042
Interest cost	124,911	114,765
Plan amendments	—	(1,310)
Actuarial loss (gain)	289,225	(247,903)
Benefits paid and other	(202,279)	(200,994)
Projected benefit obligation at end of year	2,827,325	2,592,617
Change in fair value of plan assets:		
Fair value of plan assets at beginning of year	1,773,628	1,696,137
Actual return on plan assets	110,521	190,838
Employer contributions	100,380	87,647
Benefits paid and other	(202,279)	(200,994)
Fair value of plan assets at end of year	1,782,250	1,773,628
Funded status	(1,045,075)	(818,989)
Unrecognized net actuarial loss	441,783	191,541
Unrecognized prior service cost	6,299	7,530
Net amount recognized	$ (596,993)	(619,918)
Amounts recognized in the consolidated balance sheets consist of:		
Current liabilities	$ (4,136)	(6,461)
Noncurrent liabilities	(1,040,939)	(812,528)
Unrestricted net assets	448,082	199,071
Net amount recognized	$ (596,993)	(619,918)
Weighted average assumptions:		
Discount rate	4.20%	5.00%
Rate of increase in compensation levels	3.50	4.00
Long-term rate of return on assets	7.00	7.00

Net periodic pension cost for the defined benefit plans for 2014 and 2013 includes the following components:

		2014	2013
		(In thousands of dollars)	
Components of net periodic pension cost:			
Service cost	$	22,851	32,042
Interest cost		124,911	114,765
Expected return on plan assets		(118,676)	(114,501)
Amortization of prior service cost		1,231	1,231
Recognized net actuarial loss		14,340	33,094
Settlement expense		32,798	25,826
Net periodic pension cost	$	77,455	92,457

Total expense for all of the Health System's defined benefit plans for the years ended December 31, 2014 and 2013 was $77,455,000 and $92,457,000, respectively. Included in the total expense is $32,798,000 and $25,826,000 of settlement costs that were incurred in 2014 and 2013, 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 $2,771,511,300 and $2,543,426,000 at December 31, 2014 and 2013, 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):

2015	$	186,304
2016		189,748
2017		195,753
2018		201,417
2019 – 2024		1,141,027
	$	1,914,249

The Health System expects to contribute approximately $68,207,000 to the defined benefit plans in 2015.

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 2014 and 2013 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) for the years ended December 31, 2014 and 2013, respectively, were as follows:

	2014 and 2013 Target	**2014 ELTRA**	**2013 ELTRA**
Cash and cash equivalents	5%	1%–4%	0.5%–2%
Equity securities	35	5%–8%	5%–8%
Debt securities	50	3%–5%	3%–4%
Other securities	10	6%–9%	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, 2014:

	December 31, 2014	Fair value measurements at reporting date using Level 1	Level 2	Level 3
		(In thousands of dollars)		
Assets:				
Cash and cash equivalents	$ 44,670	44,670	—	—
Domestic equity securities:				
Mutual funds:				
Medium-small cap and other	2,252	2,252	—	—
Consumer services	184,842	184,842	—	—
Financial services	68,769	68,769		
Technology	45,304	45,304	—	—
Other	62,558	62,558	—	—
Foreign equity securities:				
Mutual funds:				
Large capitalization	44,450	44,450	—	—
Consumer services	15,809	15,809	—	—
Technology	11,777	11,777	—	—
Other	19,809	19,809	—	—
Debt securities – state and government	281,432	208,804	72,628	—
Foreign securities – state and government	14,596	—	14,596	—
Domestic corporate debt securities	129,564	—	129,564	—
Foreign corporate debt securities	22,291	—	22,291	—
Hedge Funds				
Risk Parity	138,886	—	138,886	—
Growth	175,031	—	175,031	—
Other	143,286	—	64,474	78,812
Collective Investment Funds				
Equities	174,631	—	174,631	—
Fixed Income	189,185	—	189,185	—
Other	13,108	3,246	9,862	—
Total	$ 1,782,250	712,290	991,148	78,812

The following table presents the Health System's defined benefit plan assets measured at fair value at December 31, 2013:

	December 31, 2013	Fair value measurements at reporting date using Level 1	Level 2	Level 3
		(In thousands of dollars)		
Assets:				
Cash and cash equivalents	$ 142,092	142,092	—	—
Domestic equity securities:				
Mutual funds:				
Large capitalization	250,076	250,076	—	—
Medium-small cap and other	2,148	2,148	—	—
Capital goods	37,169	37,169	—	—
Consumer services	29,281	29,281	—	—
Technology	69,407	69,407	—	—
Other	95,266	95,266	—	—
Foreign equity securities:				
Mutual funds:				
Large capitalization	120,681	120,681	—	—
Capital goods	7,839	7,839	—	—
Consumer services	39,702	39,702	—	—
Energy	18,928	18,928	—	—
Financial services	23,402	23,402	—	—
Healthcare	12,691	12,691	—	—
Technology and other	15,571	15,571	—	—
Debt securities – state and government	240,654	—	240,654	—
Foreign securities – state and government	56,180	—	56,180	—
Domestic corporate debt securities	135,806	—	135,806	—
Foreign corporate debt securities	22,572	—	22,572	—
Mortgage-backed securities:				
Commercial	11,963	—	11,963	—
Residential	93,660	—	93,660	—
Asset-backed securities	9,463	—	9,463	—
Hedge funds	158,681	—	158,681	—
Collective investment funds	180,396	—	180,396	—
Total	$ 1,773,628	864,253	909,375	—

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 NAV 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) as defined in Topic 820 for the years ended December 31, 2014 and 2013 (in thousands of dollars):

		Defined benefit plan assets
Balance at December 31, 2013	$	—
Total realized and unrealized gains (losses), net		(788)
Total purchases		79,600
Total sales		—
Transfers into Level 3		—
Balance at December 31, 2014	$	78,812

There were no significant transfers between assets classified as Level 1 and Level 2 during the years ended December 31, 2014 and 2013.

Level 3 assets include various hedge funds. Fair values of hedge funds were estimated using a market approach.

(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 $147,524,000 to the Service Plan in 2014 related to prior years, and has accrued a liability of $155,480,000 as of December 31, 2014 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 $74,760,000 and $63,290,000 in 2014 and 2013, respectively, and is included in employee benefits expense in the accompanying combined statements of operations.

Providence, Swedish, PAML Multiple Employer 401(k) Plan

The Health System sponsors the Providence, Swedish, PAML Multiple Employer 401(k) Plan which covers certain Providence affiliates unable to participate in the Service Plan and the Value Plan. The plan is a defined contribution plan with contributions based on defined eligible compensation. The plan has a four year cliff vesting schedule. Total plan expense, primarily related to contributions, was $42,781,000 and $37,164,000 in 2014 and 2013, respectively, and is included in employee benefits expense in the accompanying combined statements of operations.

(9) 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 or re insure certain layers of professional and general liability risk.

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, 2014 and 2013, the estimated liability for future costs of professional and general liability claims was $232,639,000 and $214,881,000, respectively. At December 31, 2014 and 2013, the estimated workers' compensation obligation was $150,845,000 and $147,270,000, respectively, in the accompanying combined balance sheets. At December 31, 2014 and 2013, $274,541,000 and $261,317,000, 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, 2014, are approximately $94,314,000.

(11) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at December 31, 2014 and 2013:

		2014	2013
		(In thousands of dollars)	
Program support	$	160,842	145,291
Low-income housing		34,036	35,050
Capital acquisition and other		110,399	43,207
Total temporarily restricted net assets	$	305,277	223,548

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, 2014 and 2013 because the time or purpose restrictions stipulated by the donor have not been met. Total fundraising expenses were $9,281,404 and $10,523,000 for the years ended December 31, 2014 and 2013, 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 $48,589,000 and $46,146,000 of assets released from restriction for operations for the years ended December 31, 2014 and 2013, respectively.

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

(12) Litigation and Contingencies

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

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, 2014 and 2013 are as follows:

		2014	2013
		(In thousands of dollars)	
Healthcare expenses	$	9,199,881	8,425,223
Purchased healthcare expenses		909,154	767,161
General and administrative expenses		2,152,790	1,906,625
Total operating expenses	$	12,261,825	11,099,009

PROVIDENCE HEALTH & SERVICES

Supplemental Schedule – Balance Sheet Information

December 31, 2014 (with combined totals for 2013)

(In thousands of dollars)

Assets	**Alaska**	**Washington**	**Montana**	**Oregon**	**Providence Plan Partners**	**Southern California**	**System office, eliminations, and other**	**2014 Total Health System**	**2013 Total Health System**
Current assets:									
Cash and cash equivalents	$ 169,977	290,063	6,008	446,794	52,204	(12,711)	285,002	1,237,337	852,965
Short-term management-designated investments	—	4,890	—	—	—	18,951	175,497	199,338	189,545
Accounts receivable, net	156,322	722,566	46,804	282,754	—	298,210	(87,161)	1,419,495	1,336,803
Other receivables, net	20,598	667,870	82,614	101,577	40,372	69,429	(607,275)	375,185	293,737
Supplies inventory	15,584	74,064	6,578	36,753	—	27,016	25,826	185,821	171,833
Other current assets	743	129,965	378	16,283	3,448	11,813	40,707	203,337	96,960
Current portion of funds held by trustee	105	2,807	2	1,512	—	82	71,857	76,365	93,473
Total current assets	363,329	1,892,225	142,384	885,673	96,024	412,790	(95,547)	3,696,878	3,035,316
Assets whose use is limited:									
Management-designated cash and investments	462,943	1,389,266	49,016	1,000,274	615,496	213,147	871,011	4,601,153	4,173,407
Gift annuities, trusts, and other	411	8,470	2,554	28,067	—	11,522	2,930	53,954	53,836
Funds held by trustee	—	41,605	—	1,501	15,792	350	120,225	179,473	119,510
Assets whose use is limited, net	463,354	1,439,341	51,570	1,029,842	631,288	225,019	994,166	4,834,580	4,346,753
Property, plant, and equipment, net	591,603	3,031,643	89,758	1,058,554	70,507	1,056,487	724,014	6,622,566	6,204,617
Other assets	37,321	223,188	19,710	70,322	1,192	229,273	(12,122)	568,884	382,711
Total assets	$ 1,455,607	6,586,397	303,422	3,044,391	799,011	1,923,569	1,610,511	15,722,908	13,969,397
Liabilities and Net Assets									
Current liabilities:									
Current portion of long-term debt	$ 21,548	65,210	4,369	39,480	—	21,110	50,570	202,287	160,383
Master trust debt classified as short-term	—	—	—	—	—	—	12,500	12,500	32,075
Accounts payable	22,222	235,376	13,476	76,343	4,146	107,392	62,987	521,942	436,622
Accrued compensation	34,358	278,447	13,289	140,454	—	94,100	177,427	738,075	620,029
Payable to contractual agencies	17,214	82,667	1,175	17,848	7,820	15,177	9,877	151,778	127,882
Retirement plan obligations	—	—	—	—	—	—	185,517	185,517	184,065
Current portion of self-insurance liability	—	11,718	—	—	—	—	97,225	108,943	100,834
Other current liabilities	7,868	807,552	64,815	55,399	223,181	51,185	(744,135)	465,865	266,551
Total current liabilities	103,210	1,480,970	97,124	329,524	235,147	288,964	(148,032)	2,386,907	1,928,441
Long-term debt, net of current portion (1)	283,210	2,202,890	56,327	261,619	—	714,395	325,821	3,844,262	3,498,246
Other long-term liabilities	21,897	460,136	6,367	41,332	1,191	65,063	946,593	1,542,579	1,225,225
Total liabilities	408,317	4,143,996	159,818	632,475	236,338	1,068,422	1,124,382	7,773,748	6,651,912
Net assets:									
Unrestricted	1,035,146	2,333,963	137,838	2,311,028	562,673	717,335	439,643	7,537,626	7,009,624
Temporarily restricted	9,324	82,787	4,707	69,183	—	100,089	39,187	305,277	223,548
Permanently restricted	2,820	25,651	1,059	31,705	—	37,723	7,299	106,257	84,313
Total net assets	1,047,290	2,442,401	143,604	2,411,916	562,673	855,147	486,129	7,949,160	7,317,485
Total liabilities and net assets	$ 1,455,607	6,586,397	303,422	3,044,391	799,011	1,923,569	1,610,511	15,722,908	13,969,397

(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.

PROVIDENCE HEALTH & SERVICES

Supplemental Schedule – Statement of Operations Information

December 31, 2014 (with combined totals for 2013)

(In thousands of dollars)

	Alaska	Washington	Montana	Oregon	Providence Plan Partners	Southern California	System office, eliminations, and other	2014 Total Health System	2013 Total Health System
Operating revenues:									
Net patient service revenues	$ 772,719	5,242,204	318,181	2,566,279	—	1,840,535	(445,281)	10,294,637	9,357,529
Provision for bad debts	(15,168)	(73,718)	(5,202)	(23,169)	—	(71,889)	(3,872)	(193,018)	(299,791)
Net patient service revenues less provision for bad debts	757,551	5,168,486	312,979	2,543,110	—	1,768,646	(449,153)	10,101,619	9,057,738
Premium and capitation revenues	—	129,753	—	90,151	1,221,361	243,103	(1,400)	1,682,968	1,445,107
Other revenues	58,317	268,661	26,532	223,263	60,861	92,240	(33,484)	696,390	633,835
Total operating revenues	815,868	5,566,900	339,511	2,856,524	1,282,222	2,103,989	(484,037)	12,480,977	11,136,680
Operating expenses:									
Salaries and wages	264,506	2,273,268	110,000	1,092,001	1,313	792,798	714,310	5,248,196	4,748,873
Employee benefits	24,440	319,296	10,616	108,960	7	86,796	669,963	1,220,078	1,161,130
Purchased healthcare	—	66,450	—	28,386	1,086,031	79,462	(351,175)	909,154	767,161
Professional fees	17,566	142,515	14,368	69,257	19,059	213,768	38,457	514,990	463,838
Supplies	110,702	847,688	65,698	440,664	496	284,480	42,979	1,792,707	1,533,092
Purchased services	50,665	340,992	36,589	150,709	130,342	153,017	114,933	977,247	944,487
Depreciation	59,769	266,002	11,712	108,955	1,875	102,861	125,183	676,357	596,623
Interest	13,992	83,787	3,014	6,590	—	32,615	15,345	155,343	129,289
Amortization	(10)	(604)	438	(235)	—	5,572	510	5,671	5,200
Other	22,972	269,807	9,003	168,942	30,150	78,346	182,862	762,082	749,316
Total operating expenses	564,602	4,609,201	261,438	2,174,229	1,269,273	1,829,715	1,553,367	12,261,825	11,099,009
Excess (deficit) of revenues over expenses from operations	251,266	957,699	78,073	682,295	12,949	274,274	(2,037,404)	219,152	37,671
Net nonoperating gains	8,581	346,822	2,072	22,258	23,062	143,908	5,567	552,270	215,599
Excess of revenues over expenses	259,847	1,304,521	80,145	704,553	36,011	418,182	(2,031,837)	771,422	253,270
Net assets released from restriction for capital	15	7,980	(19)	648	—	3,924	1,098	13,646	10,786
Change in noncontrolling interests in consolidated joint ventures	43	(37,828)	—	42	—	553	37,774	584	(29,139)
Pension related changes	—	—	—	—	—	—	(249,011)	(249,011)	385,702
Interdivision transfers	(152,306)	(880,504)	(56,560)	(505,288)	(3,000)	(414,211)	2,011,869	—	—
Contributions, grants, and other	3,130	(100,971)	(60)	(7,793)	1	(16,054)	113,108	(8,639)	(4,040)
Increase (decrease) in unrestricted net assets	$ 110,729	293,198	23,506	192,162	33,012	(7,606)	(116,999)	528,002	616,579

See accompanying independent auditors' report.