Providence Health & Services is a not-for-profit Catholic health care ministry committed to providing for the needs of the communities it serves – especially for those who are poor and vulnerable. Providence's comprehensive scope of services includes 27 hospitals, 250 physician clinics, senior services, supportive housing and many other health and educational services.

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

Community Benefit to Reach Unmet Needs

The Providence Mission reaches out beyond the walls of care settings to touch lives in the places where relief, comfort and care are needed. Providence collaborates with its community partners to respond to local needs and in 2011, spent more than $651 million on community benefit programs. All Providence regions were able to increase contributions in 2011, with total community benefit exceeding 2010 spending by $34 million.

A Special Concern for those who are Poor and Vulnerable

The cornerstone of the Providence Mission is to reveal God's love by providing quality, compassionate care that is accessible to everyone – especially to those who are poor and vulnerable. Now, more than ever, the charity care Providence provides is necessary to ensure all people, regardless of their economic situation, can access quality health care. In 2011, Providence offered nearly $204 million in free and discounted care. Consistent with other Catholic health care organizations, Providence's does not include the unpaid cost of Medicare, Medicaid or bad debt in its cost of charity care numbers.

Sustaining the Providence Mission

While these continue to be difficult economic times, the growing need for affordable health care has not changed. Remaining financially healthy is important for Providence to be able to continue to deliver the highest quality care, provide increased community benefit assets and offer charity and discounted health care to those who cannot afford it. In 2011, Providence net operating income was $238 million and on average, days cash on hand was 165.

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

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

Fiscal Year 2011 –Financial Performance Report

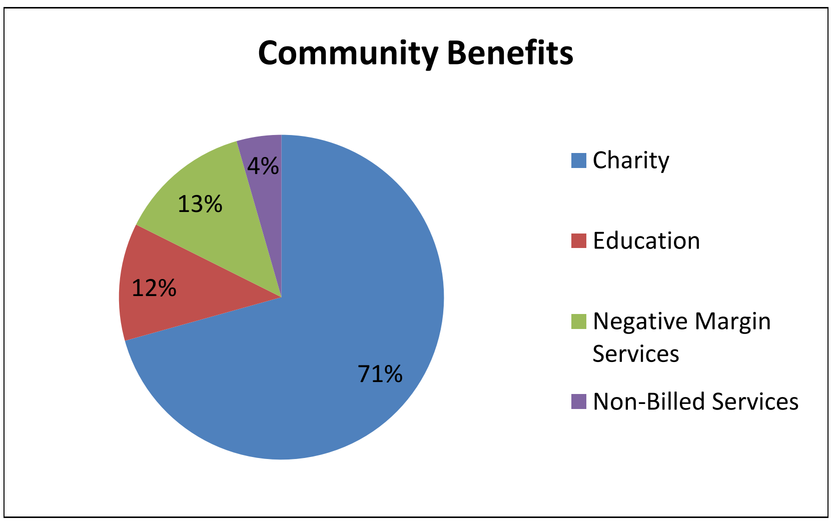
Net operating income ("NOI") of $238.9 million was in-line with budget and approximately $91.3 million below the prior year. The shortfall from the prior year was primarily attributable to budgeted expenses related to the installation of Epic, the opening of patient medical towers in Everett, Washington and Mission Hills, California and less than expected provider tax payments. The following items are unusual items included in year-to-date net operating income, which are current period items, but not directly related to day-to-day operations:

- Meaningful use attestations: A $24.5 million favorable budget variance occurred. In connection with the IT initiatives across the health system and related meaningful use attestations submitted during the fourth quarter, the health system accrued $24.5 million in other operating revenue.
- Washington State provider tax: A $49.7 million unfavorable budget variance occurred. Original budget projections were based on data provided by the state; however, actual payments received have been significantly less.
- California provider fee: A $24.9 million favorable budget variance occurred. The California state law was passed and monies distributed after the completion of the 2011 budget, resulting in the provider fee being unbudgeted activity in California. Of the total favorable variance, $16.0 million relates to patient dates of service through December 2010 and $8.9 million relates to dates of service January through June 2011.
- Sale of two dialysis units: A $12.7 million favorable budget variance occurred. In unrelated transactions, both the Providence Heath Care ("PHC") and Western Montana regions sold dialysis units to providers who were better able to serve the needs of the communities. These transactions resulted in one-time gains on sales in the respective regions.
- Inland Northwest Heath Services ("INHS") joint venture: An $11.1 million favorable budget variance occurred. Upon the conversion of INHS from an equity method to a controlled joint venture, PHC recognized a one-time gain of $11.1 million. Going forward, as a controlled joint venture, the ongoing operational performance of INHS will be included in Providence's consolidated net operating income.
- Severance accruals: A $25.5 million unfavorable budget variance resulted in connection with the voluntary and involuntary reductions in force. Of the health system total, California saw the largest financial impact, recording $11.2 million in expense.
- Pension expense: An $11.4 million unfavorable budget variance occurred in connection with the annual actuarial valuation and as a result, Providence recognized an additional $11.4 million in pension expense in December.

The following table presents consolidated key financial indicators, adjusted for the California and Washington provider tax impacts:

Key Financial Indicators	---- Fiscal Year 2011 ----		
	Actual	Budget	2010
Net Operating Income	$238.9m	$238.8m	$330.2m
Operating Margin %	2.7%	2.7%	4.1%
Net Income	$361.7m	$365.2m	$485.6m
Charity Care Services % Net Revenue	5.6%	5.4%	5.9%
Inpatient Activity – Inpatient Admissions	264,527	271,866	262,070
Outpatient Activity – Outpatient Revenue	$6,681m	$6,751m	$6,390m
Non-Acute Patient Visits	2,134,554	2,184,184	2,125,825
Physician Care Visits	2,938,665	2,888,440	2,505,787
Health Plan Member Months	4,682,432	4,603,904	4,536,372
CMI Adjusted Length of Stay	3.1	3.2	3.1
Rate - Net Service Revenue/CMAA	$11,568	$11,832	$11,258
Productivity – Labor % Net Revenue	38.9%	39.2%	39.1%
Employee Health PMPY	4,115	4,571	4,054
Supplies % Net Revenue	13.0%	13.3%	13.7%
Efficiency - Expense per CMAA	$11,153	$11,458	$10,725
Accounts Receivable Days	49	46	50
Days of Cash on Hand	165	151	176

The System provided $651.2 million in community benefits during 2011 which was $34.8 million greater than budget and $34.4 million higher than prior year. The table below illustrates consolidated community benefits by category:



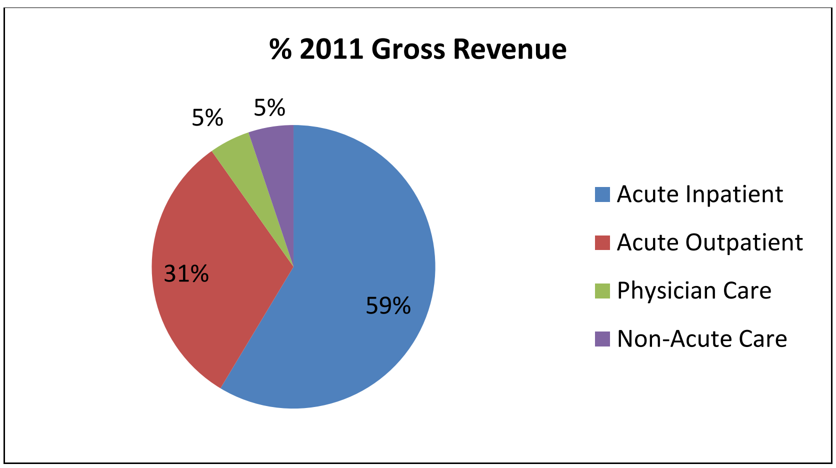
Inpatient admissions ran 2.7% below budget but 0.9% above prior year to date. The 2.7% budget shortfall represents 20 admissions per calendar day or less than 1 admission per calendar day per hospital. The year-to-date budget shortfall occurred in all regions, except Southwest Washington.

Outpatient activity ran 1.0% below budget but 4.6% above prior year to date. The budget shortfall occurred in all regions, except for Northwest Washington, Providence Health Care, and California.

Non-acute care activity ran 2.3% below budget and 0.4% above prior year to date. The 2.3% budget shortfall represents 136 fewer patients served per calendar day. The below budget performance occurred in all regions, except for Western Montana. The overall shortfall is driven by a combination of fewer hospital discharges, declines in length of stay, shifts in community practices and increased competition.

Net service revenue per case mix adjusted admission ("CMAA") ran 2.2% below budget, representing $264 per CMAA. The below budget performance occurred in all regions, except Alaska, Southeast Washington, Providence Senior and Community Services, and California. The shortfalls are the result of the economy driving up the number of uninsured, employers providing reduced insurance benefits, commercial insurance rate increases, reduced Medicaid reimbursement and the decline in utilization of hospital services.

The table below presents sources of 2011 gross revenue.



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

Balance Sheet Indicators	**---- Fiscal Year 2011 ----**		
	Tracking Goal	Current	FYE Goal
Days of Cash on Hand	Yes	165	151
Long-term Debt to Total Capitalization	Yes	30%	35%
Cash to Debt	Yes	130%	110%

It should be noted from the table above that the 165 days of cash on hand includes $38.0 million of unspent debt and $134.0 million in pension funding that will be transferred to the trustee during the second quarter of 2012. Excluding the unspent debt and pension funding, cash on hand is at 157 days.

Major Areas of Risk, Opportunities and Focus:

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

- Declining inpatient utilization
- Declining revenue per case
- Declining free cash flow availability
- Increasing specialty physician employment
- Increasing number of patients coming off COBRA
- Completing physician integration in Spokane
- Performance of physician services in California and Spokane
- Medicaid payment cuts in Washington and Oregon

Debt Supported by Self-Liquidity

In February 2008, Providence Health & Services (PH&S) held $720.5 million in auction rate debt, in 14 different series of bonds. During 2008, PH&S moved quickly to restructure its auction debt and as a result currently has approximately $400 million in variable-rate vehicles supported by self liquidity. The System reports monthly on its cash and investment balances available to retire maturing short-term debt in the event bonds cannot be remarketed. The table below summarizes the information provided to the rating agencies at the end of the fourth quarter describing cash and investments that could be available for liquidation.

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

INSTRUCTIONS: Fill in Green Cells to Compute Coverage Amounts

Liquidity Assessment Provider Name: Providence Health & Services
Portfolio As of Date: December 31, 2011

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 *	$ 217.47	$ -	$ (3.85)	$ 213.62	1.00	$ 213.62
S&P rated money market funds (> Am)	$ 32.52	$ 21.44	$ 404.85	$ 458.80	1.00	$ 458.80
Highly rated (A-1 or A-1+) dedicated bank line	$ -	$ -	$ -	$ -	1.00	$ -
Highly rated (A-1 or A-1+) money market instruments (< 1yr)	$ 1.93	$ -	$ -	$ 1.93	0.91	$ 1.76
U.S. Treasury Debt Obligations (> 1 year)	$ -	$ 71.37	$ -	$ 71.37	0.91	$ 64.88
U.S. TIPs	$ -	$ 6.00	$ -	$ 6.00	0.87	$ 5.22
U.S. Agencies (> 1 year)	$ -	$ 87.77	$ -	$ 87.77	0.83	$ 73.14
Investment Grade Debt (that is not included above)	$ -	$ -	$ 271.10	$ 271.10	0.67	$ 180.73
Equities**	$ -	$ -	$ 368.21	$ 368.21	0.50	$ 184.11
Non-Investment Grade Debt	$ -	$ -	$ 55.81	$ 55.81	0.40	$ 22.32
Total	$ 251.92	$ 186.58	$ 1,096.12	$ 1,534.61		$ 1,204.58
Discounted Total	$ 251.74	$ 164.68	$ 788.16			Discounted Total

	Enter amount of Self Liquidity Backed Debt with:		
	Same Day Notice	Next Day Notice	> Next Day Notice
Commercial Paper		$ 50.00	$ 150.00
Variable Rate Demand Note or Obligation	$ 50.20		$ 150.00
Fixed Rate Debt			
Other Securities			
Total	$ 50.20	$ 50.00	$ 300.00
Remaining Discounted Assets	$ 201.54	$ 316.22	$ 804.38
	Same Day +/-	Next Day +/-	> Next Day +/-
	Sufficient	Sufficient	Sufficient

TOTAL DEBT SUPPORTED BY SELF LIQUIDITY	TOTAL REMAINING DISCOUNTED ASSETS
$ 400.20	$ 804.38

2011 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.

Todd Hofheins, VP/Chief Financial Officer

Performance Metrics

	December 31, 2011 Year-to-Date		
	Actual	Budget	Prior Year
Volume:			
Acute Adjusted Admissions	440,583	451,533	435,122
Total Acute Admissions	264,527	271,866	262,070
Total Acute Patient Days	1,178,924	1,220,513	1,175,371
Acute Outpatient Visits	5,630,605	5,815,111	5,607,320
Primary Care Visits	2,938,665	2,888,440	2,505,787
Long-Term Care Patient Days	453,261	472,518	466,495
Home Health Visits	538,294	543,818	536,526
Hospice Days	624,422	666,832	604,745
Housing and Assisted Living Days	518,577	501,016	518,059
Health Plan Members	4,682,432	4,603,904	4,536,372
Total Occupancy %	63.2%	69.6%	65.8%
Total Average Daily Census	3,230	3,344	3,220
Surgeries:			
Inpatient	76,760	79,020	77,826
Outpatient	130,911	132,621	132,990
Total Surgeries	207,671	211,641	210,816
Emergency Room Visits:			
Inpatient	151,518	144,581	146,290
Outpatient	881,903	916,366	895,107
Total Emergency visits	1,033,421	1,060,947	1,041,397
Outpatient Visits:			
Outpatient Surgery	130,911	132,621	132,990
Emergency Visits	881,903	916,366	895,107
Primary Care	2,938,665	2,888,440	2,505,787
Homecare Visits	538,294	543,818	536,526
All Other	4,617,791	4,766,124	4,579,223
Total Outpatient Visits	9,107,564	9,247,369	8,649,633

	December 31, 2011 Year-to-Date		
	Actual	Budget	Prior Year
Efficiency:			
FTE's	45,983	46,489	44,253
YTD Overall Case-Mix Index	1.4497	1.4166	1.4262
YTD Case-Mix Adj Admissions (CMAA)	638,733	639,663	620,575
YTD Acute Care LOS (case-mix adj)	3.1	3.2	3.1
YTD Net Svc Rev/CMAA	11,568	11,832	11,258
YTD Net Expense/CMAA	11,153	11,458	10,725
YTD Paid Hours/CMAA	150	151	148
YTD Productive Hours/CMAA	131	134	130
FTE's Per Adjusted Occupied Bed	8.55	8.37	8.28
Financial Performance:			
Operating Margin	2.7%	2.7%	4.1%
Total Margin	4.1%	4.1%	5.9%
EBIDA ('000)	845,079	904,345	933,189
EBIDA Margin	9.7%	10.3%	11.5%
R12 Days of Total Cash on Hand	165	151	176
Net Patient AR Days (3 mo rolling ave)	49	46	50
Ave Yearly Salary/FTE (w/o benefits)	74,001	74,309	71,417
Employee Benefits as a % of Salaries	26.0%	27.2%	25.6%
Salary Wages as a % of Net Op Rev	38.9%	39.2%	39.1%
Supplies as a % of Net Op Revenue	13.0%	13.3%	13.7%
YTD Supplies Expense/CMAA	1,783	1,829	1,789
YTD Med Supplies Exp/CMAA	1,072	1,102	1,103
Bad Debt & Charity % Gross Svc Rev	4.9%	4.3%	4.7%
Community Benefit: ('000)			
Cost of Charity Care Provided	$203,660	$212,255	$197,815
Medicaid Charity	256,568	230,061	233,083
Education and Research Programs	76,229	67,191	76,349
Unpaid Cost of Other Govt Programs	2,836	800	1,907
Negative Margin Services and Other	82,913	68,296	67,799
Non-Billed Services	28,996	37,802	39,856
Total Community Benefit	$651,202	$616,404	$616,809

PROVIDENCE HEALTH & SERVICES

Consolidated Financial Statements

December 31, 2011 and 2010

(With Independent Auditors' Report Thereon)

KPMG LLP
Suite 900
801 Second Avenue
Seattle, WA 98104

Independent Auditors' Report

The Board of Directors
Providence Health & Services:

We have audited the accompanying consolidated balance sheets of Providence Health & Services (the Health System) as of December 31, 2011 and 2010, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Health System's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Health System's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Providence Health & Services as of December 31, 2011 and 2010, and the results of its operations, changes in net assets, and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

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

KPMG LLP

April 11, 2012

PROVIDENCE HEALTH & SERVICES

Consolidated Balance Sheets

December 31, 2011 and 2010

(In thousands of dollars)

Assets		**2011**	**2010**
Current assets:			
Cash and cash equivalents	$	378,521	527,703
Short-term management-designated investments		417,210	358,307
Assets held under securities lending		86,987	139,920
Accounts receivable, less allowance for bad debts of $214,433 in 2011 and $171,047 in 2010		935,604	845,842
Other receivables, net		213,527	186,267
Supplies inventory		125,157	123,332
Other current assets		82,540	77,762
Current portion of funds held by trustee		75,745	88,684
Total current assets		2,315,291	2,347,817
Assets whose use is limited:			
Management-designated cash and investments		2,713,050	2,517,647
Gift annuities, trusts, and other		35,545	37,036
Funds held by trustee		160,243	139,533
Assets whose use is limited, net of current portion		2,908,838	2,694,216
Property, plant, and equipment, net		4,679,181	4,272,212
Other assets		276,369	264,825
Total assets	$	10,179,679	9,579,070

(Continued)

PROVIDENCE HEALTH & SERVICES

Consolidated Balance Sheets

December 31, 2011 and 2010

(In thousands of dollars)

Liabilities and Net Assets	**2011**	**2010**
Current liabilities:		
Current portion of long-term debt	$ 46,205	48,145
Master trust debt classified as short-term	454,200	454,200
Accounts payable	331,685	301,560
Accrued compensation	431,724	378,598
Payable to contractual agencies	110,594	71,668
Liabilities under securities lending	89,183	142,345
Retirement plan obligations	154,120	136,245
Current portion of self-insurance liability	74,944	83,907
Other current liabilities	199,885	189,957
Total current liabilities	1,892,540	1,806,625
Long-term debt, net of current portion	1,797,350	1,705,313
Other long-term liabilities:		
Self-insurance liability, net of current portion	236,126	225,469
Pension benefit obligation	771,183	633,642
Other liabilities	81,783	71,199
Total other long-term liabilities	1,089,092	930,310
Total liabilities	4,778,982	4,442,248
Net assets:		
Unrestricted	5,178,979	4,909,822
Temporarily restricted	151,886	159,865
Permanently restricted	69,832	67,135
Total net assets	5,400,697	5,136,822
Total liabilities and net assets	$ 10,179,679	9,579,070

See accompanying notes to consolidated financial statements.

PROVIDENCE HEALTH & SERVICES

Consolidated Statements of Operations

Years ended December 31, 2011 and 2010

(In thousands of dollars)

		2011	2010
Operating revenues:			
Net patient service revenues	$	7,025,380	6,512,985
Premium revenues		1,184,982	1,124,913
Other revenues		528,819	444,057
Total operating revenues		8,739,181	8,081,955
Operating expenses:			
Salaries and wages		3,402,777	3,160,451
Employee benefits		883,232	807,748
Purchased healthcare		694,273	651,738
Professional fees		280,550	240,248
Supplies		1,138,637	1,110,434
Purchased services		698,682	641,496
Depreciation		407,117	382,204
Interest and amortization		76,236	65,387
Bad debts		319,913	290,958
Other		598,871	401,076
Total operating expenses		8,500,288	7,751,740
Excess of revenues over expenses from operations		238,893	330,215
Net nonoperating gains			
Investment income, net		157,836	166,418
Pension settlement costs		(32,500)	—
Other		(2,502)	(11,035)
Total net nonoperating gains		122,834	155,383
Excess of revenues over expenses		361,727	485,598
Net assets released from restriction		16,909	23,751
Change in noncontrolling interests in consolidated joint ventures		19,215	43,410
Pension related changes		(129,236)	(123,290)
Other changes in unrestricted net assets		542	2,264
Increase in unrestricted net assets	$	269,157	431,733

See accompanying notes to consolidated financial statements.

PROVIDENCE HEALTH & SERVICES

Consolidated Statements of Changes in Net Assets

Years ended December 31, 2011 and 2010

(In thousands of dollars)

		Unrestricted	Temporarily restricted	Permanently restricted	Total net assets
Balance, December 31, 2009	$	4,478,089	169,519	61,719	4,709,327
Excess of revenues over expenses		485,598	—	—	485,598
Contributions, grants, and other		2,264	47,390	5,416	55,070
Net assets released from restriction		23,751	(57,044)	—	(33,293)
Change in noncontrolling interests in consolidated joint ventures		43,410	—	—	43,410
Pension related changes		(123,290)	—	—	(123,290)
Increase (decrease) in net assets		431,733	(9,654)	5,416	427,495
Balance, December 31, 2010		4,909,822	159,865	67,135	5,136,822
Excess of revenues over expenses		361,727	—	—	361,727
Contributions, grants, and other		542	39,947	2,697	43,186
Net assets released from restriction		16,909	(47,926)	—	(31,017)
Change in noncontrolling interests in consolidated joint ventures		19,215	—	—	19,215
Pension related changes		(129,236)	—	—	(129,236)
Increase (decrease) in net assets		269,157	(7,979)	2,697	263,875
Balance, December 31, 2011	$	5,178,979	151,886	69,832	5,400,697

See accompanying notes to consolidated financial statements.

PROVIDENCE HEALTH & SERVICES

Consolidated Statements of Cash Flows

Years ended December 31, 2011 and 2010

(In thousands of dollars)

		2011	2010
Cash flows from operating activities:			
Increase in net assets	$	263,875	427,495
Adjustments to reconcile increase in net assets to net cash provided by operating activities:			
Depreciation and amortization		411,831	383,999
Provision for bad debt		319,913	290,958
Equity income from joint ventures		(61,083)	(46,044)
Restricted contributions and investment income received		(40,048)	(39,064)
Net realized and unrealized gains on investments		(154,505)	(171,055)
Distributions from joint ventures		70,588	19,302
Changes in certain current assets and current liabilities		(299,767)	(104,414)
Change in other long-term liabilities and other		158,782	122,527
Net cash provided by operating activities		669,586	883,704
Cash flows from investing activities:			
Property, plant, and equipment additions		(816,534)	(668,768)
Proceeds from disposal of property, plant, and equipment		16,268	7,280
Purchases of investments		(4,893,104)	(5,763,988)
Proceeds from sales of investments		4,773,540	5,472,567
Change in securities lending collateral		52,933	(29,149)
Acquisition of physician practices		(1,800)	(37,314)
Change in other long-term assets and other		(38,142)	(5,911)
Change in funds held by trustee, net		10,823	(43,176)
Net cash used in investing activities		(896,016)	(1,068,459)
Cash flows from financing activities:			
Proceeds from restricted contributions and restricted income		40,048	39,064
Debt borrowings		1,009,752	887,423
Debt payments		(919,749)	(735,553)
Change in securities lending payable		(53,162)	27,748
Payment of deferred financing costs and other		359	(1,587)
Net cash provided by financing activities		77,248	217,095
(Decrease) increase in cash and cash equivalents		(149,182)	32,340
Cash and cash equivalents, beginning of year		527,703	495,363
Cash and cash equivalents, end of year	$	378,521	527,703
Supplemental disclosure of cash flow information:			
Cash paid for interest (net of amounts capitalized)	$	68,370	70,565

See accompanying notes to consolidated financial statements.

(1) Organization

(a) Sisters of Providence

Sisters of Providence (the Congregation), a religious congregation of Roman Catholic women, was founded in 1843. The religious congregation's central headquarters is in Montreal, Quebec, Canada. Sisters of Providence – Mother Joseph Province (the Province) was formed in 2000 through the combination of the Sacred Heart Province (founded in 1856) and the St. Ignatius Province (founded in 1891). The activities of the Province include apostolic works in healthcare, social services, and education. Members of the Province serve in these works through related and unrelated organizations. The Province is compensated for the services of its members. The Province has 146 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
- Diocese of Baker, Oregon
- Diocese of Boise, Idaho
- Diocese of Great Falls – Billings, Montana
- Diocese of Orlando, Florida
- Diocese of Spokane, Washington
- Diocese of Yakima, Washington
- Diocesis Santiago de Maria, El Salvador

(b) Providence Health & Services

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

Providence Ministries sponsors various corporations comprising the Health System:

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

- Providence Health System – Southern California (cosponsored by the Congregation and the American Province of the Little Company of Mary Sisters)
- Providence Health & Services – Montana
- Providence St. Joseph Medical Center
- St. Thomas Child and Family Center Corporation
- University of Great Falls
- Providence Plan Partners
- Providence Health Plan (the Health Plan)
- Providence Health Assurance
- Providence Health System Housing; The St. Luke Association; The Lundberg Association; Providence St. Francis Association; Providence Blanchet Association; Providence Rossi Association; Providence Peter Claver Association; The Gamelin Association; The Gamelin Oregon Association; The Gamelin California Association; Providence St. Elizabeth House Association; Gamelin Washington Association; Providence Gamelin House Association
- Providence Oregon Management Corporation
- The John Gabriel Ryan Association
- Providence Ventures, Inc.
- Providence Assurance, Inc.

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

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

(c) Affiliated Transactions

Interaffiliate Borrowings

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

Self-Insurance Liability

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

(2) Summary of Significant Accounting Policies

(a) Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Health System. All significant transactions and accounts between consolidated divisions and affiliates of the Health System have been eliminated. The Health System has performed an evaluation of subsequent events through April 11, 2012, which is the date these consolidated financial statements were issued.

(b) Use of Estimates

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

(c) Cash and Cash Equivalents

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

(d) Supplies Inventory

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

(e) Property, Plant, and Equipment

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

The Health System assesses potential impairment to their long-lived assets when there is evidence that events or changes in circumstances have made recovery of the carrying value of the assets unlikely. An impairment loss, equal to the excess, if any, of the carrying value over the fair value less disposal costs, is recognized when the sum of the expected future undiscounted net cash flows from the use and disposal of the asset is less than the carrying amount of the asset.

(f) Depreciation

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

(g) Capitalized Interest

Interest capitalized on amounts expended during construction in process is a component of the cost of additions to be allocated to future periods through the provision for depreciation. Capitalization of interest ceases when the addition is substantially complete and ready for intended use. The Health System capitalized $27,200,000 and $31,001,000 of interest costs during the years ended December 31, 2011 and 2010, respectively.

(h) Financing Costs

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

(i) Goodwill

Goodwill, which is not amortized, is recorded in other assets as the excess of cost over fair value of the acquired net assets. Goodwill is tested at least annually for impairment.

(j) Assets Whose Use Is Limited

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

Assets whose use is limited primarily include assets held by trustees under indenture agreements, self-insurance funds, funds held for the payment of health plan medical claims, assets held by related foundations, and designated assets set aside by the management of Providence Health & Services for future capital improvements and other purposes, over which management retains control. Amounts required to meet current liabilities of the Health System have been reclassified as current in the consolidated balance sheets at December 31, 2011 and 2010.

(k) Net Assets

Unrestricted net assets are those that are not subject to donor imposed stipulations. Amounts related to the Health System's noncontrolling interests in certain joint ventures of $62,625,000 and $43,410,000 in 2011 and 2010, respectively, are included in unrestricted net assets. Temporarily restricted net assets are those whose use by the Health System has been limited by donors to a specific time period and/or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Health System in perpetuity. Unless specifically stated by donors, gains and losses on temporarily and permanently restricted net assets are recorded as temporarily restricted.

(l) Donor-Restricted Gifts

Unconditional promises to give cash and other assets to the Health System are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give

(Continued)

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

(m) Net Patient Service Revenues

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

Net patient service revenues are reported at the estimated net realizable amounts due from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with governmental payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as appropriate. Adjustments from finalization of prior years' cost reports and other third-party settlement estimates resulted in an increase in net patient service revenues of $12,647,000 and $17,894,000 for the years ended December 31, 2011 and 2010, respectively.

The composition of significant third-party payors for the years ended December 31, 2011 and 2010, as a percentage of net patient service revenues, is as follows:

	2011	**2010**
Commercial and other insurance	49%	49%
Medicare	32	33
Medicaid	14	11
Self-pay	5	7
	100%	100%

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

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

(o) Other Operating Revenue

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

(p) 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, 2011 and 2010 is summarized below:

		2011	2010
		(In thousands of dollars)	
Cost of charity care provided	$	203,660	197,815
Unpaid cost of Medicaid services		256,568	233,083
Education and research programs, net cost		76,229	76,349
Nonbilled services, net cost		28,996	39,856
Negative margin services and other, net cost		85,749	69,706
Unsponsored community benefit costs	$	651,202	616,809
Percentage of total operating expenses, excluding purchased healthcare		8.3%	8.7%

The cost of charity care provided is based on each division's aggregate relationship of costs to charges. The unpaid cost of Medicaid services is the cost of treating Medicaid patients in excess of government payments. Education includes the unpaid cost of training health professionals, such as medical residents. Research programs include the unpaid cost of controlled studies of therapeutic protocols and development of new treatment protocols. Nonbilled services include the cost of services for which neither the patient or insurance is billed or for which a nominal fee has been assessed. Negative margin services include programs for which net patient service revenue is less than cost incurred to provide the service to meet a need in the community. Unpaid cost of Medicaid services, education and research programs, nonbilled services, and negative margin services are net of revenues of $940,527,000 and $839,925,000 for the years ended December 31, 2011 and 2010, respectively.

(q) Net Nonoperating Gains

Net nonoperating gains primarily include investment income, equity earnings from the Health System's participation in certain unconsolidated joint ventures, income from recipient organizations, and other income. For the year ended December 31, 2011, net nonoperating gains also includes pension settlement costs of $32,500,000 as described in note 8.

(r) 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 consolidated joint ventures, and other.

(s) Income Taxes

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

For the taxable corporations, deferred income taxes are provided for the future tax consequences of temporary differences between financial and tax reporting. Deferred tax assets and liabilities are measured based on enacted tax laws and rates expected to apply to taxable income in the years in which temporary differences are expected to be recorded or settled. Income taxes did not have a material impact on the consolidated financial position or results of operations of the Health System as of and for the years ended December 31, 2011 and 2010.

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

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

(t) Recently Issued or Adopted Accounting Standards

In 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-07, *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities*, which provides financial statement users with greater transparency about a health care entity's net patient service revenue and the related allowance for doubtful accounts. The amendments require health care entities to present the provision for bad debts related to patient service revenue as a deduction from patient service revenue (net of contractual allowances and discounts) on their statement of operations. This standard is effective for the 2012 fiscal year. The adoption of ASU 2011-07 will not have a material impact on the Health System's consolidated financial statements.

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

In 2010, the FASB issued ASU No. 2010-23, *Health Care Entities – Measuring Charity Care for Disclosure*, which requires a standardized process be used by health care entities that provide charity care to determine the measurement basis. This standard was effective for the 2011 fiscal year. The adoption of this standard did not have a material impact on the Health System's consolidated financial statements.

(u) Health Care Reform

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

(v) Reclassifications

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

(3) Fair Value of Financial Instruments

ASC Topic 820 (Topic 820), *Fair Value Measurements and Disclosures*, establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

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

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

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

The fair value of management-designated cash and investments, funds held for long-term purposes, and funds held by trustee, which are the amounts reported in the consolidated balance sheets, are estimated based on quoted market prices. For long-term debt, the fair value is based on Level 2 inputs, such as the discounted value of the future cash flows using current rates for debt with the same remaining maturities, considering the existing call premium and protection. The carrying value and fair value of long-term debt, including accrued interest, was $2,310,466,000 and $2,464,850,000, respectively, as of December 31, 2011, and $2,235,707,000 and $2,259,167,000, respectively, as of December 31, 2010.

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

(a) Collective Investment Funds

Collective investment funds include investments that are held by a trust company that handles a pooled group of trust accounts. The Health System holds six funds and has no unfunded commitments or provisions significantly impacting liquidity at December 31, 2011. The underlying holdings of these funds are primarily comprised of publicly traded domestic equity and debt securities, whose fair value is readily determinable.

(b) Securities Lending Agreements

The Health System has securities lending agreements with financial institutions that serve as the lending agent. These agreements authorize the lending agents to lend securities owned by the Health System to an approved list of borrowers. Under the agreements, the lending agents are responsible for negotiating each loan for an unspecified term while retaining the power to terminate the loan at any time. At the time each loan is made, the lending agents require collateral equal to 102% of the market value of the loaned securities and accrued interest. While any securities are loaned, the Health System retains all rights of ownership, except it waives its right to vote such securities. The collateral related to the securities loaned totaled $86,987,000 and $139,920,000 at December 31, 2011 and 2010, respectively. In connection with securities lending activities the Health System has recognized a net investment loss of $1,984,000 and $2,255,000, for the years ended December 31, 2011 and 2010, respectively. Net investment gains and losses are included in net nonoperating gains in the accompanying consolidated statements of operations.

(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, 2011:

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

The following table presents 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, 2010:

			Fair value measurements at reporting date using		
		December 31, 2010	Level 1	Level 2	Level 3
			(In thousands of dollars)		
Assets					
Assets under securities lending	$	139,920	53,396	86,524	—
Gift annuities, trusts, and other		37,036	18,552	15,518	2,966
Liabilities:					
Liabilities under securities lending	$	142,345	53,397	88,948	—

The 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, 2011 and 2010 (in thousands of dollars):

		Gift annuities, trusts, and other
Balance at December 31, 2009	$	1,354
Total realized and unrealized (losses) gains, net		185
Transfers in and/or out of Level 3 (net)		1,427
Balance at December 31, 2010		2,966
Total realized and unrealized (losses) gains, net		99
Total purchases		3,329
Total sales		(872)
Transfers into Level 3		5,480
Balance at December 31, 2011	$	11,002

There were no significant transfers between assets classified as Level 1 and Level 2 during the year ended December 31, 2011.

(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, 2011 is set forth in the following tables. Investments are stated at fair value.

	December 31, 2011	Fair value measurements at reporting date using Level 1	Level 2	Level 3
	(In thousands of dollars)			
Assets:				
Management-designated cash and investments:				
Cash and cash equivalents	$ 216,418	216,418	—	—
Domestic equity securities:				
Mutual funds:				
Large capitalization	159,108	159,108	—	—
Med-small capitalization	53,587	53,587	—	—
Other	35,370	35,370	—	—
Capital goods	30,162	30,162	—	—
Consumer services	60,469	60,469	—	—
Energy	37,486	37,486	—	—
Financial services	27,760	27,760	—	—
Technology	34,279	34,279	—	—
Healthcare and other	36,647	36,647	—	—
Foreign equity securities:				
Mutual funds	248,210	248,210	—	—
Other industries	29,453	29,453	—	—
Collective investment funds	426,215	—	426,215	—
Debt securities – U.S Treasury	950,651	409,492	541,159	—
Debt securities – State Treasury	26,636	1,503	25,133	—
Domestic corporate debt securities	446,428	25,296	421,132	—
Foreign corporate debt securities	159,898	—	159,898	—
Mortgage-backed securities:				
Commercial	62,279	—	62,279	—
Residential	29,460	—	29,460	—
Collateralized debt obligations	46,149	—	46,149	—
Other	13,595	10,470	3,125	—
Total	$ 3,130,260	1,415,710	1,714,550	—

	December 31, 2011	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	$ 68,720	68,720	—	—
Domestic equity securities:				
Mutual Funds	38,037	38,037	—	—
Debt securities – U.S. Treasury	62,150	62,150	—	—
Domestic corporate debt securities	29,256	—	29,256	—
Foreign corporate debt securities	20,497	—	20,497	—
Mortgage-backed securities	8,868	—	8,868	—
Other	8,460	3,998	4,462	—
Total	$ 235,988	172,905	63,083	—

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

	December 31, 2010	Fair value measurements at reporting date using: Level 1	Level 2	Level 3
	(In thousands of dollars)			
Assets:				
Management-designated cash and investments:				
Cash and cash equivalents	$ 462,705	462,705	—	—
Domestic equity securities:				
Mutual funds:				
Large capitalization	30,326	30,326	—	—
Med-small capitalization and other	21,143	21,143	—	—
Consumer and financial services	24,393	24,393	—	—
Technology	21,259	21,259	—	—
Energy and other industries	35,143	35,143	—	—
Foreign equity securities:				
Mutual funds:				
Large capitalization	28,093	28,093	—	—
International and emerging markets	24,269	24,269	—	—
Other industries	17,259	17,259	—	—
Collective investment funds	438,933	—	438,933	—
Debt securities – U.S. Treasury	988,398	523,275	465,123	—
Debt securities – State Treasury	18,108	1,656	16,452	—
Domestic corporate debt securities	521,441	34,102	487,339	—
Foreign corporate debt securities	81,116	—	81,116	—
Mortgage-backed securities:				
Commercial	66,433	—	66,433	—
Residential	11,760	—	11,760	—
Collateralized debt obligations	48,559	—	48,559	—
Other	36,616	6,297	30,319	—
Total	$ 2,875,954	1,229,920	1,646,034	—

		Fair value measurements at reporting date using		
	December 31, 2010	Level 1	Level 2	Level 3
		(In thousands of dollars)		
Funds held by trustee:				
Cash and cash equivalents	$ 83,527	83,527	—	—
Domestic equity securities:				
Mutual Funds	16,399	16,399	—	—
Debt securities – U.S. Treasury	57,343	57,343	—	—
Domestic corporate debt securities	20,397	—	20,397	—
Foreign corporate debt securities	5,039	—	5,039	—
Mortgage-backed securities	9,198	—	9,198	—
Other	36,314	—	36,314	—
Total	$ 228,217	157,269	70,948	—

The Health System's funds held by trustee are segregated from other cash and investments for various purposes. Included in funds held by trustee as of December 31, 2011 and 2010, respectively, are $33,145,000 and $29,556,000 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 $185,742,000 and $176,416,000 at December 31, 2011 and 2010, respectively, related to the self-insurance and pension trusts. Within the self-insured trusts, the balance is based on management's assessment of annual need. Any additional investments are considered management-designated.

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

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, 2011 and 2010:

	2011	2010
	(In thousands of dollars)	
Interest income	$ 77,086	67,514
Net realized gains on sale of investments	54,347	42,672
Net unrealized gains on trading securities	26,403	56,232

(5) Property, Plant, and Equipment

Property, plant, and equipment and the total accumulated depreciation at December 31, 2011 and 2010 are shown below:

	Approximate useful life (years)	2011	2010
		(In thousands of dollars)	
Land and improvements	5 – 25	$ 557,244	538,933
Buildings and improvements	5 – 60	3,669,656	3,060,726
Equipment:			
Fixed	5 – 25	863,707	811,290
Major movable and minor	3 – 20	2,504,566	2,291,500
Rental property	15 – 40	862,905	819,230
Construction in progress	—	567,645	699,415
		9,025,723	8,221,094
Less accumulated depreciation		4,346,542	3,948,882
Property, plant, and equipment, net		$ 4,679,181	4,272,212

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

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

(6) Other Assets

Other assets at December 31, 2011 and 2010 are as follows:

	2011	2010
	(In thousands of dollars)	
Unamortized financing costs, net	$ 20,427	20,786
Investment in joint ventures	81,648	93,148
Interest in noncontrolled foundations	20,563	15,542
Notes receivable	55,070	44,852
Long-term reinsurance receivable	24,225	24,325
Goodwill	36,372	28,931
Other	38,064	37,241
Total other assets	$ 276,369	264,825

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. Seven of these joint ventures, located in Anchorage, Alaska, Spokane, Washington, Portland, Oregon, and Mission Hills, California are controlled by the Health System and consequently are consolidated in the financial statements of the Health System. All other joint ventures are accounted for under the equity method of accounting. The Health System recorded earnings from equity method investees of $60,786,000 and $45,535,000 for the years ended December 31, 2011 and 2010, respectively, which are included in other operating revenues in the accompanying consolidated statements of operations.

Noncontrolling interests in consolidated joint ventures, included in unrestricted net assets of $62,625,000 and $43,410,000, are primarily comprised of the joint ventures Pathology Associates Medical Laboratories (PAML) and Inland Northwest Health Services (INHS) of approximately $58,412,000 and $38,210,000 at December 31, 2011 and 2010, respectively. The Health System is a 75% and 85% owner of PAML at December 31, 2011 and 2010, respectively; the joint venture was created during 2010. During 2011 the Health System increased its ownership interest in INHS to 62.5% from 50% as of December 31, 2010.

(7) Short-Term and Long-Term Debt

Short-term and long-term debt at December 31, 2011 and 2010 consists of the following (see detailed explanations on the following pages):

	2011	2010
	(In thousands of dollars)	
Master trust debt:		
Series 1996, CHFFA Revenue Bonds (Sisters of Providence)	$ 4,710	5,515
Series 1997, Direct Obligation Notes (Sisters of Providence)	5,210	7,035
Series 2001A, WHCFA Revenue Bonds (Providence Health System)	—	105,200
Series 2003H, AIDEA Revenue Bonds (Providence Health System)	27,800	27,800
Series 2003D,E,F,G, HFACC Revenue Bonds (Providence Health System)	200,200	211,525
Series 2004, HFAMC Revenue Bonds (Providence Health System)	89,355	95,995
Series 2005, Direct Obligation Notes (Providence Health System)	51,510	53,090
Series 2006A, WHCFA Revenue Bonds (Providence Health & Services)	210,555	210,555
Series 2006B, MFFA Revenue Bonds (Providence Health & Services)	68,430	68,430
Series 2006C, WHCFA Revenue Bonds (Providence Health & Services)	69,425	69,425

(Continued)

	2011	2010
	(In thousands of dollars)	
Series 2006D, WHCFA Revenue Bonds (Providence Health & Services)	$ 69,275	69,275
Series 2006E, WHCFA Revenue Bonds (Providence Health & Services)	26,350	26,350
Series 2006H, AIDEA Revenue Bonds (Providence Health & Services)	54,355	54,355
Series 2008C, CHFFA Revenue Bonds (Providence Health & Services)	279,225	280,325
Series 2009A, Direct Obligation Notes (Providence Health & Services)	250,000	250,000
Series 2009B, CHFFA Revenue Bonds (Providence Health & Services)	150,000	150,000
Series 2010A, WHCFA Revenue Bonds (Providence Health & Services)	174,240	174,240
Series 2011A, AIDEA Revenue Bonds (Providence Health & Services)	122,720	—
Series 2011B, WHCFA Revenue Bonds (Providence Health & Services)	91,170	—
Series 2011C, OFA Revenue Bonds (Providence Health & Services)	22,355	—
Commercial Paper, Series 2008A	194,000	194,000
US Bank Credit Facility	60,000	60,000
Master trust debt at par value	2,220,885	2,113,115
Premiums and discounts, net	11,395	(4,293)
Master trust debt, including premiums and discounts, net	2,232,280	2,108,822
Other long-term debt	65,475	98,836
Total debt	$ 2,297,755	2,207,658

	2011	2010
	(In thousands of dollars)	
Current portion of long-term debt	$ 46,205	48,145
Long-term debt subject to short-term remarketing agreements	200,200	200,200
Short-term master trust debt	254,000	254,000
Long-term debt, classified as a long-term liability	1,797,350	1,705,313
Total debt	$ 2,297,755	2,207,658

Providence Health & Services – Washington; Providence Health & Services – Oregon (exclusive of Providence Plan Partners); Providence Health System – Southern California (exclusive of Medical Institute

(Continued)

of Little Company of Mary, Lifecare Ventures, Inc., and TrinityCare Hospice); Providence St. Joseph Medical Center, and Providence Health & Services – Montana, exclusive of related housing and foundations, are the members of an Obligated Group formed for issuing debt under a master trust indenture. Members of the Obligated Group are jointly and severally responsible for all debt of the Obligated Group. The master trust indenture and bond trust indentures for each debt issue require the Obligated Group to meet certain financial covenants. In November 2011, Providence Willamette Falls Medical Center, dba Providence Health & Services – Oregon, became a member of the Obligated Group.

The Health System recorded losses due to extinguishment of debt of $2,303,000 and $748,000 in 2011 and 2010, respectively, which was recorded in net nonoperating gains in the accompanying consolidated statement of operations.

(a) Master Trust Debt Classified as Short-Term

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

The Series 2003D, E, F, and G bonds were issued in May 2003 as auction rate bonds. In October 2008, the bonds were converted to a unit pricing mode pursuant to the Series 2003 D, E, F, and G Trust Indenture. Under the unit pricing mode, the interest reset period varies with each remarketing and ranges between one and 270 days. In connection with the revised terms under the unit pricing mode, the remaining balance was reclassified to short-term debt due to the reset periods and remarketing, therefore the balance could become due and payable in 2012. The average interest rate in effect on December 31, 2011 was 0.18%. Annual scheduled principal payments range from $3,500,000 in 2016 to $18,175,000 in 2033.

Commercial Paper, Series 2008A

The Health System participates in a commercial paper program. During 2011, the Health System made principal and interest payments on matured commercial paper and reissued new commercial paper, maintaining a balance ranging between $144,000,000 and $194,000,000 throughout the year. The average interest rate in effect during 2011 was 0.33%.

U.S. Bank Credit Facility

The Health System has a $150,000,000 Credit Facility with U.S. Bank, of which $60,000,000 in borrowings were outstanding at December 31, 2011 and 2010, respectively. The interest rate in effect on December 31, 2011 was 0.65%, and the maturity date is September 30, 2012. The interest rate is based on LIBOR plus 0.35%.

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

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

The Series 1996 bonds were issued in February 1996. The outstanding bonds bear interest at rates ranging from 5.4% to 5.5% payable semiannually on April 1 and October 1. Annual principal payments range from $845,000 in 2012 to $1,045,000 in 2016.

Direct Obligation Notes, Series 1997

The Series 1997 bonds were issued in March 1997. The outstanding bonds bear an interest rate of 7.7% payable semiannually on April 1 and October 1. Annual principal payments range from $1,965,000 in 2012 to $750,000 in 2017.

Alaska Industrial Development and Export Authority (AIDEA) Revenue Bonds, Series 2003H

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

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

The Series 2004 bonds were issued in July 2004. The outstanding bonds bear interest at rates ranging from 4.125% to 5.5% payable semiannually on April 1 and October 1. Annual principal payments range from $5,000,000 in 2012 to $9,185,000 in 2024.

Direct Obligation Notes, Series 2005

The Series 2005 bonds were issued in July 2005. The outstanding bonds bear interest at rates ranging from 4.93% to 5.39% payable semiannually on April 1 and October 1. Annual principal payments range from $1,655,000 in 2012 to $4,160,000 in 2030.

Washington Health Care Facilities Authority (WHCFA) Revenue Bonds, Series 2006A

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

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

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

WHCFA Revenue Bonds, Series 2006C

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

WHCFA Revenue Bonds, Series 2006D

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

(Continued)

WHCFA Revenue Bonds, Series 2006E

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

AIDEA Revenue Bonds, Series 2006H

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

CHFFA, Series 2008C

The Series 2008C bonds were issued in November 2008. The outstanding bonds bear interest at rates ranging from 5.0% to 6.50% payable semiannually on April 1 and October 1. Annual principal payments range from $2,500,000 in 2012 to $50,000,000 in 2038. In October 2010, $2,070,000 of outstanding bonds were extinguished early.

Direct Obligation Notes, Series 2009A

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

CHFFA, Series 2009B

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

WHCFA, Series 2010A

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

AIDEA, Series 2011A

The Series 2011A bonds were issued in November 2011. The outstanding bonds bear interest at rates ranging from 5.0% to 5.5% payable semiannually on April 1 and October 1. Annual principal payments range from $59,820,000 in 2040 to $62,900,000 in 2041.

WHCFA, Series 2011B

The Series 2011B bonds were issued in June 2011. The outstanding bonds bear interest at rates ranging from 2.0% to 5.0% payable semiannually on April 1 and October 1. Annual principal payments range from $7,825,000 in 2012 to $11,195,000 in 2021. The proceeds were used to redeem the WHCFA Series 2001A bonds during 2011.

(Continued)

Oregon Facilities Authority (OFA), Series 2011C

The Series 2011C bonds were issued in November 2011. The outstanding bonds bear interest at rates ranging from 3.5% to 5.0% payable semiannually on April 1 and October 1. Annual principal payments range from $1,950,000 in 2014 to $850,000 in 2026. These funds were used to redeem the HFACC 1999, 2002, and 2005 revenue bonds related to Providence Willamette Falls Medical Center, which were previously included in other debt.

(c) Other Long-Term Debt

Other long-term debt primarily includes bonds that are not under the master trust indenture, capital leases, and notes payable. Other long-term debt at December 31, 2011 and 2010 consists of the following:

		2011	2010
		(In thousands of dollars)	
Bonds not under master trust indenture	$	12,896	36,258
Capital leases		13,088	14,148
Notes payable		36,151	48,430
Other		3,340	—
Total other long-term debt	$	65,475	98,836

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)			
2012	$	32,345		13,860	46,205
2013		32,800		16,175	48,975
2014		116,360		10,615	126,975
2015		32,015		4,274	36,289
2016		96,360		3,631	99,991
Thereafter		1,657,005		16,920	1,673,925
Scheduled principal payments of long-term debt		1,966,885	$	65,475	2,032,360
Short-term master trust debt		254,000			
Total master trust debt	$	2,220,885			

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):

2012	$	53,301
2013		44,963
2014		38,558
2015		31,761
2016		31,191
Thereafter		168,370
	$	368,144

Rental expense was $91,604,000 and $81,203,000 for the years ended December 31, 2011 and 2010, respectively, and is included in other expenses in the accompanying consolidated statements of operations.

(8) Retirement Plans

(a) Defined Benefit Plans

Cash Balance Retirement Plan

The Health System has a noncontributory cash balance plan covering substantially all employees called the Providence Health & Services Cash Balance Retirement Plan (the Cash Balance Plan). The plan benefits are based on defined average compensation and years of service. The vesting period for is five years. The Health System's funding policy is based on the actuarially determined cost method, and includes normal service cost and prior service costs amortized over a 20-year period. The Cash Balance Plan meets the definition of a defined benefit plan. Under the Cash Balance Plan, each employee carries an individual account balance. The Health System makes a defined, annual contribution and provides a defined interest credit to each employee's account.

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 benefits are based on defined average compensation and years of service. The vesting period is five years. The Health System's funding policy is based on the actuarially determined cost method, and includes normal service cost and prior service costs amortized over a 20-year period. The SERP meets the definition of a defined benefit plan. Under the SERP, each employee carries an individual account balance. The Health System makes a defined, annual contribution and provides a defined interest credit to each employee's account.

Willamette Falls Pension Plan

During 2010, in connection with the Willamette Falls affiliation, the Willamette Falls Pension Plan was added as a defined benefit plan sponsored by the Health System. The Willamette Falls Pension

Plan is also a noncontributory plan covering the employees of Providence Willamette Falls. The plan benefits are based on years of service and compensation during an employee's period of employment. Vesting is based on elapsed time. The funding policy is based on the actuarially determined cost method, and includes normal service cost and prior service costs amortized over a 20-year period. Under the Willamette Falls Pension Plan, each employee carries an individual account balance.

Matching Plan

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

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

In April 2009, the Board of Directors of the Health System approved an amendment to freeze the Cash Balance Plan, the SERP, and the Matching Plan effective as of December 31, 2009. In conjunction with the freeze, the majority of participants no longer accrue a service credit under these plans. There were a certain number of participants who accrued a service credit under these plans in 2010 and 2011, as the plan freeze was not ratified by their union until 2010. Effective February 2008, the Willamette Falls Pension Plan was frozen, and no additional members may become participants of this plan.

The Health System's contributions to these defined benefit plans for the years ended December 31, 2011 and 2010 were $100,749,000 and $97,922,000, respectively.

The measurement dates for the defined benefit plans are December 31, 2011 and 2010, respectively. A rollforward of the change in benefit obligation and change in the fair value of plan assets for the defined benefit plans is as follows:

		2011	2010
		(In thousands of dollars)	
Change in projected benefit obligation:			
Projected benefit obligation at beginning of year	$	1,856,001	1,765,725
Service cost		4,215	18,355
Interest cost		91,186	97,352
Plan amendments		11,330	—
Actuarial loss		65,594	124,677
Benefits paid and other		(144,136)	(150,108)
Projected benefit obligation at end of year		1,884,190	1,856,001
Change in fair value of plan assets:			
Fair value of plan assets at beginning of year		1,213,114	1,233,747
Actual return on plan assets		(10,909)	82,903
Employer contributions		49,474	46,572
Benefits paid and other		(144,136)	(150,108)
Fair value of plan assets at end of year		1,107,543	1,213,114
Funded status		(776,647)	(642,887)
Unrecognized net actuarial loss		570,581	466,282
Unrecognized prior service cost		11,330	—
Net amount recognized	$	(194,736)	(176,605)
Amounts recognized in the consolidated balance sheets consist of:			
Current liabilities	$	(5,464)	(9,245)
Noncurrent liabilities		(771,183)	(633,642)
Unrestricted net assets		581,911	466,282
Net amount recognized	$	(194,736)	(176,605)
Weighted average assumptions:			
Discount rate		4.90%	5.20%
Rate of increase in compensation levels		3.29	3.36
Long-term rate of return on assets		7.00	7.00

Net periodic pension cost for the defined benefit plans for 2011 and 2010 is included in employee benefits in the accompanying consolidated statements of operations and includes the following components:

		2011	2010
		(In thousands of dollars)	
Components of net periodic pension cost:			
Service cost	$	4,215	18,355
Interest cost		91,241	97,352
Expected return on plan assets		(83,566)	(92,137)
Amortization of prior service cost		—	78
Recognized net actuarial loss		23,215	1,937
Curtailment		—	3,389
Settlement expense		32,500	—
Net periodic pension cost	$	67,605	28,974

The accumulated benefit obligation was $1,884,190,000 and $1,856,001,000 at December 31, 2011 and 2010, respectively.

Total expense for all of the Health System's defined benefit plans for the years ended December 31, 2011 and 2010 was $121,207,000 and $80,325,000, respectively, and is included in employee benefits in the accompanying consolidated statements of operations. Included in the total expense is $32,500,000 of settlement costs that were incurred in 2011 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 consolidated statements of operations.

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

2012	$	169,597
2013		205,805
2014		199,118
2015		190,733
2016 – 2021		903,704
	$	1,668,957

The Health System expects to contribute approximately $33,628,000 to the defined benefit plans in 2012.

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 2011 and 2010 expense amounts. This assumption is based on capital market assumptions and the plan's target asset allocation.

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

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

	2011 and 2010 Target	**2011 ELTRA**	**2010 ELTRA**
Cash and cash equivalents	5%	0.5% – 2%	0.5% – 2%
Equity securities	35	5% – 8%	5% – 8%
Debt securities	50	3% – 4%	3% – 4%
Other securities	10	7% – 10%	7% – 10%
Total	100%	7.00%	7.00%

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

	December 31, 2011	Fair value measurements at reporting date using		
		Level 1	Level 2	Level 3
		(In thousands of dollars)		
Assets:				
Cash and cash equivalents	$ 22,119	22,119	—	—
Domestic equity securities:				
Mutual funds:				
Large capitalization	55,360	55,360	—	—
Medium-small cap and other	1,450	1,450	—	—
Emerging markets	46,196	46,196	—	—
Term bonds	46,995	46,995	—	—
Capital goods	45,708	45,708	—	—
Consumer services	70,638	70,638	—	—
Technology	25,712	25,712	—	—
Other	51,882	51,882	—	—
Foreign equity securities:				
Mutual funds:				
Large capitalization	5,157	5,157	—	—
Capital goods	45,784	45,784	—	—
Consumer services	50,797	50,797	—	—
Energy	22,484	22,484	—	—
Financial services	15,098	15,098	—	—
Healthcare	20,565	20,565	—	—
Technology and other	7,914	7,914	—	—
Debt securities – state and government	129,888	—	129,888	—
Domestic corporate debt securities	182,479	—	182,479	—
Foreign corporate debt securities	22,921	—	22,921	—
Mortgage-backed securities:	—	—		—
Commercial	6,873	—	6,873	—
Residential	136,386	—	136,386	—
Asset-backed securities	6,754	—	6,754	—
Hedge funds	83,167	—	83,167	—
Other	5,216	4,998	218	—
Total	$ 1,107,543	538,857	568,686	—

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

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

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

The following table presents the Health System's activity for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended December 31, 2011 (in thousands of dollars):

		Venture capital/ partnerships
Balance at December 31, 2009	$	3,645
Total realized and unrealized (losses) gains, net:		
Included in income		542
Included in net assets		—
Purchases, issuance, and settlements (net)		(2,711)
Transfers in and/or out of Level 3 (net)		—
Balance at December 31, 2010		1,476
Total realized and unrealized (losses) gains, net:		
Included in income		(1,476)
Balance at December 31, 2011	$	—

(b) Defined Contribution Plans

401(a) Service Plan

The Health System sponsors the Providence Health & Services 401(a) Service Plan (the Service Plan), which was effective January 1, 2010. The Service Plan covers substantially all employees, with contributions based on defined average compensation and years of service. The vesting period for the Service Plan is five years. The Health System contributed $127,264,000 to the Service Plan in 2011 related to 2010, and has accrued a liability of $133,996,000 as of December 31, 2011 related to contributions, which has been included in current portion of retirement plan obligations on the accompanying consolidated balance sheets.

401(k) Plan

The Health System sponsors the Providence Health & Services 401(k) Plan (the 401(k) Plan). Total 401(k) Plan expense, primarily related to contributions, totaled $4,674,000 and $4,434,000 in 2011 and 2010, respectively.

(9) Self-Insurance Liability

The Health System accrues estimated self-insured professional and general liability and workers' compensation insurance claims based on management's estimate of the ultimate costs for both reported claims and actuarially determined estimates of claims incurred-but-not-reported. Insurance coverage in excess of the per occurrence self-insured retention, has been secured with insurers or reinsurers for specified amounts for professional, general and workers' compensation liabilities. Decisions relating to the limit and scope of the self-insured layer and the amounts of excess insurance purchased are reviewed each year, subject to management's analysis of actuarial loss projections and the price and availability of acceptable commercial insurance.

At December 31, 2011 and 2010, the estimated liability for future costs of professional and general liability claims was $178,854,000 and $170,109,000, respectively. At December 31, 2011 and 2010, the estimated workers' compensation obligation was $132,216,000 and $139,267,000, respectively, in the accompanying consolidated balance sheets. At December 31, 2011 and 2010, $236,126,000 and $225,469,000, respectively, of these amounts were included as self-insurance liability, net of current portion, with the remainder included within current portion of self-insurance liability, in the accompanying consolidated balance sheets.

(10) Commitments

The Health System has committed to several construction projects and other purchase commitments with an estimated cost of $203,108,000, all of which is remaining to be spent as of December 31, 2011.

(11) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at December 31, 2011 and 2010:

		2011	2010
		(In thousands of dollars)	
Program support	$	100,656	72,031
Low-income housing		27,533	28,472
Capital acquisition and other		23,697	59,362
Total temporarily restricted net assets	$	151,886	159,865

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, 2011 and 2010 because the time or purpose restrictions stipulated by the donor have not been met. Total fundraising expenses were $8,731,000 and $8,821,000 for the years ended December 31, 2011 and 2010, 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 $31,017,000 and $33,293,000 of assets released from restriction for the years ended December 31, 2011 and 2010, 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 consolidated 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, 2011 and 2010 are as follows:

		2011	2010
		(In thousands of dollars)	
Healthcare expenses	$	6,464,759	6,016,572
Purchased healthcare expenses		694,273	651,738
General and administrative expenses		1,341,256	1,083,430
Total operating expenses	$	8,500,288	7,751,740

(14) Subsequent Event

On February 1, 2012, the Health System and Swedish Health Services (Swedish) effected an Affiliation Agreement, which integrated the operations of the two health systems. The Health System and Swedish have affiliated to create a fully integrated, nonprofit, charitable health care system serving the communities throughout Western Washington. No cash or other purchase consideration was transferred to effect the affiliation.

Swedish operates five acute care hospitals with 1,637 licensed beds in the greater Seattle area. The historical combined financial statements of Swedish as of and for the year ended December 31, 2011 reflect total unaudited assets of $2,208,449,000, total unaudited net assets of $501,100,000, total unaudited net operating revenue of $1,866,244,000, and total unaudited deficit of revenues from operations of $56,253,000. These amounts are not reflective of future results. The affiliation will be accounted for pursuant to FASB ASC 958-805 *Not-for-Profit Business Combinations*. As of April 11, 2012, the annual audit of Swedish is not complete and the accounting for the affiliation is incomplete, pending the determination of the fair value of certain assets acquired and liabilities assumed and development of the required disclosures.

Schedule 1

PROVIDENCE HEALTH & SERVICES

Supplemental Schedule – Balance Sheet Information

December 31, 2011 (with consolidated totals for 2010)

(In thousands of dollars)

Assets	Alaska	Washington	Montana	Oregon	Providence Plan Partners	Southern California	System office, eliminations, and other	2011 Total Health System	2010 Total Health System
Current assets:									
Cash and cash equivalents	$ 46,243	114,205	8,032	55,509	31,910	62,969	59,653	378,521	527,703
Short-term management-designated investments	—	—	—	268,554	—	—	148,656	417,210	358,307
Assets held under securities lending	—	—	—	—	—	—	86,987	86,987	139,920
Accounts receivable, net	139,512	335,214	35,418	266,538	—	208,497	(49,575)	935,604	845,842
Other receivables, net	18,649	49,864	29,884	71,446	16,544	59,072	(31,932)	213,527	186,267
Supplies inventory	15,212	44,022	6,382	36,004	—	23,423	114	125,157	123,332
Other current assets	1,894	24,381	3,367	24,400	2,316	12,087	14,095	82,540	77,762
Current portion of funds held by trustee	—	65	—	1,181	—	—	74,499	75,745	88,684
Total current assets	221,510	567,751	83,083	723,632	50,770	366,048	302,497	2,315,291	2,347,817
Assets whose use is limited:									
Management-designated cash and investments	258,790	716,782	42,228	752,177	471,028	178,179	293,866	2,713,050	2,517,647
Gift annuities, trusts, and other	457	3,797	1,872	18,975	—	7,517	2,927	35,545	37,036
Funds held by trustee	30,487	—	—	1,477	14,355	2,552	111,372	160,243	139,533
Assets whose use is limited, net	289,734	720,579	44,100	772,629	485,383	188,248	408,165	2,908,838	2,694,216
Property, plant, and equipment, net	592,526	1,444,198	94,711	1,209,566	81,995	882,238	373,947	4,679,181	4,272,212
Other assets	80,167	83,036	27,240	81,560	458	92,969	(89,061)	276,369	264,825
Total assets	$ 1,183,937	2,815,564	249,134	2,787,387	618,606	1,529,503	995,548	10,179,679	9,579,070
Liabilities and Net Assets									
Current liabilities:									
Current portion of long-term debt	$ 10,983	10,041	4,224	7,106	—	11,699	2,152	46,205	48,145
Master trust debt classified as short-term	39,350	82,136	640	202,593	—	—	129,481	454,200	454,200
Accounts payable	18,244	153,197	11,638	71,379	1,099	55,783	20,345	331,685	301,560
Accrued compensation	36,160	130,724	8,667	132,471	—	75,638	48,064	431,724	378,598
Payable to contractual agencies	2,778	59,415	1,434	29,015	2,609	15,343	—	110,594	71,668
Liabilities under securities lending	—	—	—	—	—	—	89,183	89,183	142,345
Current portion of retirement plan obligations	—	—	—	—	—	—	154,120	154,120	136,245
Current portion of self-insurance liability	—	—	4,754	—	—	—	70,190	74,944	83,907
Other current liabilities	5,876	53,766	12,633	46,040	147,324	67,783	(133,537)	199,885	189,957
Total current liabilities	113,391	489,279	43,990	488,604	151,032	226,246	379,998	1,892,540	1,806,625
Long-term debt, net of current portion (1)	300,000	836,635	63,257	123,695	—	542,389	(68,626)	1,797,350	1,705,313
Other long-term liabilities	21,200	11,564	7,003	41,267	703	20,066	987,289	1,089,092	930,310
Total liabilities	434,591	1,337,478	114,250	653,566	151,735	788,701	1,298,661	4,778,982	4,442,248
Net assets:									
Unrestricted	739,499	1,432,151	126,386	2,062,964	466,871	693,906	(342,798)	5,178,979	4,909,822
Temporarily restricted	8,450	35,433	5,931	42,452	—	26,959	32,661	151,886	159,865
Permanently restricted	1,397	10,502	2,567	28,405	—	19,937	7,024	69,832	67,135
Total net assets	749,346	1,478,086	134,884	2,133,821	466,871	740,802	(303,113)	5,400,697	5,136,822
Total liabilities and net assets	$ 1,183,937	2,815,564	249,134	2,787,387	618,606	1,529,503	995,548	10,179,679	9,579,070

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

See accompanying independent auditors' report.

Schedule 2

PROVIDENCE HEALTH & SERVICES

Supplemental Schedule – Statement of Operations Information

December 31, 2011 (with consolidated totals for 2010)

(In thousands of dollars)

	Alaska	Washington	Montana	Oregon	Providence Plan Partners	Southern California	System office, eliminations, and other	2011 Total Health System	2010 Total Health System
Operating revenues:									
Net patient service revenues	$ 713,421	2,469,237	268,065	2,260,526	—	1,645,646	(331,515)	7,025,380	6,512,985
Premium revenues	—	27,205	—	64,709	1,093,068	—	—	1,184,982	1,124,913
Other revenues	45,797	248,520	29,874	189,353	46,876	53,008	(84,609)	528,819	444,057
Total operating revenues	759,218	2,744,962	297,939	2,514,588	1,139,944	1,698,654	(416,124)	8,739,181	8,081,955
Operating expenses:									
Salaries and wages	272,143	1,150,675	101,630	1,090,230	491	659,466	128,142	3,402,777	3,160,451
Employee benefits	72,812	312,676	26,347	265,592	3	177,435	28,367	883,232	807,748
Purchased healthcare	—	14,145	—	22,578	966,347	27,618	(336,415)	694,273	651,738
Professional fees	10,587	85,191	9,485	83,775	3,015	73,052	15,445	280,550	240,248
Supplies	101,957	418,445	48,298	356,444	464	207,450	5,579	1,138,637	1,110,434
Purchased services	92,226	298,607	55,879	242,109	96,770	181,353	(268,262)	698,682	641,496
Depreciation	51,681	109,194	11,405	117,408	2,176	73,671	41,582	407,117	382,204
Interest and amortization	7,134	31,327	3,488	6,971	—	31,574	(4,258)	76,236	65,387
Bad debts	59,124	130,455	15,157	54,800	46	60,126	205	319,913	290,958
Other	29,222	161,637	11,796	156,431	27,784	182,692	29,309	598,871	401,076
Total operating expenses	696,886	2,712,352	283,485	2,396,338	1,097,096	1,674,437	(360,306)	8,500,288	7,751,740
Excess (deficit) of revenues over expenses from operations	62,332	32,610	14,454	118,250	42,848	24,217	(55,818)	238,893	330,215
Net nonoperating gains	10,791	32,768	1,892	57,161	26,555	1,545	(7,878)	122,834	155,383
Excess (deficit) of revenues over expenses	73,123	65,378	16,346	175,411	69,403	25,762	(63,696)	361,727	485,598
Net assets released from restriction	229	—	25	2,317	—	13,190	1,148	16,909	23,751
Change in noncontrolling interests in consolidated joint ventures	(639)	20,202	—	404	—	(752)	—	19,215	43,410
Pension related changes	—	—	—	(4,549)	—	—	(124,687)	(129,236)	(123,290)
Interdivision transfers	(16,162)	(134,501)	(9,747)	(70,718)	(53,000)	(34,312)	318,440	—	—
Other changes in unrestricted net assets	930	(176)	(57)	608	—	292	(1,055)	542	2,264
Increase (decrease) in unrestricted net assets	$ 57,481	(49,097)	6,567	103,473	16,403	4,180	130,150	269,157	431,733

See accompanying independent auditors' report.