PROVIDENCE
Health & Services

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 33 hospitals*, 600 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 2013, spent $951 million on community benefit programs, with total community benefit exceeding 2012 spending by $128 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 2013, Providence offered nearly $313 million in free and discounted care. Consistent with other Catholic health care organizations, Providence uses cost not charge to calculate charity care and does not include the unpaid cost of Medicare, Medicaid or bad debt in its cost of charity care numbers.

Sustaining the Providence Mission
Remaining financially healthy is important for Providence to be able to continue to deliver the highest quality care, provide increased community benefit assets and offer charity and discounted health care to those who cannot afford it. In 2013, Providence's net operating income was $38 million while on average, days cash on hand was 181.

The Providence Mission is firmly rooted in the work started more than 158 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.

**Our 33rd hospital was added in March 2014 and is not included in this combined report.*

Consolidated Financial Performance
Fiscal Year - 2013

Providence Health & Services (the System) reported a $617 million dollar increase to unrestricted net assets (equity) in 2013. This increase was driven by $253 million of net income and $386 million related to a decrease in the pension liability offset by a $22 million decrease in minority interest and other changes. Year-to-date net income was $84 million unfavorable to budget due to an operating shortfall of $182 million that was partially offset by investment earnings that were $88 million favorable to budget. Highlights from 2013 include the provision of $951 million of community benefit and $984 million of EBIDA, earnings before depreciation, interest and amortization. Capital spending of $571 million was $139 million lower than prior year demonstrating the System's ability to manage the costs associated with capital investments. The capital spending included the final phase of the system-wide Epic implementation. The combination of cash generated from EBIDA and strong management of capital spending improved the System financial position as determined by year-end balance sheet ratios. Cash reserves of $5.4 billion as of December represented 181 days cash hand an improvement of six days compared to 2012. This increase provided 133% cash coverage of current debt, which improved from 116% from the prior year and provides additional financial stability during these changing times.

The 2013 financial challenges were driven by changes in payer mix, acute volumes and revenue per case that were less than planned resulting in net service revenue that was $210 million below budget. Included in the revenue shortfalls were the impacts of federal sequestration which reduced Medicare reimbursement by $45 million and a delay in the Washington provider tax program that reduced Washington Medicaid funding by $23 million. Volumes shortfall also occurred due to decreases in inpatient utilization and as inpatient admissions transitioned to observations visits. This shift to observation results in many patients being cared for in inpatient settings, under and observation status, at a significant reduction in reimbursement. Management has responded with operational initiatives to reduce variable costs to match the new revenue reality and an administrative process designed to recalibrate the system administrative infrastructure. These cost reduction plans are in process and are designed to improve financial performance. In addition to these cost initiatives, the regions have developed growth plans by clinical service-lines and provider networks.

The table below presents consolidated key financial indicators:

Key Financial Indicators	**YTD December 2013**		
	Actual	Budget	2012*
Net Operating Income	$37.7m	$220.0m	$204.1m
Operating Margin %	0.3%	2.0%	1.9%
Net Income	$253.3m	$337.5m	$1,216.5m
EBIDA	$984.4m	$1,122.7m	$1,116.4m
Total Community Benefit	$950. 7m	$848.5m	$823.0m
Accounts Receivable Days	52	50	50
Days of Cash on Hand	181	164	175
Long-term Debt to Total Capitalization	33.5%	33.0%	34.9%
Cash to Debt	132.8%	116.5%	115.8%

* 2012 results do not include Swedish operations for the month of January.

Volume:
Overall as a delivery system we served more patients, however, due to changes in consumer preferences and reimbursement classifications the growth metrics were measured differently than budgeted. These changes are clear signals of the changing health care environment as the industry moves from fee-for-service to value based care.

Connected lives are a critical metric as the System transitions from an acute care centric health system to a wellness focused organization. These lives represent the Systems dedication to managing wellness as well as delivering clinical excellence in a unique episode. Connected lives include health plan membership as well as membership contracted directly with the delivery system. Connected lives increased 1.3% compared to prior year. This represents an average of 6,600 additional lives per month.

The hospitals admitted 320,000 patients, which was 1.9% behind budget and slightly lower than prior year. However, 60,000 patients were also admitted under an observation status, which was 120% greater than budget. The combined acute care volume of observation visits and admissions was 380,000, which was 7.5% greater than budget. Year-to-date surgeries of 294,000 were ahead of budget by 18.6%. Approximately 8% of the increase relates to a change in the surgery statistic to include C-section cases. The remaining 10% favorable variance is primarily driven by outpatient surgical cases.

Physician visits of 6.1 million were 1.7 million greater than prior year. This increase was driven by the affiliation with the Facey Medical group in July 2012 and the employment of 1,000 physicians in 2013. Growth of primary care and alignment with physician partners continues to be a major strategy of the System. Year-to-date physician visits were 10.9% ahead of budget.

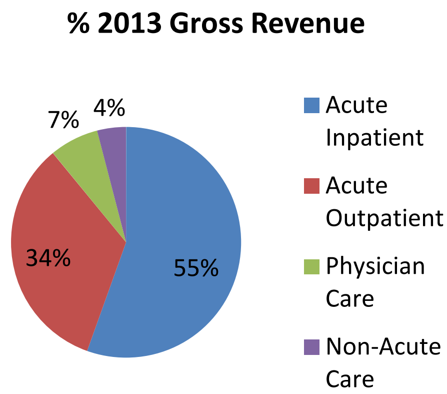
Continuum services, which include long term care, hospice, housing, assisted living and home health, provided 2.3 million visits in 2013, which was 2.4%, or 54,000, more visits than 2012.

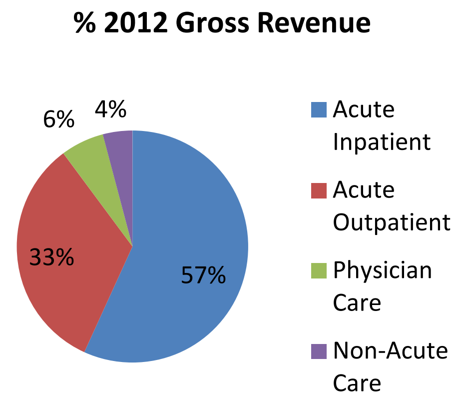
The table below presents consolidated key volume indicators:

Key Volume Indicators	**YTD December 2013**		
	Actual	Budget	2012*
Inpatient Activity – Inpatient Admissions	319,785	326,086	320,242
Outpatient Activity – Outpatient Revenue	$9,748m	$9,856m	$9,042m
Non-Acute Patient Visits	2,250,386	2,308,250	2,196,283
Physician Care Visits	6,146,744	5,544,112	4,418,741
Connected Lives - Member Months	6,184,192	6,223,277	6,105,435
CMI Adjusted Length of Stay	2.9	3.0	2.9
Rate - Net Service Revenue/CMAA	$11,182	$11,501	$11,323
Observations	60,114	27,277	60,512

* 2012 results do not include Swedish operations for the month of January.

The following tables show comparisons of the source of year-to-date gross revenue for December 2013 and 2012:

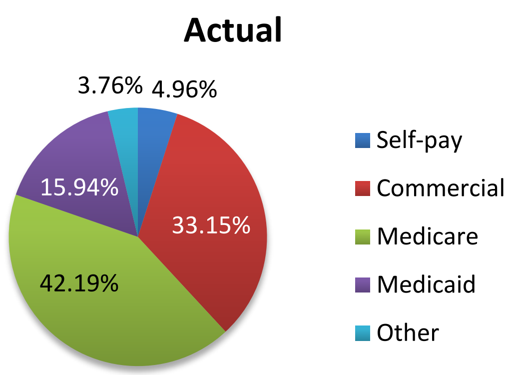


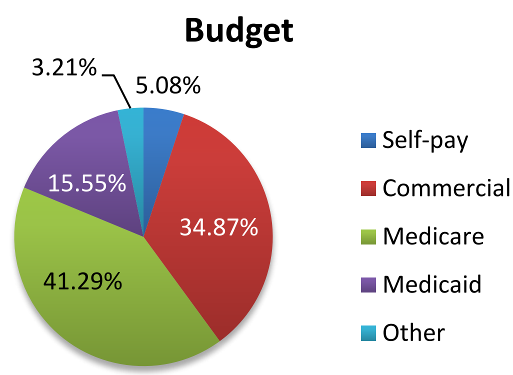


Revenue:

On a year-to-date basis, operating revenue was $67.0 million unfavorable to budget. The shortfall was driven by a $210 million unfavorable variance in net service revenue offset by a positive variance of $171 million in premium revenue. As stated above, a significant amount of the net service revenue shortfall is driven by changes in payer and volume mix. The inpatient volume shortfall represents an unfavorable revenue impact of approximately $169 million. Commercial volumes were 4.9% lower than planned and were replaced by growth in Medicare and Medicaid resulting in a net revenue impact of $112 million. Net service revenue also includes additional Medicaid funding received from provider tax programs in Washington, Oregon and California. The purpose of these programs is to increase Medicaid funding through provider taxes and federal matching funds. In 2013, the System received $233 million in Medicaid funding and paid $220 million in provider taxes, under these programs providing the System with a net benefit of $13 million. Meaningful use funding of $61 million was recognized in other operating revenue in 2013. Over the past three years, the System has received $140 million in meaningful use funding as a result of the Epic decision and implementation.

The following tables show comparisons of the source of that actual and budgeted payer mix for December 2013:





Operating Expenses:
Year-to-date operating expenses were $116 million unfavorable to budget due to a $106 million reclassification of provider taxes previously recorded and budgeted in revenue. Excluding the reclassification, total operating costs were on budget even with growth in acute outpatient and physician visits. Labor costs were $69 million behind budget due to restructure costs. Full-time equivalents (FTE's) were 0.4% lower than budget, but 4.7% greater than prior year. There was an increase of 3,000 FTE's compared to prior year. This increase was due to the employment of 1,000 new physicians, an annualized impact of 1,000 FTE's related to the Swedish and Facey affiliations, and 1,000 related to growth. Employee benefits were $125 million better than budget driven by employee medical costs. Improvements in medical costs are the multi-year result of employee wellness programs and benefit structures that focus on health. Depreciation expense was also favorable to plan due to changes in the Epic implementation schedule. Purchased services and other expense were behind budget due to the use of interim or temporary resources to support the Epic and shared services implementations.

The table below presents consolidated key efficiency indicators:

Key Efficiency Indicators	**YTD December 2013**		
	Actual	Budget	2012*
Productivity – Labor % Net Revenue	42.6%	41.8%	41.8%
Employee Health PMPY	4,745	4,856	4,192
Supplies % Net Revenue	13.8%	13.4%	13.9%
Efficiency - Expense per CMAA	$11,139	$11,243	$11,074

* 2012 results do not include Swedish operations for the month of January.

Todd Hofheins, EVP Chief Financial Officer

Debt Supported by Self-Liquidity

PH&S has authorized $200 million in taxable commercial paper that is supported by self liquidity. As of December 31, 2013 none of the commercial paper was outstanding.

The System reports monthly on its cash and investment balances available to retire maturing short-term debt in the event notes cannot be remarketed. The table below summarizes the information provided to the rating agencies at the end of the 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, 2013

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 *	$ 686.70	$ -	$ (4.68)	$ 682.02	1.00	$ 682.02
S&P rated money market funds (> Am)	$ 26.52	$ -	$ -	$ 26.52	1.00	$ 26.52
Highly rated (A-1 or A-1+) dedicated bank line	$ -	$ -	$ -	$ -	1.00	$ -
Highly rated (A-1 or A-1+) money market instruments (< 1yr)	$ -	$ -	$ -	$ -	0.91	$ -
U.S. Treasury Debt Obligations (> 1 year)	$ -	$ 102.49	$ -	$ 102.49	0.91	$ 93.17
U.S. TIPs	$ -	$ -	$ 146.63	$ 146.63	0.87	$ 127.50
U.S. Agencies (> 1 year)	$ -	$ 41.29	$ -	$ 41.29	0.83	$ 34.41
Investment Grade Debt (that is not included above)	$ -	$ -	$ 486.12	$ 486.12	0.67	$ 324.08
Equities**	$ -	$ -	$ 393.06	$ 393.06	0.50	$ 196.53
Non-Investment Grade Debt	$ -	$ 26.55	$ 59.90	$ 86.45	0.40	$ 34.58
Total	$ 713.22	$ 170.33	$ 1,081.03	$ 1,964.58		$ 1,518.81
Discounted Total	$ 713.22	$ 138.20	$ 667.40			Discounted Total

	Enter amount of Self Liquidity Backed Debt with:		
	Same Day Notice	Next Day Notice	> Next Day Notice
Commercial Paper		$ 100.00	$ 100.00
Variable Rate Demand Note or Obligation	$ -		$ -
Fixed Rate Debt			
Other Securities			
Total	$ -	$ 100.00	$ 100.00
Remaining Discounted Assets	$ 713.22	$ 751.42	$ 1,318.81
	Same Day +/-	Next Day +/-	> Next Day +/-
	Sufficient	Sufficient	Sufficient

TOTAL DEBT SUPPORTED BY SELF LIQUIDITY	TOTAL REMAINING DISCOUNTED ASSETS
$ 200.00	$ 1,318.81

Fourth Quarter 2013 Metrics

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

Performance Metrics

	December 31, 2013 Year-to-Date		
	Actual	Budget	Prior Year
<u>Volume:</u>			
Acute Adjusted Admissions	567,186	574,449	553,957
Total Acute Admissions	319,785	326,086	320,242
Total Acute Patient Days	1,406,857	1,438,235	1,388,872
Acute Outpatient Visits	6,408,660	6,346,555	6,387,700
Observations	60,114	27,277	60,512
Primary Care Visits	6,146,744	5,544,112	4,418,741
Long-Term Care Patient Days	426,025	438,973	432,650
Home Health Visits	622,364	614,300	580,811
Hospice Days	640,409	729,258	656,155
Housing and Assisted Living Days	561,588	525,719	526,667
Health Plan Members	4,757,236	4,796,321	4,675,516
Total Occupancy %	61.7%	62.9%	60.7%
Total Average Daily Census	3,854	3,940	3,795
Unique Patient Count	2,483,462	990,487	2,169,857
<u>Surgeries:</u>			
Inpatient	129,117	96,288	92,597
Outpatient	164,889	151,615	146,740
Total Surgeries	294,006	247,903	239,337
<u>Emergency Room Visits:</u>			
Inpatient	165,793	175,457	170,792
Outpatient	1,031,235	1,038,907	1,021,123
Total Emergency visits	1,197,028	1,214,364	1,191,915
<u>Outpatient Visits:</u>			
Outpatient Surgery	164,889	151,615	146,740
Emergency Visits	1,031,235	1,038,907	1,021,123
Primary Care	6,146,744	5,544,112	4,418,741
Homecare Visits	622,364	614,300	580,811
Observations	59,965	27,277	36,199
All Other	5,212,536	5,156,034	5,219,837
Total Outpatient Visits	13,237,733	12,532,244	11,423,451

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	Actual	Budget	Prior Year
Efficiency:			
FTE's	59,306	59,540	56,667
YTD Overall Case-Mix Index	1.535	1.4816	1.4772
YTD Case-Mix Adj Admissions (CMAA)	870,656	851,128	818,312
YTD Acute Care LOS (case-mix adj)	2.9	3.0	2.9
YTD Net Svc Rev/CMAA	11,182	11,501	11,323
YTD Net Expense/CMAA	11,139	11,243	11,074
YTD Paid Hours/CMAA	142	146	144
YTD Productive Hours/CMAA	125	129	127
Ave Yearly Salary/FTE (w/o benefits)	80,075	78,595	78,178
Employee Benefits as a % of Salaries	24.5%	27.5%	26.4%
Salary Wages as a % of Net Op Rev	42.6%	41.8%	41.8%
Supplies as a % of Net Op Revenue	13.8%	13.4%	13.9%
YTD Supplies Expense/CMAA	1,761	1,768	1,801
YTD Med Supplies Exp/CMAA	1,088	1,026	1,108
FTE's Per Adjusted Occupied Bed	8.68	8.58	8.63
Financial Performance:			
Operating Margin	0.3%	2.0%	1.9%
Total Margin	2.2%	3.0%	10.5%
EBIDA ('000)	984,381	1,122,723	1,921,220
EBIDA Margin	8.8%	10.0%	18.1%
Debt Service Coverage	4.9	5.7	11.3
Debt to Total Net Asset Ratio	33.5	33	34.9
Cash to Debt Ratio	132.8	116.5	115.8
Current Ratio	1.6	1.4	1.4
Capital Spending ('000)	570,838	562,001	709,400
R12 Days of Total Cash on Hand	181	164	175
Net Patient AR Days (3 mo rolling ave)	52	50	50
Bad Debt & Charity % Gross Svc Rev	4.7%	4.6%	4.9%
Community Benefit: ('000)			
Cost of Charity Care Provided	$312,839	$268,401	$272,460
Medicaid Charity	404,138	373,181	344,601
Education and Research Programs	115,554	88,895	89,809
Unpaid Cost of Other Govt Programs	1,915	1,866	1,904
Negative Margin Services and Other	77,565	79,285	73,971
Non-Billed Services	38,656	36,826	40,249
Total Community Benefit	$950,667	$848,454	$822,995

PROVIDENCE HEALTH & SERVICES

Combined Financial Statements

December 31, 2013 and 2012

(With Independent Auditors' Report Thereon)

KPMG LLP
Suite 2900
1918 Eighth Avenue
Seattle, WA 98101

Independent Auditors' Report

The Board of Directors
Providence Health & Services:

We have audited the accompanying combined financial statements of Providence Health & Services, which comprise the combined balance sheets as of December 31, 2013 and 2012, and the related combined statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Combined Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the combined financial statements referred to above present fairly in all material respects, the financial position of Providence Health & Services as of December 31, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Matter

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

KPMG LLP

Seattle, Washington
March 26, 2014

PROVIDENCE HEALTH & SERVICES

Combined Balance Sheets

December 31, 2013 and 2012

(In thousands of dollars)

Assets		2013	2012
Current assets:			
Cash and cash equivalents	$	852,965	706,664
Short-term management-designated investments		189,545	452,082
Assets held under securities lending		9,386	51,220
Accounts receivable, less allowance for bad debts of $358,966 in 2013 and $371,097 in 2012		1,336,803	1,261,094
Other receivables, net		293,737	271,133
Supplies inventory		171,833	155,736
Other current assets		87,574	108,150
Current portion of funds held by trustee		93,473	87,366
Total current assets		3,035,316	3,093,445
Assets whose use is limited:			
Management-designated cash and investments		4,173,407	3,541,564
Gift annuities, trusts, and other		53,836	50,345
Funds held by trustee		119,510	125,146
Assets whose use is limited, net of current portion		4,346,753	3,717,055
Property, plant, and equipment, net		6,204,617	6,236,213
Other assets		382,711	367,005
Total assets	$	13,969,397	13,413,718

PROVIDENCE HEALTH & SERVICES

Combined Balance Sheets

December 31, 2013 and 2012

(In thousands of dollars)

Liabilities and Net Assets		**2013**	**2012**
Current liabilities:			
Current portion of long-term debt	$	160,383	63,376
Master trust debt classified as short-term		32,075	480,201
Accounts payable		436,622	423,307
Accrued compensation		620,029	581,645
Payable to contractual agencies		127,882	131,761
Liabilities under securities lending		11,307	52,708
Retirement plan obligations		184,065	171,520
Current portion of self-insurance liability		100,834	96,445
Other current liabilities		255,244	233,058
Total current liabilities		1,928,441	2,234,021
Long-term debt, net of current portion		3,498,246	2,943,152
Other long-term liabilities:			
Self-insurance liability, net of current portion		261,317	238,408
Pension benefit obligation		812,528	1,192,650
Other liabilities		151,380	131,779
Total other long-term liabilities		1,225,225	1,562,837
Total liabilities		6,651,912	6,740,010
Net assets:			
Unrestricted:			
Controlling interest		6,964,906	6,319,188
Noncontrolling interest		44,718	73,857
Temporarily restricted		223,548	201,961
Permanently restricted		84,313	78,702
Total net assets		7,317,485	6,673,708
Total liabilities and net assets	$	13,969,397	13,413,718

See accompanying notes to combined financial statements.

PROVIDENCE HEALTH & SERVICES

Combined Statements of Operations

Years ended December 31, 2013 and 2012

(In thousands of dollars)

		2013	2012
Operating revenues:			
Net patient service revenues	$	9,357,529	9,055,945
Provision for bad debts		(299,791)	(389,890)
Net patient service revenues less provision for bad debts		9,057,738	8,666,055
Premium and capitation revenues		1,445,107	1,333,584
Other revenues		633,835	608,610
Total operating revenues		11,136,680	10,608,249
Operating expenses:			
Salaries and wages		4,748,873	4,430,130
Employee benefits		1,161,130	1,170,276
Purchased healthcare		767,161	733,975
Professional fees		463,838	390,427
Supplies		1,533,092	1,473,398
Purchased services		944,487	802,418
Depreciation		596,623	584,609
Interest and amortization		134,489	120,096
Other		749,316	698,834
Total operating expenses		11,099,009	10,404,163
Excess of revenues over expenses from operations		37,671	204,086
Net nonoperating gains:			
Contribution from Swedish affiliation		—	766,252
Contribution from Facey affiliation		—	38,546
Loss on extinguishment of debt		(1,671)	(53,596)
Investment income, net		247,572	290,884
Pension settlement costs and other		(30,302)	(29,656)
Total net nonoperating gains		215,599	1,012,430
Excess of revenues over expenses		253,270	1,216,516
Net assets released from restriction for capital		10,786	17,460
Change in noncontrolling interests in consolidated joint ventures		(29,139)	11,232
Pension related changes		385,702	(2,862)
Contributions, grants, and other		(4,040)	(28,280)
Increase in unrestricted net assets	$	616,579	1,214,066

See accompanying notes to combined financial statements.

PROVIDENCE HEALTH & SERVICES

Combined Statements of Changes in Net Assets

Years ended December 31, 2013 and 2012

(In thousands of dollars)

		Unrestricted: controlling interest	Unrestricted: noncontrolling interest	Temporarily restricted	Permanently restricted	Total net assets
Balance, December 31, 2011	$	5,116,354	62,625	151,886	69,832	5,400,697
Excess of revenues over expenses		1,216,516	—	—	—	1,216,516
Restricted contribution from Swedish affiliation		—	—	37,377	6,670	44,047
Contributions, grants, and other		(28,280)	—	66,791	2,200	40,711
Net assets released from restriction		17,460	—	(54,093)	—	(36,633)
Change in noncontrolling interests in consolidated joint ventures		—	11,232	—	—	11,232
Pension related changes		(2,862)	—	—	—	(2,862)
Increase in net assets		1,202,834	11,232	50,075	8,870	1,273,011
Balance, December 31, 2012		6,319,188	73,857	201,961	78,702	6,673,708
Excess of revenues over expenses		253,270	—	—	—	253,270
Contributions, grants, and other		(4,040)	—	78,519	5,611	80,090
Net assets released from restriction		10,786	—	(56,932)	—	(46,146)
Change in noncontrolling interests in consolidated joint ventures		—	(29,139)	—	—	(29,139)
Pension related changes		385,702	—	—	—	385,702
Increase (decrease) in net assets		645,718	(29,139)	21,587	5,611	643,777
Balance, December 31, 2013	$	6,964,906	44,718	223,548	84,313	7,317,485

See accompanying notes to combined financial statements.

PROVIDENCE HEALTH & SERVICES

Combined Statements of Cash Flows

Years ended December 31, 2013 and 2012

(In thousands of dollars)

		2013	2012
Cash flows from operating activities:			
Increase in net assets	$	643,777	1,273,011
Adjustments to reconcile increase in net assets to net cash provided by operating activities:			
Contribution from Swedish affiliation		—	(810,299)
Contribution from Facey affiliation		—	(38,546)
Depreciation and amortization		601,823	588,630
Provision for bad debt		299,791	389,890
Loss on extinguishment of debt		1,671	53,596
Equity income from joint ventures		(37,732)	(37,394)
Restricted contributions and investment income received		(70,953)	(69,411)
Net realized and unrealized gains on investments		(172,629)	(214,616)
Distributions from joint ventures		27,121	32,933
Changes in certain current assets and current liabilities		(306,641)	(189,059)
Change in certain long-term assets and liabilities		(337,612)	(2,591)
Net cash provided by operating activities		648,616	976,144
Cash flows from investing activities:			
Property, plant, and equipment additions		(574,551)	(726,365)
Proceeds from disposal of property, plant, and equipment		12,387	5,427
Purchases of investments		(3,703,909)	(3,680,180)
Proceeds from sales of investments		3,503,741	3,650,523
Change in securities lending collateral		41,834	35,767
Change in other long-term assets and other		(8,267)	41,389
Change in funds held by trustee, net		(471)	(46,718)
Net cash used in investing activities		(729,236)	(720,157)
Cash flows from financing activities:			
Proceeds from restricted contributions and restricted income		70,953	69,411
Debt borrowings		1,464,771	2,216,664
Debt payments		(1,262,511)	(2,168,727)
Change in securities lending payable		(41,401)	(36,475)
Payment of deferred financing costs and other		(4,891)	(8,717)
Net cash provided by financing activities		226,921	72,156
Increase in cash and cash equivalents		146,301	328,143
Cash and cash equivalents, beginning of year		706,664	378,521
Cash and cash equivalents, end of year	$	852,965	706,664
Supplemental disclosure of cash flow information:			
Cash paid for interest (net of amounts capitalized)	$	117,540	89,193

See accompanying notes to combined financial statements.

(1) Organization

(a) Sisters of Providence

Sisters of Providence (the Congregation), a religious congregation of Roman Catholic women, was founded in 1843. The religious congregation's central headquarters is in Montreal, Quebec, Canada. Sisters of Providence – Mother Joseph Province (the Province) was formed in 2000 through the combination of the Sacred Heart Province (founded in 1856) and the St. Ignatius Province (founded in 1891). The activities of the Province include apostolic works in healthcare, social services, and education. Members of the Province serve in these works through related and unrelated organizations. The Province is compensated for the services of its members. The Province has 134 professed members and maintains provincial administration offices in Renton, Washington. The members of the Province represent the Congregation in the following:

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

(b) Providence Health & Services

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

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

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

(Continued)

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

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

The Health System (as defined below) owns or operates 32 general acute care hospitals, three ambulatory care centers, five medical groups, six long-term care facilities, seven homecare and hospice entities, five assisted living facilities, a high school, a university, 13 low-income housing projects, the Health Plan, a health services contractor, two programs of all inclusive care for the elderly, and 22 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, Edmonds, Issaquah, Spokane, and Olympia, Washington; Missoula, Montana; Portland and Medford, Oregon; and Los Angeles, California.

(c) Organizational Changes

Swedish Health Services Affiliation

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

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

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

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

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

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

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

The following pro forma combined financial information presents the Health System's results as if the affiliation had been reported as of the beginning of the Health System's fiscal year (in thousands of dollars):

		2012		
		Actual	**Pro forma**	
Total operating revenues	$	10,608,249	10,743,408	(1)
Excess of revenues over expenses from operations		204,086	198,924	(1)
Excess of revenues over expenses		1,216,516	465,685	(2)

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

(2) Actual results includes the net contribution from the affiliation.

Facey Medical Foundation and Facey Medical Group Affiliation

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

(d) Affiliated Transactions

Inter-affiliate Borrowings

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

Self-Insurance Liability

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

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

The financial statements of the Health System are presented on a combined basis due to the operational interdependence of the organization and because the respective Boards of Directors and corporate officers of Providence and Swedish are comprised of the same individuals. All significant transactions and accounts between divisions and combined affiliates of the Health System have been eliminated. The Health System has performed an evaluation of subsequent events through March 26, 2014, which is the date these combined financial statements were issued.

(b) Use of Estimates

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

(c) Cash and Cash Equivalents

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

(d) Supplies Inventory

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

(e) Property, Plant, and Equipment

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

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

(f) Depreciation

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

(g) Capitalized Interest

Interest capitalized on amounts expended during construction is a component of the cost of additions to be allocated to future periods through the provision for depreciation. Capitalization of interest ceases when the addition is substantially complete and ready for intended use. The Health System capitalized $13,073,000 and $19,274,000 of interest costs during the years ended December 31, 2013 and 2012, respectively.

(h) Financing Costs

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

(i) Goodwill and Indefinite Lived Intangible Assets

Goodwill and indefinite lived intangible assets, which are not amortized as they are considered to have an indefinite life, are recorded in other assets as the excess of cost over fair value of the acquired net assets. Goodwill and indefinite lived intangible assets are tested at least annually for impairment. As a result of the Swedish affiliation transaction in 2012, approximately $56,406,000 was assigned to indefinite lived intangible assets.

(j) Assets Whose Use Is Limited

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

Assets whose use is limited primarily include assets held by trustees under indenture agreements, self-insurance funds, funds held for the payment of health plan medical claims, assets held by related foundations, and designated assets set aside by the management of Providence Health & Services for future capital improvements and other purposes, over which management retains control.

(k) Net Assets

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

(l) Donor-Restricted Gifts

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

(m) Net Patient Service Revenues

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

Net patient service revenues are reported at the estimated net realizable amounts due from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with governmental payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as appropriate. Adjustments from finalization of prior years' cost reports and other third-party settlement estimates resulted in an increase in net patient service revenues of $8,176,000 and $11,017,000 for the years ended December 31, 2013 and 2012, respectively. During 2012, the Health System received $36,805,000 related to a settlement from Centers for Medicare & Medicaid Services (CMS).

The composition of significant third-party payors for the years ended December 31, 2013 and 2012, as a percentage of net patient service revenues, is as follows:

	2013	2012
Commercial and other insurance	52%	53%
Medicare	33	31
Medicaid	12	12
Self-pay	3	4
	100%	100%

(n) Provision for Bad Debts

The Health System provides for an allowance against patient accounts receivable for amounts that could become uncollectible. The Health System estimates this allowance based on the aging of accounts receivable, historical collection experience by payor, and other relevant factors. There are various factors that can impact the collection trends, such as changes in the economy, which in turn have an impact on unemployment rates and the number of uninsured and underinsured patients, the increased burden of copayments to be made by patients with insurance coverage and business practices related to collection efforts. These factors continuously change and can have an impact on collection trends and the estimation process used by the Health System. The Health System records a provision for bad debts in the period of services on the basis of past experience, which has

(Continued)

historically indicated that many patients are unresponsive or are otherwise unwilling to pay the portion of their bill for which they are financially responsible. The estimates made and changes affecting those estimates for the years ended December 31, 2013 and 2012 are summarized below:

		2013	2012
		(In thousands of dollars)	
Changes in allowance for doubtful accounts:			
Allowance for doubtful accounts at beginning of year	$	371,097	214,433
Write-off of uncollectible accounts, net of recoveries		(311,922)	(233,226)
Provision for bad debts		299,791	389,890
Allowance for doubtful accounts at end of year	$	358,966	371,097

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

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

(p) Meaningful Use

The Health Information Technology for Economic and Clinical Health Act, part of the American Recovery and Reinvestment Act of 2009, created an incentive program, beginning in 2011, to promote the “meaningful use” of Electronic Health Records (EHR). To qualify, providers must attest that they are using certified EHR in a “meaningful” way by meeting objectives at established thresholds, as defined by CMS. Meaningful use revenues are recognized as grant revenue. Grant revenue is recognized when there is reasonable assurance that the grant will be received and that the organization will comply with the conditions attached to the grant. $60,560,000 and $54,542,000 in meaningful use revenues were recognized for the years ended December 31, 2013 and 2012, respectively, and are included in other operating revenues in the accompanying combined statements of operations. The amount recognized is based on management’s best estimate and is subject to audit and potential retrospective adjustments.

(q) Other Operating Revenues

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

(r) Charity and Unsponsored Community Benefit Costs

The divisions of the Health System have policies that provide for serving those without the ability to pay. The policies also provide for discounted sliding scale payments based on the income and assets of the person responsible for the bill. In addition to uncompensated care, the Health System’s divisions also provide services that benefit the poor and others in the communities they serve.

Information for the Health System for the years ended December 31, 2013 and 2012 is summarized below:

		2013	2012
		(In thousands of dollars)	
Cost of charity care provided	$	312,839	272,460
Unpaid cost of Medicaid services		404,138	344,601
Education and research programs, net cost		115,554	89,809
Nonbilled services, net cost		42,231	40,249
Negative margin services and other, net cost		75,905	75,875
Unsponsored community benefit costs	$	950,667	822,994
Percentage of total operating expenses, excluding purchased healthcare		9.2%	8.5%

The cost of charity care provided is calculated based on each division's aggregate relationship of costs to charges. The unpaid cost of Medicaid services is the cost of treating Medicaid patients in excess of government payments. Education includes the unpaid cost of training health professionals, such as medical residents in excess of payments received from Medicare and Medicaid for Graduate Medical Education programs. Research programs include the unpaid cost of controlled studies of therapeutic protocols and development of new treatment protocols. Nonbilled services include the cost of services for which neither the patient or insurance is billed or for which a nominal fee has been assessed. Negative margin services include programs for which net patient service revenue is less than cost incurred to provide the service to meet a need in the community. Unpaid cost of Medicaid services, education and research programs, nonbilled services, and negative margin services are net of revenues of $952,137,000 and $1,134,189,000 for the years ended December 31, 2013 and 2012, respectively.

(s) Net Nonoperating Gains

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

(t) Excess of Revenues over Expenses

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

(u) Income and Other 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).

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

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

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

(v) Recently Issued or Adopted Accounting Standards

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

(w) 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.

(Continued)

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

The fair value of management-designated cash and investments, funds held for long-term purposes, and funds held by trustee, which are the amounts reported in the combined balance sheets, are estimated based on quoted market prices. For long-term debt, the fair value is based on Level 2 inputs, such as the discounted value of the future cash flows using current rates for debt with the same remaining maturities, considering the existing call premium and protection. The carrying value and fair value of long-term debt, including accrued interest, was $3,725,358,000 and $3,789,289,000, respectively, as of December 31, 2013, and $3,517,746,000 and $3,758,316,000, respectively, as of December 31, 2012.

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

(a) Collective Investment Funds

Collective investment funds include investments that are held by a trust company that handles a pooled group of trust accounts. The Health System holds seven funds and has no unfunded commitments or provisions significantly impacting liquidity at December 31, 2013. The underlying holdings of these funds are primarily comprised of publicly traded domestic equity and debt securities, whose fair value is readily determinable.

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

(b) Securities Lending Agreements

The Health System has securities lending agreements with financial institutions that serve as the lending agent. These agreements authorize the lending agents to lend securities owned by the Health System to an approved list of borrowers. Under the agreements, the lending agents are responsible for negotiating each loan for an unspecified term while retaining the power to terminate the loan at any time. At the time each loan is made, the lending agents require collateral equal to 102% of the market value of the loaned securities and accrued interest. While any securities are loaned, the Health System retains all rights of ownership, except it waives its right to vote such securities. The collateral related to the securities loaned totaled $9,386,000 and $51,220,000 at December 31, 2013 and 2012, respectively. In connection with securities lending activities the Health System has recognized a net investment loss of $333,000 and a net investment gain of $831,000, for the years ended December 31, 2013 and 2012, respectively. Net investment gains and losses are included in net nonoperating gains in the accompanying combined statements of operations.

The following table presents assets (other than management-designated cash and investments and funds held by trustee) and liabilities that are measured at fair value on a recurring basis (including items that are required to be measured at fair value) at December 31, 2013:

			Fair value measurements at reporting date using		
		December 31, 2013	**Level 1**	**Level 2**	**Level 3**
			(In thousands of dollars)		
Assets:					
Assets under securities lending	$	9,386	3,612	5,774	—
Gift annuities, trusts and other		53,836	25,996	6,493	21,347
Liabilities:					
Liabilities under securities lending	$	11,307	—	11,307	—

The following table presents assets (other than management-designated cash and investments and funds held by trustee) and liabilities that are measured at fair value on a recurring basis (including items that are required to be measured at fair value) at December 31, 2012:

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

The following table presents 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, 2013 and 2012 (in thousands of dollars):

		Gift annuities, trusts, and other	Management designated cash and investments (Note 4)
Balance at December 31, 2011	$	11,002	—
Total realized and unrealized gains (losses), net		312	(1,639)
Total purchases		12,584	3,465
Total sales		(3,518)	—
Transfers into Level 3		389	2,699
Balance at December 31, 2012		20,769	4,525
Total realized and unrealized gains (losses), net		(862)	81
Total purchases		2,932	—
Total sales		(1,745)	(3)
Transfers into Level 3		253	—
Balance at December 31, 2013	$	21,347	4,603

There were no significant transfers between assets classified as Level 1 and Level 2 during the years ended December 31, 2013 and 2012.

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

(4) Investments

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

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

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

	December 31, 2013	Fair value measurements at reporting date using		
		Level 1	Level 2	Level 3
		(In thousands of dollars)		
Funds held by trustee:				
Cash and cash equivalents	$ 44,835	44,835	—	—
Domestic equity securities:				
Mutual funds	33,346	33,346	—	—
Other industries	170	170	—	—
Foreign equity securities:				
Mutual funds	2,894	2,894	—	—
Other industries	9	9	—	—
Debt securities – U.S. Treasury	67,955	67,955	—	—
Domestic corporate debt securities	33,503	—	33,503	—
Foreign corporate debt securities	15,508	—	15,508	—
Mortgage-backed securities	7,728	—	7,728	—
Other	7,035	94	6,941	—
Total	$ 212,983	149,303	63,680	—

The composition of management-designated cash and investments and funds held by trustee at December 31, 2012 is set forth in the following tables. Investments are stated at fair value.

	December 31, 2012	Fair value measurements at reporting date using Level 1	Level 2	Level 3
		(In thousands of dollars)		
Management-designated cash and investments:				
Cash and cash equivalents	$ 179,814	179,814	—	—
Domestic equity securities:				
Mutual funds:				
Large capitalization	351,108	351,108	—	—
Med-small capitalization	95,818	95,818	—	—
Other	347,919	347,919	—	—
Capital goods	33,602	33,602	—	—
Consumer services	85,563	85,563	—	—
Energy	31,720	31,720	—	—
Financial services	48,984	48,984	—	—
Technology	47,758	47,758	—	—
Healthcare and other	46,428	46,428	—	—
Foreign equity securities:				
Mutual funds	321,792	321,792	—	—
Other industries	26,059	26,059	—	—
Collective investment funds	378,646	—	378,646	—
Debt securities – U.S. Treasury and agency	983,836	624,831	359,005	—
Debt securities – State Treasury	36,773	1,415	35,358	—
Domestic corporate debt securities	600,114	—	600,114	—
Foreign corporate debt securities	193,237	—	193,237	—
Mortgage-backed securities:				
Commercial	42,511	—	42,511	—
Residential	62,379	—	62,379	—
Collateralized debt obligations	60,116	—	60,116	—
Other	19,469	1,702	13,242	4,525
Total	$ 3,993,646	2,244,513	1,744,608	4,525

	December 31, 2012	Fair value measurements at reporting date using Level 1	Level 2	Level 3
		(In thousands of dollars)		
Funds held by trustee:				
Cash and cash equivalents	$ 45,574	45,574	—	—
Domestic equity securities:				
Mutual funds	30,957	30,957	—	—
Debt securities – U.S. Treasury	67,465	67,465	—	—
Domestic corporate debt securities	34,046	—	34,046	—
Foreign corporate debt securities	17,526	—	17,526	—
Mortgage-backed securities	9,775	—	9,775	—
Other	7,169	2,812	4,357	—
Total	$ 212,512	146,808	65,704	—

The 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, 2013 and 2012, respectively, are $4,177,000 and $3,052,000 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 $189,075,000 and $192,299,000 at December 31, 2013 and 2012, respectively, related to the self-insurance and pension trusts. Within the self-insured trusts, the balance is based on management's assessment of annual need. Any additional investments are considered management-designated.

Investment income from management-designated cash and investments and funds held by trustee are included in net nonoperating gains and are comprised of the following for the years ended December 31, 2013 and 2012:

	2013	2012
	(In thousands of dollars)	
Interest income	$ 82,921	82,124
Net realized gains on sale of investments	117,062	128,744
Net unrealized gains on trading securities	47,589	80,016
Total	$ 247,572	290,884

(5) Property, Plant, and Equipment

Property, plant, and equipment and the total accumulated depreciation at December 31, 2013 and 2012 are shown below:

	Approximate useful life (years)		2013	2012
			(In thousands of dollars)	
Land	—	$	586,659	570,026
Buildings and improvements	5–60		5,061,647	4,870,030
Equipment:				
Fixed	5–25		932,531	894,992
Major movable and minor	3–20		3,662,617	3,283,715
Rental property	15–40		875,310	866,229
Construction in progress	—		552,211	648,574
			11,670,975	11,133,566
Less accumulated depreciation			5,466,358	4,897,353
Property, plant, and equipment, net		$	6,204,617	6,236,213

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, 2013 and 2012 are as follows:

		2013	2012
		(In thousands of dollars)	
Unamortized financing costs, net	$	34,035	29,144
Investment in nonconsolidated joint ventures		102,508	88,597
Interest in noncontrolled foundations		21,779	20,655
Notes receivable		51,473	54,353
Long-term reinsurance receivable		40,325	26,500
Goodwill and intangibles		118,367	125,660
Other		14,224	22,096
Total other assets	$	382,711	367,005

The Health System participates in various joint ventures for the purpose of furthering its healthcare mission. These joint ventures exist in all geographic locations in which the Health System operates. The primary purposes of the ventures are to provide outpatient services such as laboratory, outpatient surgery, and medical imaging. Various joint ventures, throughout the Health System, are controlled and consequently are combined in the financial statements of the Health System. All other joint ventures are accounted for under the equity method of accounting. The Health System recorded earnings from equity method investees of $37,732,000 and $37,394,000 for the years ended December 31, 2013 and 2012, respectively, the majority of which are included in other operating revenues in the accompanying combined statements of operations.

(7) Short-Term and Long-Term Debt

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

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

Short-term and long-term unpaid principal at December 31, 2013 and 2012 consists of the following:

	Maturing through	Coupon rates	Unpaid principal 2013	Unpaid principal 2012
			(In thousands of dollars)	
Master trust debt:				
Fixed:				
Series 1996, CHFFA Revenue Bonds	2016	4.00 – 6.00%	$ 2,975	3,865
Series 1997, Direct Obligation Notes	2017	7.70%	2,690	3,245
Series 2003H, AIDEA Revenue Bonds	2015	4.63 – 5.25%	8,500	18,500
Series 2004, HFAMC Revenue Bonds	2024	3.00 – 5.50%	—	84,355
Series 2005, Direct Obligation Notes	2030	4.31 – 5.39%	48,120	49,855
Series 2006A, WHCFA Revenue Bonds	2036	4.50 – 5.00%	210,555	210,555
Series 2006B, MFFA Revenue Bonds	2026	4.00 – 5.00%	62,380	65,175
Series 2006C, WHCFA Revenue Bonds	2033	5.25%	69,425	69,425
Series 2006D, WHCFA Revenue Bonds	2033	5.25%	69,275	69,275
Series 2006E, WHCFA Revenue Bonds	2033	5.25%	26,350	26,350
Series 2006H, AIDEA Revenue Bonds	2036	5.00%	54,355	54,355
Series 2008C, CHFFA Revenue Bonds	2038	3.00 – 6.50%	272,725	276,725
Series 2009A, Direct Obligation Notes	2019	5.05 – 6.25%	250,000	250,000
Series 2009B, CHFFA Revenue Bonds	2039	5.50%	150,000	150,000
Series 2010A, WHCFA Revenue Bonds	2039	4.88 – 5.25%	174,240	174,240
Series 2011A, AIDEA Revenue Bonds	2041	5.00 – 5.50%	122,720	122,720
Series 2011B, WHCFA Revenue Bonds	2021	2.00 – 5.00%	75,785	83,345
Series 2011C, OFA Revenue Bonds	2026	3.50 – 5.00%	22,355	22,355
Series 2012A, WHCFA Revenue Bonds	2042	2.00 – 5.00%	509,165	511,370
Series 2012B, WHCFA Revenue Bonds	2042	4.00 – 5.00%	100,000	100,000
Series 2013A, OFA Revenue Bonds	2024	2.00 – 5.00%	78,190	—
Series 2013D, Direct Obligation Notes	2023	4.38%	252,285	—
Total fixed			2,562,090	2,345,710
Variable:				
Series 2003D, E, F, G, HFACC Revenue Bonds	2033	0.14%	—	200,200
Series 2012C, WHCFA Revenue Bonds	2042	0.11%	80,000	80,000
Series 2012D, WHCFA Revenue Bonds	2042	0.17%	80,000	80,000
Series 2012E, Direct Obligation Notes	2042	0.23%	237,785	239,760
Series 2013C, OFA Revenue Bonds	2022	0.76%	161,675	—
Series 2013E, Direct Obligation Notes	2017	1.05%	322,250	—
Total variable			881,710	599,960
Commercial Paper, Series 2008A	2013	0.17%	—	194,000
U.S. Bank Credit Facility	2013	0.55%	—	86,001
Unpaid principal, master trust debt			3,443,800	3,225,671
Premiums and discounts, net			59,455	57,399
Master trust debt, including premiums and discounts, net			3,503,255	3,283,070
Other long-term debt			187,449	203,659
Total debt			$ 3,690,704	3,486,729

		2013	2012
		(In thousands of dollars)	
Current portion of long-term debt	$	160,383	63,376
Long-term debt subject to short-term remarketing agreements		—	200,200
Short-term master trust debt		32,075	280,001
Long-term debt, classified as a long-term liability		3,498,246	2,943,152
Total debt	$	3,690,704	3,486,729

Members of the Obligated Group are jointly and severally responsible for all borrowings under the master trust indenture of the Obligated Group. The master trust indenture and bond trust indentures for each debt issue require the Obligated Group to meet certain financial covenants. Providence Health & Services – Washington; Providence Health & Services – Western Washington; Western HealthConnect; Swedish Health Services; Providence Health & Services – Oregon (exclusive of Providence Plan Partners); Providence Health System – Southern California (exclusive of Medical Institute of Little Company of Mary, Lifecare Ventures, Inc., TrinityCare Hospice, and Facey); Providence St. Joseph Medical Center, and Providence Health & Services – Montana, exclusive of related housing projects financed by the U.S. Department of Housing and Urban Development and foundations, are the members of an Obligated Group formed for issuing debt under a master trust indenture.

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

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

In connection with the Series 2013A-E issuances and the Series 2012A-E issuances, the Health System recorded losses due to extinguishment of debt of $1,671,000 and $53,596,000 in 2013 and 2012, respectively, which were recorded in net nonoperating gains in the accompanying combined statement of operations.

(a) Master Trust Debt Classified as Short-Term

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

The Series 2013C bonds were issued in September 2013 as variable rate debt with a mandatory tender provision that requires the Health System to fund any shortfall upon remarketing of bonds at intervals defined by the offering statement. As a result $32,075,000 subject to the mandatory tender has been reclassified to short-term debt as the balance could become due and payable in 2014.

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

The Series 2003D, E, F, and G bonds were issued in May 2003 as auction rate bonds. In October 2008, the bonds were converted to a unit pricing mode pursuant to the Series 2003 D, E, F, and G Trust Indenture. Under the unit pricing mode, the interest reset period varies with each remarketing and ranges between one and 270 days. In connection with the revised terms under the unit pricing mode, the remaining balance was reclassified to short-term debt due to the reset periods and remarketing. In September 2013 the Series 2003D, E, F and G bonds were redeemed through the issuance of the Series 2013 C and E bonds.

Commercial Paper, Series 2008A

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

U.S. Bank Credit Facility

The Health System had a $150,000,000 Credit Facility with U.S. Bank, of which $86,001,000 in borrowings was outstanding at December 31, 2012. The outstanding balance of the U.S. Bank Credit Facility was repaid through the issuance of the Series 2013 E direct obligation bonds.

(b) Other Long-Term Debt

Other long-term debt primarily includes capital leases, notes payable, and bonds that are not under the master trust indenture. Other long-term debt at December 31, 2013 and 2012 consists of the following:

		2013	2012
		(In thousands of dollars)	
Capital leases	$	124,237	136,371
Notes payable		52,335	55,000
Bonds not under master trust indenture and other		10,877	12,288
Total other long-term debt	$	187,449	203,659

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)			
2014	$	136,710		23,673	160,383
2015		162,700		21,686	184,386
2016		203,790		23,598	227,388
2017		157,395		12,022	169,417
2018		59,375		7,104	66,479
Thereafter		2,691,755		99,366	2,791,121
Scheduled principal payments of long-term debt		3,411,725	$	187,449	3,599,174
Short-term master trust debt		32,075			
Total master trust debt	$	3,443,800			

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):

2014	$	111,703
2015		90,566
2016		75,344
2017		61,646
2018		53,580
Thereafter		541,088
	$	933,927

Rental expense was $181,239,000 and $166,407,000 for the years ended December 31, 2013 and 2012, respectively, and is included in other expenses in the accompanying combined statements of operations.

(8) Retirement Plans

(a) Defined Benefit Plans

Cash Balance Retirement Plan

The Health System had a noncontributory cash balance plan covering substantially all Providence employees called the Providence Health & Services Cash Balance Retirement Plan Trust (the Cash Balance Plan). The plan was frozen effective December 31, 2009. The plan benefits are based on defined average compensation and years of service. The plan has a five year cliff vesting schedule. The Health System's funding policy is based on the actuarially determined cost method, and includes normal service cost and prior service costs amortized over a 20-year period. Under the Cash Balance Plan, each employee carries an individual account balance. The Health System makes an annual contribution and provides an annual interest credit to each employee's account.

Supplemental Executive Retirement Plan

The Health System has a noncontributory supplemental executive retirement plan (the SERP) covering certain employees who were employed in certain key positions or pay grades or that have been designated by the Health System. The plan was frozen effective December 31, 2009. The plan benefits were based on defined average compensation and years of service. The vesting period for the plan requires an executive attain age 55 with at least five years of eligible service. The Health System's funding policy is based on the actuarially determined cost method, and includes normal service cost and prior service costs amortized over a 20-year period. Under the SERP, each employee carries an individual account balance. The Health System makes an annual contribution and provides an annual interest credit to each employee's account.

Swedish Health Services Pension Plan

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

Willamette Falls Pension Plan

The Willamette Falls Pension Plan is also a noncontributory plan covering a majority of employees at Providence Willamette Falls. The plan was frozen effective February 2008. The plan benefits are based on years of service and compensation during an employee's period of employment. The funding policy is based on the actuarially determined cost method, and includes normal service cost and prior service costs amortized over a 20-year period. Under the Willamette Falls Pension Plan, each employee carries an individual monthly annuity benefit.

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

The Health System's contributions to these defined benefit plans for the years ended December 31, 2013 and 2012 were $87,647,000 and $89,983,000, respectively.

The measurement dates for the defined benefit plans are December 31, 2013 and 2012, 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:

		2013	2012
		(In thousands of dollars)	
Change in projected benefit obligation:			
Projected benefit obligation at beginning of year	$	2,896,017	1,884,190
Swedish affiliation		—	891,599
Service cost		32,042	24,149
Interest cost		114,765	126,393
Plan amendments		(1,310)	—
Actuarial (gain) loss		(247,903)	147,887
Benefits paid and other		(200,994)	(178,201)
Projected benefit obligation at end of year		2,592,617	2,896,017
Change in fair value of plan assets:			
Fair value of plan assets at beginning of year		1,696,137	1,107,543
Swedish affiliation		—	499,061
Actual return on plan assets		190,838	177,751
Employer contributions		87,647	89,983
Benefits paid and other		(200,994)	(178,201)
Fair value of plan assets at end of year		1,773,628	1,696,137
Funded status		(818,989)	(1,199,880)
Unrecognized net actuarial loss		191,541	574,703
Unrecognized prior service cost		7,530	10,070
Net amount recognized	$	(619,918)	(615,107)
Amounts recognized in the consolidated balance sheets consist of:			
Current liabilities	$	(6,461)	(7,230)
Noncurrent liabilities		(812,528)	(1,192,650)
Unrestricted net assets		199,071	584,773
Net amount recognized	$	(619,918)	(615,107)
Weighted average assumptions:			
Discount rate		5.00%	4.10%
Rate of increase in compensation levels		4.00	3.09
Long-term rate of return on assets		7.00	7.00

(Continued)

Net periodic pension cost for the defined benefit plans for 2013 and 2012 includes the following components:

		2013	2012
		(In thousands of dollars)	
Components of net periodic pension cost:			
Service cost	$	32,042	24,149
Interest cost		114,765	126,393
Expected return on plan assets		(114,501)	(106,509)
Amortization of prior service cost		1,231	1,259
Recognized net actuarial loss		33,094	38,553
Settlement expense		25,826	33,971
Net periodic pension cost	$	92,457	117,816

Total expense for all of the Health System's defined benefit plans for the years ended December 31, 2013 and 2012 was $92,457,000 and $117,816,000, respectively. Included in the total expense is $25,826,000 and $33,971,000 of settlement costs that were incurred in 2013 and 2012, respectively, related to settlements that were greater than the sum of the service cost and interest cost components of net periodic pension cost. This settlement expense is included in net nonoperating gains in the accompanying combined statements of operations. The remaining expense is included in employee benefits in the accompanying combined statements of operations.

The accumulated benefit obligation was $2,543,426,000 and $2,833,430,000 at December 31, 2013 and 2012, respectively.

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

2014	$	188,802
2015		190,322
2016		193,642
2017		198,291
2018 – 2023		1,149,277
	$	1,920,334

The Health System expects to contribute approximately $80,955,000 to the defined benefit plans in 2014.

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 2013 and 2012 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:

	2013 and 2012 Target	2013 ELTRA	2012 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, 2013:

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

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

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

The 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.

(b) Defined Contribution Plans

401(a) Service Plan

The Health System sponsors the Providence Health & Services 401(a) Service Plan (the Service Plan). The Service Plan covers substantially all Providence employees, with contributions based on defined eligible compensation and years of service. The plan has a five year cliff vesting schedule. The Health System contributed $140,038,000 to the Service Plan in 2013 related to 2012, and has accrued a liability of $150,640,000 as of December 31, 2013 related to contributions, which has been included in the current portion of retirement plan obligations on the accompanying combined balance sheets.

403(b) Value Plan

The Health System also sponsors the Providence Health & Services 403(b) Value Plan (the Value Plan). The plan is a defined contribution plan, which includes a qualified cash or deferred arrangement, for the benefit of eligible employees. Vesting is immediate. Total Value Plan expense, primarily related to contributions, was $63,290,000 and $57,585,000 in 2013 and 2012, respectively, and is included in employee benefits expense in the accompanying combined statements of operations.

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

The Health System sponsors the Providence, Swedish, PAML Multiple Employer 401(k) Plan which covers certain Providence affiliates unable to participate in the Service Plan and the Value Plan. The plan is a defined contribution plan with contributions based on defined eligible compensation. The plan has a four year cliff vesting schedule. Total plan expense, primarily related to contributions, was $37,164,000 and $33,074,000 in 2013 and 2012, respectively, and is included in employee benefits expense in the accompanying combined statements of operations.

(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, 2013 and 2012, the estimated liability for future costs of professional and general liability claims was $214,881,000 and $190,934,000, respectively. At December 31, 2013 and 2012, the estimated workers' compensation obligation was $147,270,000 and $143,919,000, respectively, in the accompanying combined balance sheets. At December 31, 2013 and 2012, $261,317,000 and $238,408,000, respectively, of these amounts were included as self-insurance liability, net of current portion, with the remainder included within current portion of self-insurance liability, in the accompanying combined balance sheets.

(10) Commitments

Firm purchase commitments, primarily related to construction, software, and supplies, at December 31, 2013, are approximately $101,189,000.

(11) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at December 31, 2013 and 2012:

		2013	2012
		(In thousands of dollars)	
Program support	$	145,291	135,119
Low-income housing		35,050	26,612
Capital acquisition and other		43,207	40,230
Total temporarily restricted net assets	$	223,548	201,961

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, 2013 and 2012 because the time or purpose restrictions stipulated by the donor have not been met. Total fundraising expenses were $10,523,000 and $10,742,000 for the years ended December 31, 2013 and 2012, 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 $34,549,000 and $36,633,000 of assets released from restriction for operations for the years ended December 31, 2013 and 2012, respectively.

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

(12) Litigation and Contingencies

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

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

(Continued)

(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, 2013 and 2012 are as follows:

		2013	2012
		(In thousands of dollars)	
Healthcare expenses	$	8,425,223	7,772,883
Purchased healthcare expenses		767,161	733,975
General and administrative expenses		1,906,625	1,897,305
Total operating expenses	$	11,099,009	10,404,163

Schedule 1

PROVIDENCE HEALTH & SERVICES

Supplemental Schedule – Balance Sheet Information

December 31, 2013 (with combined totals for 2012)

(In thousands of dollars)

Assets		Alaska	Washington	Montana	Oregon	Providence Plan Partners	Southern California	System office, eliminations, and other	2013 Total Health System	2012 Total Health System
Current assets:										
Cash and cash equivalents	$	38,529	274,236	5,013	151,794	49,828	125,255	208,310	852,965	706,664
Short-term management-designated investments		—	—	—	—	—	18,952	170,593	189,545	452,082
Assets held under securities lending		—	—	—	—	—	—	9,386	9,386	51,220
Accounts receivable, net		149,957	659,687	50,746	324,362	—	226,341	(74,290)	1,336,803	1,261,094
Other receivables, net		20,919	368,142	49,356	83,153	22,183	93,034	(343,050)	293,737	271,133
Supplies inventory		13,897	70,043	6,463	35,438	—	22,984	23,008	171,833	155,736
Other current assets		987	26,766	375	20,615	2,597	8,160	28,074	87,574	108,150
Current portion of funds held by trustee		105	2,958	2	1,464	—	80	88,864	93,473	87,366
Total current assets		224,394	1,401,832	111,955	616,826	74,608	494,806	110,895	3,035,316	3,093,445
Assets whose use is limited:										
Management-designated cash and investments		458,591	1,186,851	47,508	1,023,296	549,634	216,071	691,456	4,173,407	3,541,564
Gift annuities, trusts, and other		442	9,002	2,339	26,193	—	13,031	2,829	53,836	50,345
Funds held by trustee		—	—	—	1,493	15,791	300	101,926	119,510	125,146
Assets whose use is limited, net		459,033	1,195,853	49,847	1,050,982	565,425	229,402	796,211	4,346,753	3,717,055
Property, plant, and equipment, net		619,183	2,684,578	93,310	1,115,563	75,159	817,742	799,082	6,204,617	6,236,213
Other assets		46,825	177,519	19,584	69,504	999	89,830	(21,550)	382,711	367,005
Total assets	$	1,349,435	5,459,782	274,696	2,852,875	716,191	1,631,780	1,684,638	13,969,397	13,413,718
Liabilities and Net Assets										
Current liabilities:										
Current portion of long-term debt	$	22,026	77,151	5,082	22,785	—	31,121	2,218	160,383	63,376
Master trust debt classified as short-term		—	—	—	32,075	—	—	—	32,075	480,201
Accounts payable		16,238	173,976	12,877	76,510	3,719	91,654	61,648	436,622	423,307
Accrued compensation		34,376	228,121	11,322	133,030	—	69,404	143,776	620,029	581,645
Payable to contractual agencies		10,456	62,447	1,770	28,762	9,548	14,899	—	127,882	131,761
Liabilities under securities lending		—	—	—	—	—	—	11,307	11,307	52,708
Retirement plan obligations		366	1,295	—	1,855	—	1,160	179,389	184,065	171,520
Current portion of self-insurance liability		—	12,789	—	—	—	—	88,045	100,834	96,445
Other current liabilities		8,226	487,806	56,535	55,903	172,264	55,255	(580,745)	255,244	233,058
Total current liabilities		91,688	1,043,585	87,586	350,920	185,531	263,493	(94,362)	1,928,441	2,234,021
Long-term debt, net of current portion (1)		305,192	1,940,095	60,860	269,604	—	553,264	369,231	3,498,246	2,943,152
Other long-term liabilities		15,882	326,763	6,828	36,220	999	32,583	805,950	1,225,225	1,562,837
Total liabilities		412,762	3,310,443	155,274	656,744	186,530	849,340	1,080,819	6,651,912	6,740,010
Net assets:										
Unrestricted		924,417	2,040,904	114,332	2,118,867	529,661	724,943	556,500	7,009,624	6,393,045
Temporarily restricted		9,647	87,127	4,117	46,691	—	35,820	40,146	223,548	201,961
Permanently restricted		2,609	21,308	973	30,573	—	21,677	7,173	84,313	78,702
Total net assets		936,673	2,149,339	119,422	2,196,131	529,661	782,440	603,819	7,317,485	6,673,708
Total liabilities and net assets	$	1,349,435	5,459,782	274,696	2,852,875	716,191	1,631,780	1,684,638	13,969,397	13,413,718

(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, 2013 (with combined totals for 2012)

(In thousands of dollars)

	Alaska	Washington	Montana	Oregon	Providence Plan Partners	Southern California	System office, eliminations, and other	2013 Total Health System	2012 Total Health System
Operating revenues:									
Net patient service revenues	$ 760,655	4,668,386	288,908	2,430,174	—	1,647,280	(437,874)	9,357,529	9,055,945
Provision for bad debts	(41,949)	(158,803)	(2,722)	(43,065)	—	(48,600)	(4,652)	(299,791)	(389,890)
Net patient service revenues less provision for bad debts	718,706	4,509,583	286,186	2,387,109	—	1,598,680	(442,526)	9,057,738	8,666,055
Premium and capitation revenues	—	32,379	—	77,167	1,137,182	198,965	(586)	1,445,107	1,333,584
Other revenues	52,308	251,274	25,742	218,560	52,436	65,332	(31,817)	633,835	608,610
Total operating revenues	771,014	4,793,236	311,928	2,682,836	1,189,618	1,862,977	(474,929)	11,136,680	10,608,249
Operating expenses:									
Salaries and wages	261,856	2,003,301	114,439	1,064,713	(1,027)	695,251	610,340	4,748,873	4,430,130
Employee benefits	75,423	506,545	32,541	350,374	1,392	184,509	10,346	1,161,130	1,170,276
Purchased healthcare	—	19,791	—	25,736	1,015,480	47,886	(341,732)	767,161	733,975
Professional fees	12,931	141,806	13,187	70,913	10,282	173,737	40,982	463,838	390,427
Supplies	108,179	738,528	55,443	382,419	317	226,875	21,331	1,533,092	1,473,398
Purchased services	132,961	713,467	63,846	410,069	120,200	258,663	(754,719)	944,487	802,418
Depreciation	54,586	253,971	11,892	113,987	1,314	80,766	80,107	596,623	584,609
Interest and amortization	13,825	75,886	3,424	6,126	—	37,853	(2,625)	134,489	120,096
Other	32,266	274,922	18,083	196,669	17,502	184,422	25,452	749,316	698,834
Total operating expenses	692,027	4,728,217	312,855	2,621,006	1,165,460	1,889,962	(310,518)	11,099,009	10,404,163
Excess (deficit) of revenues over expenses from operations	78,987	65,019	(927)	61,830	24,158	(26,985)	(164,411)	37,671	204,086
Net nonoperating gains	34,665	131,644	1,386	52,158	(1,928)	16,132	(18,458)	215,599	1,012,430
Excess of revenues over expenses	113,652	196,663	459	113,988	22,230	(10,853)	(182,869)	253,270	1,216,516
Net assets released from restriction	311	8,319	6	1,704	—	(594)	1,040	10,786	17,460
Change in noncontrolling interests in consolidated joint ventures	35	(27,575)	—	(86)	—	(811)	(702)	(29,139)	11,232
Pension related changes	—	—	—	—	—	—	385,702	385,702	(2,862)
Interdivision transfers	(15,248)	(52,235)	(9,029)	(66,121)	(3,000)	(29,915)	175,548	—	—
Contributions, grants, and other	(124)	81,682	(189)	7,748	—	4,077	(97,234)	(4,040)	(28,280)
Increase (decrease) in unrestricted net assets	$ 98,626	206,854	(8,753)	57,233	19,230	(38,096)	281,485	616,579	1,214,066

See accompanying independent auditors' report.