Providence Health & Services provides compassionate, high-quality care; while remaining good stewards of resources. Our commitment to financial sustainability, coupled with the spirit and drive of the people of Providence, allows our ministry 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 otherwise could not afford health care.

Benefiting Our Communities

As a not-for-profit Catholic health care ministry, Providence embraces its responsibility to provide for the needs of the communities it serves – especially the poor and vulnerable. Despite a difficult economy and the swelling ranks of uninsured and underinsured people, all Providence regions increased contributions to community benefit programs in 2009, for a total of more than $581 million. This is a Providence-wide increase of 14 percent over 2008 community benefit spending.

Providing for the Poor and Vulnerable

The downturn of the economy has had tremendous effects on access to health care. 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 2009, Providence offered $200 million in charity care. This is nearly an 18 percent increase from the amount of free and discounted care offered in 2008. Consistent with other Catholic health care organizations, Providence does not include the unpaid cost of Medicare, Medicaid or bad debt in its cost of charity care numbers.

Sustaining Our Mission

The economic downturn meant Providence needed to take immediate precautions to prepare for the increased cost of charity care and decreased patient volumes for voluntary procedures; while remaining financially healthy. Starting in 2008, Providence began a system-wide stewardship initiative to reduce expenses and identify areas for operational improvement. The goal was to make sure Providence ministries didn't just weather the economic downturn, but were able to remain financially healthy for the long-term. In 2009, Providence net operating income was $323 million; exceeding budget by $44 million. This was largely due to a $95 million reduction in expenses and improved efficiencies.

While these have been difficult and unpredictable economic times, the Providence Mission is firmly rooted in the work started more than 154 years ago by the Sisters of Providence. This heritage is an inspiration and guides Providence & Health Services to be a constant and supportive presence in the communities it serves.

Fiscal Year End December 31, 2009 – Financial Performance Report

Net operating income of $323.4 million exceeded budget by $44.5 million while running $35.4 million better than prior year-to-date. In summary, the positive budget variance was primarily driven by expense management. Year-to-date net income of $360.7 million exceeded budget by $14.8 million while running $517.4 million better than prior year-to-date.

The following table presents consolidated key financial indicators:

Key Financial Indicators	---- YTD December 2009 ----		
	Actual	Budget	2008
Net Operating Income % Net Operating Income Return	$323.4m 4.2%	$278.9m 3.6%	$288.0m 4.1%
Net Income (loss)	$360.7m	$345.9m	($156.7m)
Charity Care Services % Net Patient Revenue	5.7%	4.3%	5.2%
Inpatient Activity – Inpatient Admissions	261,439	274,641	253,023
Outpatient Activity – Outpatient Revenue	$5,673m	$5,420m	$4,846m
Long-term Care Activity – Resident Days	446,883	449,786	443,907
Rate - Net Service Revenue/CMAA	$10,945	$11,069	$10,584
Labor Productivity – FTEs/AOB	8.12	7.99	7.98
Supplies % Net Operating Revenue	13.8%	13.8%	13.7%
Expense per CMAA	$10,409	$10,607	$10,081
Accounts Receivable Days	49	50	51
Days of Cash on Hand	158	137	145

Inpatient admissions ran 4.8% below budget year-to-date but 3.3% greater than prior year-to-date. On an annualized basis, the 4.8% budget shortfall represents 36 admissions per calendar day or approximately 1 visit per calendar day per hospital. The most significant driver of the overall negative budget variance was driven by shorter than normal flu season, fewer than budgeted elective surgeries, growing specialty physician competition and continued conversion of inpatient services into outpatient settings.

Long-term care activity ran 0.6% below budget but 0.7% greater than prior year. The 0.6% budget shortfall represents 8 fewer patients served per calendar day. The below budget performance occurred in all regions. The most significant negative of the overall negative budget variance has been driven by shorter lengths of stay and reduced admissions related to the previously mentioned inpatient hospital admissions shortfall.

Net service revenue per CMAA (case mix adjusted admission) ran 1.1% below budget and 3.4% greater than prior year. The majority of the overall negative budget variance across the System is the result of the weak economy. It is anticipated negative budget variances will continue to grow as unemployment increases, state budget cuts are implemented and COBRA benefits expire putting further pressure on the System's cost structure and operational improvement plans. Labor productivity ran 1.7% below budget and 1.8% below prior year. The below budget performance occurred in all regions.

The strength of the Alaska region's performance has been expense management which is currently running 2.9% better than budget. The primary challenges for the Alaska region have been the 6.0% shortfall in inpatient admissions and a 2.7% shortfall in supply expense as a percentage of net operating revenue. The year-to-date strengths included positive budget performances of regional services, Kodiak, Providence Alaska Medical Center, mental health and primary care services.

The strength of the Washington/Montana region's performance has been primarily 3.6% greater than budgeted operating expense efficiency. The primary challenges for the Washington/Montana region have been the 3.8% shortfall in inpatient admissions, 2.8% shortfall in net service revenue per CMAA and a 1.7% overage in average annual wage. The most significant year-to-date negative budget variance occurred in home care, hospice and primary care. The year-to-date strengths include the positive budget performances of nursing home services, acute care facilities, and PAML.

The strength of the Oregon region's performance has been primarily 0.3% greater than budgeted operating expense efficiency. The primary challenge of the Oregon region is inpatient admissions running 7.6% below budget and 6.3% less than budgeted health plan enrollment driven by 11% unemployment in Portland and the economic impact on the small employer market. The most significant year-to-date negative budget variances occurred in Portland, Seaside, Newberg, home care, regional services, and ambulatory services. The year-to-date strengths included the positive budget performances of Medford, Milwaukie, and the Providence Medical Group.

The strength of the California region's performance has been 1.4% greater than budgeted operating expense efficiency. The primary challenge of the California region has been the previously mentioned acute admissions running 3.3% below budget. The most significant year-to-date negative budget variances occurred in Burbank and the Providence Medical Institute. The year-to-date strengths included the positive budget performances of Mission Hills, Torrance, San Pedro and Tarzana.

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

<u>Balance Sheet Indicators</u>	**---- December 2009 ----**		
	Tracking Goal	Current	FYE Goal
Days of Cash on Hand	Yes	158	150
Long-term Debt to Total Capitalization	Yes	31%	35%
Cash-to-Debt	Yes	118%	110%

It should be noted from the table above, the 158 days of cash on hand includes $64.3 million of unspent debt; excluding the unspent debt, cash on hand is at 155 days.

Debt Supported by Self-Liquidity

In February 2008, Providence Health & Services (PH&S) held $720.5 million in auction rate debt, in 14 different series of bonds. During the year, PH&S moved quickly to restructure its auction debt and as result currently has approximately $411.5 million in variable-rate vehicles supported by self liquidity. The System reports monthly on its cash and investment balances available to retire maturing short-term debt in the event bonds cannot be remarketed. The table below summarizes the information provided to the rating agencies at the end of the fourth quarter describing cash and investments that could be available for liquidation.

Standard & Poor's Liquidity Assessment Coverage Calculation Spreadsheet (Last Revised February 2009)

INSTRUCTIONS: Fill in Shaded Cells to Compute Coverage Ratios

Liquidity Assessment Provider Name: Providence Health & Services
Portfolio As of Date: December 31, 2009

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 *	$ 348.66	$ -	$ (4.56)	$ 344.10	1.00	$ 344.10
S&P rated money market funds (> Am)	$ 336.36	$ 21.56	$ 323.86	$ 681.78	1.00	$ 681.78
Highly rated (A-1 or A-1+) dedicated bank line	$ -	$ -	$ -	$ -	1.00	$ -
Highly rated (A-1 or A-1+) money market instruments (< 1yr)	$ 1.87	$ -	$ -	$ 1.87	0.91	$ 1.70
U.S. Treasury Debt Obligations (> 1 year)	$ 110.59	$ 87.83	$ -	$ 198.42	0.91	$ 180.38
U.S. TIPs	$ 4.31	$ 5.91	$ -	$ 10.22	0.87	$ 8.89
U.S. Agencies (> 1 year)	$ 59.85	$ 54.46	$ 1.98	$ 116.29	0.83	$ 96.91
Investment Grade Debt (that is not included above)	$ 194.47	$ -	$ 207.55	$ 402.02	0.67	$ 268.01
Equities**	$ -	$ -	$ 41.79	$ 41.79	0.50	$ 20.90
Non-Investment Grade Debt	$ 58.14	$ -	$ 51.18	$ 109.32	0.40	$ 43.73
Total	$ 1,114.25	$ 169.76	$ 621.80	$ 1,905.81		$ 1,646.40
Discounted Total	$ 993.78	$ 151.93	$ 500.69			Discounted Total

	Enter amount of Self Liquidity Backed Debt with:			TOTAL DEBT SUPPORTED BY SELF LIQUIDITY	TOTAL REMAINING DISCOUNTED ASSETS
	Same Day Notice	Next Day Notice	> Next Day Notice		
	$50.00	$61.53	$300.00		
Remaining Discounted Assets	$943.78	$1,034.18	$1,234.87	$ 411.53	$ 1,234.87
	Same Day +/-	Next Day +/-	> Next Day +/-		
	Sufficient	Sufficient	Sufficient		

* Cash & Cash Equivalents: Using a discount factor of 1.00 covers only cash/bank deposits with A-1 or A-1+ rated entities and US Government securities maturing in under one year. Additionally, a discount factor of 1.00 can be used for cash/bank deposits with entities rated less than A-1 that are less than $250,000.

December Metrics

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

Mike Butler, CFO

Performance Metrics	December 31, 2009 Year-to-Date	Budget	Last Year
Volume:			
Acute Adjusted Admissions	427,634	440,837	412,212
Total Acute Admissions	261,439	274,641	253,023
Total Acute Patient Days	1,185,619	1,257,490	1,155,737
Acute Outpatient Visits	5,465,032	5,645,163	5,223,359
Primary Care Visits	2,281,947	2,362,456	2,028,487
Long-Term Care Patient Days	481,365	502,846	495,016
Home Health Visits	525,796	603,287	552,805
Hospice Days	558,270	675,308	623,865
Housing and Assisted Living Days	504,640	478,863	488,405
Health Plan Members	3,217,724	3,435,261	3,211,901
Total Occupancy %	65.9%	69.3%	63.9%
Total Average Daily Census	3,248	3,445	3,158
Efficiency:			
FTE's	43,151	44,173	41,035
YTD Overall Case-Mix Index	1.4113	1.3716	1.3887
YTD Case-Mix Adj Admissions (CMAA)	603,521	604,673	572,435
YTD Acute Care LOS (case-mix adj)	3.2	3.3	3.3
YTD Net Svc Rev/CMAA	10,945	11,069	10,584
YTD Net Expense/CMAA	10,409	10,607	10,081
YTD Paid Hours/CMAA	149	152	149
YTD Productive Hours/CMAA	130	133	132
YTD Supplies Expense/CMAA	1,769	1,765	1,687
YTD Med Supplies Exp/CMAA	1,102	1,062	1,022
FTE's Per Adjusted Occupied Bed	8.12	7.99	7.98
Ave Yearly Salary/FTE (w/o benefits)	69,250	69,278	65,307
Employee Benefits as a % of Salaries	25.6%	24.4%	27.8%
Financial Performance:			
Operating Margin	4.2%	3.6%	4.1%
Total Margin	4.7%	4.4%	-2.4%
EBIDA ('000)	789,722	812,153	239,826
R12 Days of Total Cash on Hand	158	137	145
Net Patient AR Days (3 mo rolling ave)	49	50	51
Current Ratio	1.3	1.4	1.2
Supplies as a % of Net Svc Revenue	17.3%	17.2%	17.1%
Supplies as a % of Net Op Revenue	13.9%	13.8%	13.7%
Bad Debt & Charity as a % of Gross Svc	4.4%	3.9%	4.3%
Community Benefit: ('000)			
Cost of Charity Care Provided	$200,057	$170,597	$169,853
Medicaid Charity	215,769	187,870	197,780
Education and Research Programs	61,679	27,640	34,807
Unpaid Cost of Other Govt Programs	11,584	20,173	16,040
Negative Margin Services and Other	56,113	43,192	55,211
Non-Billed Services	36,465	25,825	35,166
Total Community Benefit	$581,667	$475,298	$508,858

PROVIDENCE HEALTH & SERVICES

Consolidated Financial Statements

December 31, 2009 and 2008

(With Independent Auditors' Report Thereon)

KPMG LLP
Suite 900
801 Second Avenue
Seattle, WA 98104

Independent Auditors' Report

The Board of Directors,
Providence Health & Services:

We have audited the accompanying consolidated balance sheets of Providence Health & Services (the Health System) as of December 31, 2009 and 2008, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Health System's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Providence Health & Services as of December 31, 2009 and 2008, and the results of its operations and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

Our audits were made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and cash flows of the individual regions. The consolidating information for 2009 has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

KPMG LLP

April 9, 2010

PROVIDENCE HEALTH & SERVICES

Consolidated Balance Sheets

December 31, 2009 and 2008

(In thousands of dollars)

Assets		**2009**	**2008**
Current assets:			
Cash and cash equivalents	$	495,363	491,812
Short-term management-designated investments		213,124	223,083
Assets held under securities lending		110,771	204,524
Accounts receivable, less allowance for bad debts of $194,677 in 2009 and $169,370 in 2008		831,240	813,723
Other receivables, net		157,380	150,994
Supplies inventory		116,043	111,358
Other current assets		49,353	59,538
Current portion of funds held by trustee		93,489	81,476
Total current assets		2,066,763	2,136,508
Assets whose use is limited:			
Management-designated cash and investments		2,208,147	1,734,347
Gift annuities, trusts, and other		38,394	36,887
Funds held by trustee		172,545	122,780
Assets whose use is limited, net of current portion		2,419,086	1,894,014
Property, plant, and equipment, net		3,983,448	3,666,673
Other assets		208,011	217,191
Total assets	$	8,677,308	7,914,386

PROVIDENCE HEALTH & SERVICES

Consolidated Balance Sheets

December 31, 2009 and 2008

(In thousands of dollars)

Liabilities and Net Assets		2009	2008
Current liabilities:			
Current portion of long-term debt	$	48,675	33,664
Master trust debt classified as short-term		465,525	553,997
Accounts payable		303,270	292,449
Accrued compensation		347,739	295,707
Payable to contractual agencies		67,377	77,325
Liabilities under securities lending		114,597	218,233
Current portion of self-insurance liability		96,300	86,928
Other current liabilities		174,626	166,556
Total current liabilities		1,618,109	1,724,859
Long-term debt, net of current portion		1,542,089	1,148,619
Other long-term liabilities:			
Self-insurance liability, net of current portion		217,068	200,811
Pension benefit obligation		515,943	845,861
Other liabilities		74,772	83,281
Total other long-term liabilities		807,783	1,129,953
Total liabilities		3,967,981	4,003,431
Net assets:			
Unrestricted		4,478,089	3,683,197
Temporarily restricted		169,519	173,234
Permanently restricted		61,719	54,524
Total net assets		4,709,327	3,910,955
Total liabilities and net assets	$	8,677,308	7,914,386

See accompanying notes to consolidated financial statements.

PROVIDENCE HEALTH & SERVICES

Consolidated Statements of Operations

Years ended December 31, 2009 and 2008

(In thousands of dollars)

		2009	2008
Operating revenues:			
Net patient service revenues	$	6,180,916	5,653,268
Premium revenues		1,099,243	1,016,421
Other revenues		390,023	356,452
Total operating revenues		7,670,182	7,026,141
Operating expenses:			
Salaries and wages		2,988,199	2,679,885
Employee benefits		764,385	745,630
Purchased healthcare		674,466	610,791
Professional fees		223,010	204,517
Supplies		1,067,653	965,503
Purchased services		598,851	587,922
Depreciation		360,233	333,008
Interest and amortization		68,788	63,521
Bad debts		258,356	216,717
Other		342,860	330,685
Total operating expenses		7,346,801	6,738,179
Excess of revenues over expenses from operations		323,381	287,962
Net nonoperating gains (losses)		37,320	(444,664)
Excess (deficit) of revenues over expenses		360,701	(156,702)
Contributions, grants, investment income, and other		53,210	(3,435)
Net assets released from restriction		18,827	14,306
Net assets assumed – Willamette Falls Medical Center and Willamette Falls Medical Foundation		36,911	—
Change in pension liability		325,243	(591,843)
Implementation of change in pension measurement date		—	(26,100)
Increase (decrease) in unrestricted net assets	$	794,892	(763,774)

See accompanying notes to consolidated financial statements.

PROVIDENCE HEALTH & SERVICES

Consolidated Statements of Changes in Net Assets

Years ended December 31, 2009 and 2008

(In thousands of dollars)

		Unrestricted	Temporarily restricted	Permanently restricted	Total net assets
Balance, December 31, 2007	$	4,446,971	170,957	54,630	4,672,558
Deficit of revenues over expenses		(156,702)	—	—	(156,702)
Contributions, grants, investment income (loss), and other		(3,435)	51,216	(106)	47,675
Net assets released from restriction		14,306	(48,939)	—	(34,633)
Increase in pension liability		(591,843)	—	—	(591,843)
Implementation of change in pension measurement date		(26,100)	—	—	(26,100)
(Decrease) increase in net assets		(763,774)	2,277	(106)	(761,603)
Balance, December 31, 2008		3,683,197	173,234	54,524	3,910,955
Excess of revenues over expenses		360,701	—	—	360,701
Contributions, grants, investment income, and other		53,210	48,243	5,169	106,622
Net assets released from restriction		18,827	(52,879)	—	(34,052)
Net assets assumed – Willamette Falls Medical Center and Willamette Falls Medical Foundation		36,911	921	2,026	39,858
Decrease in pension liability		325,243	—	—	325,243
Increase (decrease) in net assets		794,892	(3,715)	7,195	798,372
Balance, December 31, 2009	$	4,478,089	169,519	61,719	4,709,327

See accompanying notes to consolidated financial statements.

PROVIDENCE HEALTH & SERVICES

Consolidated Statements of Cash Flows

Years ended December 31, 2009 and 2008

(In thousands of dollars)

		2009	2008
Cash flows from operating activities:			
Increase (decrease) in net assets	$	798,372	(761,603)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:			
Depreciation and amortization		361,899	339,757
Provision for bad debt		258,356	216,717
Equity income from joint ventures		(35,066)	(33,883)
Restricted contributions and investment income received		(46,490)	(56,824)
Net realized and unrealized (gains) losses on investments		(86,827)	423,628
Implementation of change in pension measurement date		—	26,100
Distributions from joint ventures		27,112	14,807
Net assets assumed – Willamette Falls Medical Center and Willamette Falls Medical Foundation		(39,527)	—
Changes in certain current assets and current liabilities		(244,855)	(287,270)
Change in other long-term liabilities and other		(337,971)	596,153
Net cash provided by operating activities		655,003	477,582
Cash flows from investing activities:			
Property, plant, and equipment additions		(610,918)	(612,953)
Proceeds from disposal of property, plant, and equipment		11,012	4,561
Purchases of investments		(3,543,175)	(3,231,423)
Proceeds from sales of investments		3,224,748	3,253,353
Change in other long-term assets and other		4,748	(14,708)
Change in funds held by trustee, net		(38,336)	28,310
Providence Tarzana Medical Center purchase		—	(86,147)
Net cash used in investing activities		(951,921)	(659,007)
Cash flows from financing activities:			
Proceeds from restricted contributions and restricted income		46,490	56,824
Debt borrowings		1,098,120	1,099,738
Debt payments		(829,953)	(861,318)
Change in securities lending, net		(9,883)	13,709
Payment of deferred financing costs and other		(4,305)	4,894
Net cash provided by financing activities		300,469	313,847
Increase in cash and cash equivalents		3,551	132,422
Cash and cash equivalents, beginning of year		491,812	359,390
Cash and cash equivalents, end of year	$	495,363	491,812
Supplemental disclosure of cash flow information:			
Cash paid for interest (net of amounts capitalized)	$	56,666	55,333

See accompanying notes to consolidated financial statements.

(1) Organization

(a) Sisters of Providence

Sisters of Providence (the Congregation), a religious congregation of Roman Catholic women, was founded in 1843. The religious congregation's central headquarters is in Montreal, Quebec, Canada. Sisters of Providence – Mother Joseph Province (the Province) was formed in 2000 through the combination of the Sacred Heart Province (founded in 1856) and the St. Ignatius Province (founded in 1891). The activities of the Province include apostolic works in healthcare, social services, and education. Members of the Province serve in these works through related and unrelated organizations. The Province is compensated for the services of its members. The Province has 159 professed members and maintains Provincial Administration facilities in both Renton and Spokane, Washington. The members of the Province represent the Congregation in the following:

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

(b) Providence Health & Services

The Provincial Superior and the members of the Provincial Council of the Sisters of Providence – Mother Joseph Province sponsor various corporations comprising Providence Health & Services (the Health System):

- Providence Health & Services – Washington
- Providence Health & Services – Oregon
- Providence Health System – Southern California (cosponsored by the Congregation and the American Province of the Little Company of Mary Sisters)
- Providence Hospice and Home Care of Snohomish County
- St. Patrick Hospital and Health Sciences Center
- St. Joseph Hospital Corporation
- St. Thomas Child and Family Center Corporation
- University of Great Falls

(Continued)

- Providence Plan Partners
- Providence Health Plan (the Health Plan)
- Providence Health Assurance
- Providence Health System Housing; The St. Luke Association; The Lundberg Association; Providence St. Francis Association; Providence Blanchet Association; Providence Rossi Association; Providence Peter Claver Association; The Gamelin Association; The Gamelin Oregon Association; The Gamelin California Association; Providence St. Elizabeth House Association; Gamelin Washington Association; Providence Gamelin House Association
- Providence Oregon Management Corporation
- The John Gabriel Ryan Association
- Providence Ventures, Inc.
- Providence Assurance, Inc.

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

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

(c) Organizational Changes

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

Pursuant to the affiliation agreement, Providence Health & Services – Oregon established a $55,000,000 capital investment fund, which will be used to fund certain capital purchases, physician recruitment costs, and the funding of the Willamette Falls defined benefit pension plan. Providence Health & Services – Oregon provided the Foundation with a $3,500,000 contribution.

Effective September 19, 2008, Providence Health System – Southern California purchased from Tenet Healthcare Corporation substantially all the property, plant, equipment, and inventories of the newly renamed Providence Tarzana Medical Center (the Medical Center). The Medical Center is a

245-bed acute care hospital and is located in the San Fernando Valley, becoming the fifth hospital that the Health System operates in Los Angeles County. In connection with the purchase transaction, the Health System recorded $4,786,000 in current assets, $87,955,000 in property, plant, and equipment, and $6,594,000 in current liabilities on its consolidated balance sheet during 2008. The Health System paid $86,147,000 in cash, using proceeds from the Series 2008C California Health Facilities Financing Authority bond issuance. The results of operations of the Medical Center have been included in the consolidated statements of operations of the Health System effective as of the date of the purchase.

(d) Affiliated Transactions

Interaffiliate Borrowings

The Health System has a policy to loan funds among its affiliates at various interest rates.

Self-Insurance Liability

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

(2) Summary of Significant Accounting Policies

(a) Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Health System and the various corporations noted above. All significant transactions and accounts between consolidated divisions and affiliates of the Health System have been eliminated. The Health System has performed an evaluation of subsequent events through April 9, 2010, which is the date these consolidated financial statements were issued.

(b) Use of Estimates

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

(c) Cash and Cash Equivalents

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

(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 of the carrying value over the fair value less disposal costs, is recognized when the sum of the expected future undiscounted net cash flows from the use and disposal of the asset is less than the carrying amount of the asset.

(f) Depreciation

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

(g) Interest During Construction

Interest capitalized on amounts expended for construction is a component of the cost of plant additions to be allocated to future periods through the provision for depreciation. Capitalization of interest ceases when the plant addition is placed into service. The Health System capitalized $15,081,000 and $12,322,000 of interest costs during the years ended December 31, 2009 and 2008, 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 point for which a creditor can demand payment.

(i) Goodwill

Goodwill is recorded in other assets as the excess of cost over fair value of the acquired net assets. The provision for amortization is determined using the straight-line method over a period not to exceed 20 years. Additionally, goodwill is tested at least annually for impairment.

(j) Assets Whose Use Is Limited

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

Assets whose use is limited primarily include assets held by trustees under indenture agreements, self-insurance funds, funds held for the payment of health plan medical claims, assets held by related foundations, and designated assets set aside by the management of Providence Health & Services for future capital improvements and other purposes, over which management retains control. Amounts required to meet current liabilities of the Health System have been reclassified as current in the consolidated balance sheets at December 31, 2009 and 2008.

(Continued)

(k) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Health System has been limited by donors to a specific time period and/or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Health System in perpetuity. Unless specifically stated by donors, gains and losses on temporarily and permanently restricted net assets are recorded as temporarily restricted.

(l) Donor-Restricted Gifts

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

(m) Net Patient Service Revenues

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

Net patient service revenues are reported at the estimated net realizable amounts due from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with governmental payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Adjustments from finalization of prior years' cost reports and other third-party settlement estimates resulted in an increase in net patient service revenues of approximately $22,147,000 and $21,126,000 for the years ended December 31, 2009 and 2008, respectively.

The composition of significant third-party payors for the years ended December 31, 2009 and 2008, as a percentage of patient service revenues, is as follows:

	2009	2008
Medicare	34%	35%
Commercial and other insurance	50	47
Medicaid	10	11
Self-pay	6	7
	100%	100%

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

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

(o) Charity and Unsponsored Community Benefit Costs

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

Information for the Health System for the years ended December 31, 2009 and 2008 is summarized below:

		2009	2008
		(In thousands of dollars)	
Cost of charity care provided	$	200,057	169,853
Unpaid cost of Medicaid services		215,769	197,780
Education and research programs, net cost		61,679	34,807
Nonbilled services, net cost		36,465	35,166
Negative margin services and other, net cost		67,697	71,252
Unsponsored community benefit costs	$	581,667	508,858
Percentage of total operating expenses, excluding purchased healthcare		8.7%	8.3%

The cost of charity care provided is based on each division's aggregate relationship of costs to charges. The unpaid cost of Medicaid services is the cost of treating Medicaid patients in excess of government payments. Education includes the unpaid cost of training health professionals, such as medical residents. Research programs include the unpaid cost of controlled studies of therapeutic protocols and development of new treatment protocols. Nonbilled services include the cost of services for which a patient is not 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 provided to meet a need in the community. Nonbilled and negative margin services benefit the poor and the broader community but are not expected to be financially self-supporting.

(p) Nonoperating Gains (Losses)

Nonoperating gains (losses) primarily include investment income, unrealized gains (losses) on trading securities, equity earnings from the Health System's participation in joint ventures, income from recipient organizations, and other income. For the year ended December 31, 2009, nonoperating gains (losses) also includes losses related to a curtailment charge.

(q) ***Excess (Deficit) of Revenues over Expenses***

Excess (deficit) of revenues over expenses includes the Health System's operating and investing activities. Changes in unrestricted net assets not included in excess (deficit) of revenues over expenses include net assets released from restriction for the purchase of property, certain changes in funded status of postretirement benefit plans, effect of change in accounting for postretirement benefit plans, and other.

(r) ***Income Taxes***

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

For the taxable corporations, deferred income taxes are provided for the future tax consequences of temporary differences between financial and tax reporting. Deferred tax assets and liabilities are measured based on enacted tax laws and rates expected to apply to taxable income in the years in which temporary differences are expected to be recorded or settled. Income taxes did not have a material impact on the consolidated financial position or results of operations of the Health System as of and for the years ended December 31, 2009 and 2008.

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

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

(s) ***Recently Adopted, or Issued, Accounting Standards***

In June 2009, the Financial Accounting Standards Board (FASB) established the *FASB Accounting Standard Codification* (ASC) to become the source of authoritative U.S. generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. The ASC did not change GAAP, except in limited circumstances, and the content of ASC will carry the same level of GAAP authority when effective. The GAAP hierarchy was modified to include only two levels of GAAP: authoritative and nonauthoritative. The Health System adopted the ASC in September 2009, and as a result, references to legacy GAAP accounting pronouncements in the Health System's consolidated financial statement disclosures have been modified to either reflect ASC citations or plain English descriptions.

In May 2009, the FASB issued ASC Topic 855 (Topic 855), *Subsequent Events.* Topic 855 modifies the definition of what qualifies as a subsequent event – those events or transactions that occur following the balance sheet date, but before the consolidated financial statements are issued, or are available to be issued – and requires entities to disclose the date through which it has evaluated subsequent events and the basis for determining that date. The Health System adopted Topic 855 as of December 31, 2009.

(Continued)

During 2008, the Health System adopted the measurement date provisions of ASC Subtopic 715-20 (Subtopic 715-20), *Compensation – Retirement Benefits – Defined Benefit Plans – General*, which required the Health System to change its measurement date for plan assets and benefit obligations to its fiscal year-end, December 31. Prior to 2008, the Health System measured its plan assets and benefit obligations as of September 30 of each year. The adoption of the measurement date provisions of Subtopic 715-20 resulted in a charge of $26,100,000 to unrestricted net assets at December 31, 2008. Refer to note 8 for more information regarding the Health System's pension plan disclosures under Subtopic 715-20.

In September 2006, the FASB issued ASC Topic 820 (Topic 820), *Fair Value Measurements and Disclosures.* Topic 820 defines fair value, establishes a framework for the measurement of fair value, and enhances disclosures about fair value measurements. Topic 820 does not require any new fair value measures. During 2008, the Health System adopted the provisions of Topic 820 for fair value measurements of financial assets and financial liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the consolidated financial statements on a recurring basis. The adoption of Topic 820 did not have a significant impact to the Health System's consolidated financial statements. Refer to note 4 for more information regarding the Health System's fair value disclosures under Topic 820.

In October 2008, the FASB issued ASC Topic 820-10-35 (Topic 820-10-35), which was effective immediately. Topic 820-10-35 clarifies the application of Topic 820 in cases where the market for a financial instrument is not active and provides an example to illustrate key considerations in determining fair value in those circumstances. The Health System has considered the guidance provided by Topic 820-10-35 in its determination of estimated fair values during 2009, which did not have a significant impact on the Health System's fair value measurements.

In April 2009, the FASB issued ASC Topic 820-10-65 (Topic 820-10-65), *Determining Fair Value When the Volume and Level of Activity for the Asset or When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions that are not Orderly*, which is effective for periods ending after June 15, 2009. Topic 820-10-65 provides additional guidance for estimating fair value in accordance with Topic 820, when the volume and level of activity for the asset or liability have significantly decreased; includes guidance on identifying circumstances that indicate a transaction is not orderly; and provides additional clarification on disclosures related to fair value. The Health System has considered the guidance provided by Topic 820-10-65 in its determination of estimated fair values during 2009, which did not have a significant impact on the Health System's fair value measurements.

In February 2007, the FASB issued ASC Subtopic 825-10 (Subtopic 825-10), *Financial Instruments – Overall.* Subtopic 825-10 permits an organization to measure certain financial instruments at fair value that are not currently required to be measured at fair value. Subtopic 825-10 permits organizations to choose, at specified election dates, to measure certain items at fair value and report unrealized gains and losses on such items in earnings. Effective January 1, 2008, the Health System adopted Subtopic 825-10 and elected not to change the measurement of any existing financial instruments that were not previously recorded at fair value. Accordingly, the adoption of Subtopic 825-10 did not have any effect on the Health System's consolidated financial statements.

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In conjunction with the adoption of Topic 820, the Health System has adopted the measurement provisions of Accounting Standards Update No. 2009-12, *Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, to certain investments in funds that do not have readily determinable fair values including private investments, hedge funds, real estate, and other funds. This guidance amends Topic 820 and allows for the estimation of the fair value of investments in investment companies for which the investment does not have a readily determinable fair value using net asset value per share or its equivalent. Net asset value, in many instances, may not equal fair value that would be calculated pursuant to Topic 820.

In 2009, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 164 (SFAS 164), *Not-for-Profit Entities: Mergers and Acquisitions – Including an amendment of FASB Statement No. 142*, which establishes principles and requirements for determining whether a combination is a merger or an acquisition; applies the carryover method in accounting for a merger; applies the acquisition method in accounting for an acquisition, including determining which of the combining entities is the acquirer; and determines what information to disclose to enable users of financial statements to evaluate the nature and financial effects of a merger or an acquisition. Additionally, SFAS 164 sets forth guidance on subsequent accounting for goodwill and other intangible assets acquired in an acquisition and amendments related to noncontrolling interests in consolidated financial statements. The effective date, and date of adoption, of SFAS 164 for the Health System was January 1, 2010.

(t) 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) 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, 2009 and 2008 is set forth in the following table. Investments are stated at fair value.

		2009	2008
		(In thousands of dollars)	
Management-designated cash and investments:			
Cash and cash equivalents	$	580,457	223,291
Domestic equity securities		163,209	500,128
Foreign equity securities		31,992	143,016
Collective investment funds		361,572	8,545
Debt securities – U.S. Treasury		618,739	569,537
Foreign debt securities		12,180	12,030
Domestic corporate debt securities		455,927	340,465
Foreign corporate debt securities		51,326	41,576
Mortgage-backed securities		69,275	82,645
Accrued investment income and other		76,594	36,197
Total management-designated cash and investments	$	2,421,271	1,957,430
Funds held by trustee:			
Cash and cash equivalents	$	172,336	72,091
Domestic equity securities		2	34,609
Debt securities – U.S. Treasury		40,229	29,243
Domestic corporate debt securities		20,483	15,015
Mortgage-backed securities		8,553	10,017
Accrued investment income and other		24,431	43,281
Total funds held by trustee	$	266,034	204,256

The Health System's funds held by trustee are segregated from other cash and investments for various purposes. Included in funds held by trustee are $87,972,000 and $33,564,000 obtained from borrowings under the Health System's master trust indenture for construction and other ongoing projects as of December 31, 2009 and 2008, respectively. The Health System also holds $157,287,000 and $154,493,000 at December 31, 2009 and 2008, respectively, related to the self-insurance and pension trusts. Within the self-insured trusts, the balance of funds held by trustee is based on management's assessment of annual need. Any additional investments are considered management-designated. The remainder of funds held by trustee are for the Health System's borrowing arrangements and other items.

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

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

Investment income from management-designated cash and investments and funds held by trustee are comprised of the following for the years ended December 31, 2009 and 2008:

		2009	2008
		(In thousands of dollars)	
Nonoperating income:			
Interest income	$	56,057	84,194
Net realized losses on sale of investments		(273,767)	(27,184)
Net unrealized gains (losses) on trading securities		297,711	(469,999)

(b) Collective Investment Funds

Collective investment funds include investments that are held by a trust company that handles a pooled group of trust accounts. These funds hold investments comprised of publicly traded domestic equity and debt securities, whose fair value is readily determinable. The Health System holds six funds and has no unfunded commitments at December 31, 2009.

(c) Securities Lending Agreements

The Health System has securities lending agreements with financial institutions that serve as the lending agent. These agreements authorize the lending agents to lend securities owned by the Health System to an approved list of borrowers. Under the agreements, the lending agents are responsible for negotiating each loan for an unspecified term while retaining the power to terminate the loan at any time. At the time each loan is made, the lending agents require collateral equal to 102% of the market value of the loaned securities and accrued interest. While any securities are loaned, the Health System retains all rights of ownership, except it waives its right to vote such securities. The collateral related to the securities loaned totaled $110,771,000 and $204,524,000 at December 31, 2009 and 2008, respectively. In connection with securities lending activities the Health System has recognized a net investment loss of $3,178,000 and $12,057,000, for the years ended December 31, 2009 and 2008, respectively. Net investment gains and losses are included in net nonoperating (losses) gains in the accompanying consolidated statements of operations.

(4) Fair Value of Financial Instruments

The Health System adopted Topic 820 on January 1, 2008 for fair value measurements of financial assets and financial liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the financial statements on a recurring basis. Topic 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

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

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

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

	December 31, 2009	Fair value measurements at reporting date using (In thousands of dollars) Level 1	Level 2	Level 3
Assets:				
Management-designated cash and investments:				
Cash and cash equivalents	$ 580,457	580,457	—	—
Domestic equity securities	163,209	163,209	—	—
Foreign equity securities	31,992	31,992	—	—
Collective investment funds	361,572	—	361,572	—
Debt securities – U.S. Treasury	618,739	342,429	276,310	—
Foreign debt securities	12,180	—	12,180	—
Domestic corporate debt securities	455,927	28,671	427,256	—
Foreign corporate debt securities	51,326	—	51,326	—
Mortgage-backed securities	69,275	—	69,275	—
Accrued investment income and other	76,594	70,902	5,692	—
Total	$ 2,421,271	1,217,660	1,203,611	—
Funds held by trustee:				
Cash and cash equivalents	$ 172,336	172,336	—	—
Domestic equity securities	2	2	—	—
Debt securities – U.S. Treasury	40,229	40,229	—	—
Domestic corporate debt securities	20,483	—	20,483	—
Mortgage-backed securities	8,553	—	8,553	—
Accrued investment income and other	24,431	13	24,418	—
Total	$ 266,034	212,580	53,454	—
Assets under securities lending	$ 110,771	57,458	53,313	—
Gift annuities, trusts and other	38,394	21,756	16,638	—
Liabilities:				
Liabilities under securities lending	$ 114,597	57,575	57,022	—

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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. 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. If the interest can be redeemed in the near term, the investment is classified as Level 2. The classification in the fair value hierarchy is not necessarily an indication of the risks, liquidity, or degree of difficulty in estimating the fair value of each investment's underlying assets and liabilities.

The following table presents assets and liabilities that are measured at fair value on a recurring basis (including items that are required to be measured at fair value) at December 31, 2008:

		Fair value measurements at reporting date using (In thousands of dollars)		
	December 31, 2008	Level 1	Level 2	Level 3
Assets:				
Management-designated cash and investments:				
Cash and cash equivalents	$ 223,291	223,291	—	—
Domestic equity securities	500,128	500,128	—	—
Foreign equity securities	143,016	143,016	—	—
Collective investment funds	8,545	—	—	8,545
Debt securities – U.S. Treasury	569,537	200,582	368,955	—
Foreign debt securities	12,030	—	12,030	—
Domestic corporate debt securities	340,465	—	340,465	—
Foreign corporate debt securities	41,576	—	41,576	—
Mortgage-backed securities	82,645	—	82,645	—
Accrued investment income and other	36,197	34,075	2,122	—
Total	$ 1,957,430	1,101,092	847,793	8,545
Funds held by trustee:				
Cash and cash equivalents	$ 72,091	72,091	—	—
Domestic equity securities	34,609	34,609	—	—
Debt securities – U.S. Treasury	29,243	2,715	26,528	—
Domestic corporate debt securities	15,015	—	15,015	—
Mortgage-backed securities	10,017	—	10,017	—
Accrued investment income and other	43,281	39,406	3,875	—
Total	$ 204,256	148,821	55,435	—
Assets under securities lending	$ 204,524	11,000	189,223	4,301
Gift annuities, trusts and other	36,887	21,562	15,325	—
Liabilities:				
Liabilities under securities lending	218,233	11,000	200,716	6,517

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, 2009 and 2008 (in thousands of dollars):

		Assets		Liabilities
		Collective investment funds	**Assets held under securities lending**	**Liabilities under securities lending**
Balance at December 31, 2007	$	4,421	6,392	6,640
Total realized and unrealized (losses) gains, net:				
Included in income		(4,310)	(2,734)	(1,658)
Included in net assets		—	—	—
Purchases, issuance, and settlements (net)		(1,349)	643	1,535
Transfers in and/or out of Level 3 (net)		9,783	—	—
Balance at December 31, 2008		8,545	4,301	6,517
Total realized and unrealized (losses) gains, net:				
Included in income		—	—	—
Included in net assets		—	—	—
Purchases, issuance, and settlements (net)		—	(4,301)	(6,517)
Transfers in and/or out of Level 3 (net)		(8,545)	—	—
Balance at December 31, 2009	$	—	—	—

The fair value of management-designated cash and investments, funds held for long-term purposes, and funds held by trustee, which are the amounts reported in the consolidated balance sheets, are estimated based on quoted market prices. For long-term debt, the fair value is estimated based on quoted market prices, when available, or on the discounted value of the future cash flows using current rates for debt with the same remaining maturities, considering the existing call premium and protection. The carrying value and fair value of long-term debt, including accrued interest, was $2,080,703,000 and $2,129,182,000, respectively, as of December 31, 2009, and $1,767,856,000 and $1,694,297,000, respectively, as of December 31, 2008.

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

(5) Property, Plant, and Equipment

Property, plant, and equipment and the total accumulated depreciation at December 31, 2009 and 2008 are shown below:

	Approximate useful life (years)		2009	2008
			(In thousands of dollars)	
Land and improvements	5 – 25	$	492,456	454,577
Buildings and improvements	5 – 40		2,964,625	2,718,513
Equipment:				
Fixed	5 – 25		803,050	740,715
Major movable and minor	3 – 20		2,379,131	2,216,746
Rental property	15 – 40		742,321	615,620
Construction in progress	—		477,946	416,146
			7,859,529	7,162,317
Less accumulated depreciation			3,876,081	3,495,644
Property, plant, and equipment, net		$	3,983,448	3,666,673

Rental property represents buildings and related improvements that are owned by the Health System and rented to outside parties. These properties are primarily medical office buildings leased to physicians.

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

(6) Other Assets

Other assets at December 31, 2009 and 2008 are as follows:

		2009	2008
		(In thousands of dollars)	
Unamortized financing costs, net	$	19,199	15,411
Investment in joint ventures		72,906	89,620
Interest in noncontrolled foundations		11,745	12,506
Notes receivable		42,243	26,487
Long-term reinsurance receivable		27,875	23,562
Goodwill		6,570	7,100
Other		27,473	42,505
Total other assets	$	208,011	217,191

The Health System participates in various joint ventures for the purpose of furthering its healthcare mission. These joint venture agreements exist in all geographical 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. Five of these joint ventures, located in Anchorage, Alaska, Portland, Oregon, and Mission Hills, California are controlled by the Health System and consequently are consolidated in the financial statements of the Health System. All other joint ventures are accounted for under the equity method of accounting. The Health System recorded earnings from equity and distributions of $37,465,000 and $36,648,000 for the years ended December 31, 2009 and 2008, respectively, which are included in other operating revenues in the accompanying consolidated statements of operations.

(7) Short-Term and Long-Term Debt

Short-term and long-term debt at December 31, 2009 and 2008 consists of the following:

	2009	2008
	(In thousands of dollars)	
Master trust debt:		
Series 1985, AIDEA Revenue Bonds (Sisters of Providence)	$ 970	1,855
Series 1996, CHFFA Revenue Bonds (Sisters of Providence)	10,275	14,765
Series 1997, Direct Obligation Notes (Sisters of Providence)	8,730	10,305
Series 2001A, WHCFA Revenue Bonds (Providence Health System)	105,200	105,200
Series 2001B, WHCFA Revenue Bonds (Providence Health System)	5,850	11,350
Series 2003C, AIDEA Revenue Bonds (Providence Health System)	9,500	18,550
Series 2003H, AIDEA Revenue Bonds (Providence Health System)	27,800	27,800
Series 2003, HFACC Revenue Bonds (Providence Health System)	211,525	212,325
Series 2004, HFAMC Revenue Bonds (Providence Health System)	97,305	97,800
Series 2005, Direct Obligation Notes (Providence Health System)	54,595	56,035
Series 2006A, WHCFA Revenue Bonds (Providence Health & Services)	210,555	210,555
Series 2006B, MFFA Revenue Bonds (Providence Health & Services)	68,430	68,430
Series 2006C, WHCFA Revenue Bonds (Providence Health & Services)	69,425	69,425
Series 2006D, WHCFA Revenue Bonds (Providence Health & Services)	69,275	69,275
Series 2006E, WHCFA Revenue Bonds (Providence Health & Services)	26,350	26,350
Series 2006H, AIDEA Revenue Bonds (Providence Health & Services)	54,355	54,355
Series 2008C, CHFFA Revenue Bonds (Providence Health & Services)	286,195	289,195
Series 2009A, Direct Obligation Notes (Providence Health & Services)	250,000	—
Series 2009B, CHFFA Revenue Bonds (Providence Health & Services)	150,000	—

		2009	2008
		(In thousands of dollars)	
Commercial Paper, Series 2008A	$	194,000	194,000
US Bank Credit Facility		60,000	148,472
Master trust debt at par value		1,970,335	1,686,042
Premiums and discounts, net		(3,114)	2,448
Master trust debt, including premiums and discounts, net		1,967,221	1,688,490
Long-term debt subject to short-term remarketing agreements		211,525	211,525
Short-term master trust debt		254,000	342,472
Master trust debt, net of short-term portion		1,501,696	1,134,493
Mortgages, capital leases, and other		86,644	45,366
Loans from unconsolidated affiliate		2,424	2,424
Total long-term debt		1,590,764	1,182,283
Less current portion		48,675	33,664
Long-term debt, net of current portion	$	1,542,089	1,148,619

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

Loans from unconsolidated affiliate outstanding at December 31, 2009 and 2008 are at various interest rates and have no stated repayment terms.

The Health System recorded losses on refinancing of debt of $11,157,000 in 2008, which was recorded in net nonoperating gains (losses) in the accompanying consolidated statement of operations.

(a) Short-Term Debt

Line of Credit

The Health System maintains a $50,000,000 revolving credit facility with the Bank of America, of which there were no outstanding borrowings at December 31, 2009. The interest rate in effect on December 31, 2009 was 0.875% and the maturity date is April 1, 2010.

(b) Master Trust Debt Classified as Short-Term

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

The Series 2003D, E, F, and G bonds were issued in May 2003 as auction rate bonds. In October 2008, the bonds were converted to a unit pricing mode pursuant to the Series 2003 D, E, F, and G Trust Indenture. Under the unit pricing mode, the interest reset period varies with each remarketing and ranges between one and 270 days. In connection with the revised terms under the unit pricing mode, the remaining balance of $211,525,000 was reclassified to short-term debt. The average interest rate in effect on December 31, 2009 was 0.43%. Annual scheduled principal payments range from $2,000,000 in 2020 to $18,175,000 in 2033.

Commercial Paper, Series 2008A

During 2008, the Health System issued $194,000,000 in commercial paper. The Health System used $167,425,000 of the commercial paper proceeds to redeem the Series 2006F, Series 2006G, and Series 2006I Direct Obligation Variable Rate Notes. The remaining proceeds were used for various projects throughout the Health System. During 2009, the Health System actively made principal and interest payments on matured commercial paper and reissued new commercial paper, maintaining a balance ranging between $144,000,000 and $194,000,000 throughout the year.

U.S. Bank Credit Facility

The Health System has a $150,000,000 Credit Facility with U.S. Bank, of which $60,000,000 in borrowings were outstanding at December 31, 2009. The interest rate in effect on December 31, 2009 was 1.08%, and the maturity date is September 30, 2010. The interest rate is based on LIBOR plus 0.85 percent.

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

Alaska Industrial Development and Export Authority (AIDEA) Variable Rate Demand Industrial Development Revenue Bonds, Series 1985

The Series 1985 bonds were issued in July 1985. The bonds are currently issued as variable rate bonds priced monthly. The interest rate in effect on December 31, 2009 was 0.65%. The final principal payment of $970,000 is due in 2010.

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

The Series 1996 bonds were issued in February 1996. The outstanding bonds bear interest rates ranging from 5.375% to 6.0% payable semiannually on April 1 and October 1. Annual principal payments range from $4,760,000 in 2010 to $1,045,000 in 2016.

Direct Obligation Notes, Series 1997

The Series 1997 bonds were issued in March 1997. The outstanding bonds bear an interest rate of 7.7% payable semiannually on April 1 and October 1. Annual principal payments range from $1,695,000 in 2010 to $750,000 in 2017.

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

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

WHCFA Revenue Bonds, Series 2001B

The Series 2001B bonds were issued in June 2001. The bonds are currently issued as 28-day auction rate bonds. The interest rate in effect on December 31, 2009 was 0.15%. The final principal payment of $5,850,000 is due in 2010.

AIDEA Revenue Bonds, Series 2003C

The Series 2003C bonds were issued in May 2003. The outstanding bonds bear an interest rate of 5.0% payable semiannually on April 1 and October 1. The final principal payment of $9,500,000 is due in 2010.

AIDEA Revenue Bonds, Series 2003H

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

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

The Series 2004 bonds were issued in July 2004. The outstanding bonds bear interest rates ranging from 3.5% to 5.5% payable semiannually on April 1 and October 1. Annual principal payments range from $1,310,000 in 2010 to $9,185,000 in 2024.

Direct Obligation Notes, Series 2005

The Series 2005 bonds were issued in July 2005. The outstanding bonds bear interest rates ranging from 4.68% to 5.39% payable semiannually on April 1 and October 1. Annual principal payments range from $1,505,000 in 2010 to $4,160,000 in 2030.

WHCFA Revenue Bonds, Series 2006A

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

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

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

(Continued)

WHCFA Revenue Bonds, Series 2006C

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

WHCFA Revenue Bonds, Series 2006D

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

WHCFA Revenue Bonds, Series 2006E

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

AIDEA Revenue Bonds, Series 2006H

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

CHFFA, Series 2008C

The Series 2008C bonds were issued in November 2008. The outstanding bonds bear interest rates ranging from 4.0% to 6.50% payable semiannually on April 1 and October 1. Annual principal payments range from $3,800,000 in 2010 to $50,000,000 in 2038.

Direct Obligation Notes, Series 2009A

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

CHFFA, Series 2009B

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

(d) Other Long-Term Debt

The following other long-term debt is associated with the Willamette Falls affiliation in 2009:

Hospital Facility Authority of Clackamas County, Oregon (HFACC) Revenue Bonds, Series 2005

The Series 2005 bonds were issued in May 2005. The outstanding bonds bear interest rates ranging from 3.90% to 5.50% payable semiannually on April 1 and October 1. Annual principal payments range from $550,000 in 2010 to $810,000 in 2026.

HFACC Revenue Bonds, Series 2002

The Series 2002 bonds were issued in April 2002. The outstanding bonds bear interest rates ranging from 4.50% to 5.50% payable semiannually on April 1 and October 1. Annual principal payments range from $355,000 in 2010 to $2,130,000 in 2022.

HFACC Revenue Bonds, Series 1999

The Series 1999 bonds were issued in September 1999. The outstanding bonds bear interest rates ranging from 5.75% to 6.00% payable semiannually on April 1 and October 1. Annual principal payments range from $155,000 in 2010 to $1,270,000 in 2019.

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)	
2010	$	29,390	19,285	48,675
2011		30,840	9,191	40,031
2012		32,325	7,566	39,891
2013		33,055	7,357	40,412
2014		114,865	6,151	121,016
Thereafter		1,475,860	37,094	1,512,954
Scheduled principal payments of long-term debt	$	1,716,335	86,644	1,802,979
Short-term master trust debt		254,000		
Total master trust debt	$	1,970,335		

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):

2010	$	35,869
2011		31,448
2012		27,891
2013		23,898
2014		22,332
Thereafter		110,388
	$	251,826

Rental expense was $75,646,000 and $65,704,000 for the years ended December 31, 2009 and 2008, respectively, and is included in other expenses in the accompanying consolidated statements of operations.

(8) Retirement Plans

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

During 2009, in connection with the Willamette Falls affiliation, the Willamette Falls Pension Plan was added as a defined benefit plan sponsored by the Health System. The Willamette Falls Pension Plan is also a noncontributory plan covering the employees of Willamette Falls. The plan benefits are based on years of service and compensation during an employee's period of employment. Vesting is based on elapsed time. The funding policy is based on the actuarially determined cost method, and includes normal service cost and prior service costs amortized over a 20-year period. Under the Willamette Falls Pension Plan, each employee carries an individual account balance.

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

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

The Health System's contributions to these pension plans for the years ended December 31, 2009 and 2008 were $184,375,000 and $159,667,000, respectively.

As discussed in note 2(r), historically the Health System measured its plan assets and benefit obligations as of September 30 of each year prior to adoption of the measurement date provisions during 2008. The change in measurement date from September 30 to December 31 in 2008 resulted in a $26,100,000 charge to unrestricted net assets.

In April 2009, the Board of Directors of the Health System approved an amendment to freeze the Cash Balance Plan, the SERP, and the Matching Plan effective as of December 31, 2009. Participants will no longer accrue a service credit under the new plans. Participants previously eligible for certain grandfathered and career average pension benefits may continue to receive their frozen benefits under these provisions. As a result, the Health System incurred $29,683,000 of expense related to the curtailment, which is included in net nonoperating gains (losses) on the accompanying consolidated statement of operations.

(Continued)

The measurement dates for the defined benefit plans are December 31, 2009 and 2008, 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:

		2009	2008
		(In thousands of dollars)	
Change in projected benefit obligation:			
Projected benefit obligation at beginning of year	$	1,789,522	1,618,271
Business combination		49,490	—
Service cost		115,392	103,652
Interest cost		112,824	98,546
Plan amendments/curtailment		(331,736)	—
Actuarial loss		135,457	45,096
Benefits paid and other		(105,224)	(126,592)
Measurement date change		—	50,549
Projected benefit obligation at end of year		1,765,725	1,789,522
Change in fair value of plan assets:			
Fair value of plan assets at beginning of year		932,301	1,357,644
Business combination		33,689	—
Actual return on plan assets		238,236	(464,207)
Employer contributions		134,745	139,045
Benefits paid and other		(105,224)	(124,630)
Measurement date change		—	24,449
Fair value of plan assets at end of year		1,233,747	932,301
Funded status		(531,978)	(857,221)
Unrecognized net actuarial loss		337,335	660,983
Unrecognized prior service cost		441	38,047
Net amount recognized	$	(194,202)	(158,191)
Amounts recognized in the consolidated balance sheets consist of:			
Current liabilities	$	(16,034)	(11,359)
Noncurrent liabilities		(515,943)	(845,861)
Unrestricted net assets		337,775	699,029
Net amount recognized	$	(194,202)	(158,191)
Weighted average assumptions:			
Discount rate		5.80%	6.50%
Rate of increase in compensation levels		3.50%	3.69 – 4.00%
Long-term rate of return on assets		8.00%	8.00%

Pension liabilities are included in current and other long-term liabilities on the Health System's consolidated balance sheets. Net periodic pension cost for the defined benefit plans for 2009 and 2008 is included in employee benefits in the accompanying consolidated statements of operations and includes the following components:

		2009	2008
		(In thousands of dollars)	
Components of net periodic pension cost:			
Service cost	$	115,392	103,652
Interest cost		112,824	98,546
Expected return on plan assets		(105,489)	(97,797)
Amortization of prior service cost		5,978	8,314
Recognized net actuarial loss		10,526	1,922
Curtailment		29,683	—
Net periodic pension cost	$	168,914	114,637

The target allocations of the Health System for plan assets are 30% global equity securities, 55% fixed income securities, five percent cash, and ten percent to other types of investments. Equity securities include investments in large-cap and mid-cap companies located both within and outside the United States. Fixed income securities include government bonds, mortgage-backed securities, and U.S. Treasuries. Other types of investments include investments in hedge funds, real estate and other funds that follow several different strategies.

The accumulated benefit obligation was $1,765,725,000 and $1,621,280,000 at December 31, 2009 and 2008, respectively.

Total expense for all of the Health System's retirement programs for the years ended December 31, 2009 and 2008 was $183,473,000 and $155,938,000, respectively, and is included in employee benefits in the accompanying consolidated statements of operations. Additionally, $29,683,000 of expense was incurred in 2009 related to the curtailment, and is included in net nonoperating gains (losses) in the accompanying consolidated statements of operations.

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

2010	$	174,505
2011		165,715
2012		168,294
2013		167,850
2014 – 2019		821,826
	$	1,498,190

The Health System expects to contribute approximately $33,938,000 to the defined benefit pension plans in 2010.

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 8.0% in calculating the 2009 and 2008 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 8.0% 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.

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

		Fair value measurements at reporting date using (In thousands of dollars)		
	December 31, 2009	**Level 1**	**Level 2**	**Level 3**
Assets:				
Cash and cash equivalents	$ 90,728	90,728	—	—
Domestic equity securities	464,268	464,241	27	—
Foreign equity securities	236,663	236,663	—	—
Debt securities – state and government	52,559	—	52,559	—
Foreign debt securities	212	—	212	—
Domestic corporate debt securities	71,133	—	71,133	—
Foreign corporate debt securities	1,702	—	1,702	—
Mortgage-backed securities	121,638	—	121,638	—
Asset-backed securities	18,488	—	18,488	—
Real estate fund	43,765	—	43,765	—
Derivatives – futures/options	24,972	—	24,972	—
Swaps	312	—	312	—
Venture capital/partnerships	3,653	—	—	3,653
Hedge funds	102,715	—	102,715	—
Accrued interest and other	3,770	3,614	156	—
Total	$ 1,236,578	795,246	437,679	3,653

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

	Venture capital/ partnerships
Balance at December 31, 2008	$ —
Total realized and unrealized (losses) gains, net:	
Included in income	499
Included in net assets	—
Purchases, issuance, and settlements (net)	3,154
Transfers in and/or out of Level 3 (net)	—
Balance at December 31, 2009	$ 3,653

The Health System's pension plans' weighted average asset allocations at December 31, 2008 by asset category are as follows:

Asset category:	
Cash and cash equivalents	4%
Debt securities	16
Equity securities	54
Real estate	3
Alternative investments and other	23
Total	100%

(9) Self-Insurance Liability

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

At December 31, 2009 and 2008, the liability for future costs of professional and general liability claims was $151,705,000 and $155,020,000, respectively. At December 31, 2009 and 2008, $93,954,000 and $110,282,000, respectively, of these amounts were included as self-insurance liability, net, in the accompanying consolidated balance sheets. At December 31, 2009 and 2008, the workers' compensation obligation was $133,787,000 and $109,127,000, respectively, in the accompanying consolidated balance sheets. At December 31, 2009 and 2008, $95,238,000 and $66,934,000, respectively, of these amounts were included as self-insurance liability, net in the accompanying consolidated balance sheets.

(Continued)

(10) Commitments

The Health System has committed to several construction projects and other purchase commitments with an estimated cost of $241,191,000, all of which is remaining to be spent as of December 31, 2009, payable through 2011.

(11) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at December 31, 2009 and 2008:

		2009	2008
		(In thousands of dollars)	
Program support	$	65,217	86,031
Low-income housing		29,410	30,391
Capital acquisition and other		74,892	56,812
Total temporarily restricted net assets	$	169,519	173,234

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, 2009 and 2008 because the time or purpose restrictions stipulated by the donor have not been met. Total fundraising expenses were $8,568,000 and $7,501,000 for the years ended December 31, 2009 and 2008, respectively. Generally, program support consists of items that will defray the cost of operating certain patient care activities of the Health System.

Other operating revenues included $34,053,000 and $34,429,000 of assets released from restriction for the years ended December 31, 2009 and 2008, 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 future financial position or results of operations.

(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, 2009 and 2008 are as follows:

		2009	2008
		(In thousands of dollars)	
Healthcare expenses	$	5,575,660	5,080,621
Purchased healthcare expenses		674,466	610,791
General and administrative expenses		1,096,675	1,046,767
Total operating expenses	$	7,346,801	6,738,179

(14) Subsequent Event

As a result of recently enacted federal health care reform legislation, substantial changes are anticipated in the United States health care system. Such legislation includes numerous provisions affecting the delivery of health care services, the financing of health care costs, reimbursement of health care providers, and the legal obligations of health insurers, providers, and employers. These provisions are currently slated to take effect at specified times over approximately the next decade. This federal health care reform legislation does not affect the 2009 consolidated financial statements.

Schedule 1

PROVIDENCE HEALTH & SERVICES

Consolidating Schedule – Balance Sheet Information

December 31, 2009 (with consolidated totals for 2008)

(In thousands of dollars)

Assets	Alaska Region	Washington/ Montana Region	Oregon Region	Providence Plan Partners	Southern California Region	System office, eliminations, and other	2009 Total Health System	2008 Total Health System
Current assets:								
Cash and cash equivalents	$ 64,546	235,575	33,402	59,156	59,030	43,654	495,363	491,812
Short-term management-designated investments	—	—	213,124	—	—	—	213,124	223,083
Assets held under securities lending	—	—	—	—	—	110,771	110,771	204,524
Accounts receivable, net	99,676	313,996	212,422	—	205,140	6	831,240	813,723
Other receivables, net	10,394	44,622	(6,998)	68,009	38,170	3,183	157,380	150,994
Supplies inventory	15,120	47,029	32,521	—	21,292	81	116,043	111,358
Other current assets	1,673	22,244	12,975	(3,150)	7,783	7,828	49,353	59,538
Current portion of funds held by trustee	—	6	1,121	—	12,405	79,957	93,489	81,476
Total current assets	191,409	663,472	498,567	124,015	343,820	245,480	2,066,763	2,136,508
Assets whose use is limited:								
Management-designated cash and investments	253,292	608,535	561,860	397,178	172,739	214,543	2,208,147	1,734,347
Gift annuities, trust and other	802	7,530	18,889	—	6,953	4,220	38,394	36,887
Funds held by trustee	—	—	19,513	—	75,553	77,479	172,545	122,780
Assets whose use is limited, net	254,094	616,065	600,262	397,178	255,245	296,242	2,419,086	1,894,014
Property, plant, and equipment, net	452,280	1,257,928	1,258,051	4,453	800,908	209,828	3,983,448	3,666,673
Other assets	44,207	115,929	73,836	24	66,208	(92,193)	208,011	217,191
Total assets	$ 941,990	2,653,394	2,430,716	525,670	1,466,181	659,357	8,677,308	7,914,386
Liabilities and Net Assets								
Current liabilities:								
Current portion of long-term debt	$ 12,135	5,588	6,473	—	18,691	5,788	48,675	33,664
Master trust debt classified as short-term	39,350	82,776	212,877	—	—	130,522	465,525	553,997
Accounts payable	24,510	126,124	61,934	756	80,223	9,723	303,270	292,449
Accrued compensation	32,682	118,131	110,821	147	63,443	22,515	347,739	295,707
Payable to contractual agencies	2,522	26,646	23,835	3,828	10,546	—	67,377	77,325
Liabilities under securities lending	—	—	—	—	—	114,597	114,597	218,233
Current portion of self-insurance liability	—	4,872	—	—	—	91,428	96,300	86,928
Other current liabilities	6,138	54,394	(15,674)	124,161	52,235	(46,628)	174,626	166,556
Total current liabilities	117,337	418,531	400,266	128,892	225,138	327,945	1,618,109	1,724,859
Long-term debt, net of current portion	188,810	736,607	144,959	—	542,262	(70,549)	1,542,089	1,148,619
Other long-term liabilities	16,883	17,396	32,907	1,432	23,466	715,699	807,783	1,129,953
Total liabilities	323,030	1,172,534	578,132	130,324	790,866	973,095	3,967,981	4,003,431
Net assets:								
Unrestricted	608,975	1,440,054	1,778,998	395,346	610,185	(355,469)	4,478,089	3,683,197
Temporarily restricted	8,930	29,565	46,262	—	49,461	35,301	169,519	173,234
Permanently restricted	1,055	11,241	27,324	—	15,669	6,430	61,719	54,524
Total net assets	618,960	1,480,860	1,852,584	395,346	675,315	(313,738)	4,709,327	3,910,955
Total liabilities and net assets	$ 941,990	2,653,394	2,430,716	525,670	1,466,181	659,357	8,677,308	7,914,386

See accompanying independent auditors' report.

Schedule 2

PROVIDENCE HEALTH & SERVICES

Consolidating Schedule – Statement of Operations Information

December 31, 2009 (with consolidated totals for 2008)

(In thousands of dollars)

	Alaska Region	Washington/ Montana Region	Oregon Region	Providence Plan Partners	Southern California Region	System Office, Eliminations, and Other	2009 Total Health System	2008 Total Health System
Operating revenues:								
Net patient service revenues	$ 654,116	2,499,787	1,664,937	—	1,358,135	3,941	6,180,916	5,653,268
Premium revenues	—	23,162	56,479	1,019,602	—	—	1,099,243	1,016,421
Other revenues	39,232	207,369	80,156	23,696	42,079	(2,509)	390,023	356,452
Total operating revenues	693,348	2,730,318	1,801,572	1,043,298	1,400,214	1,432	7,670,182	7,026,141
Operating expenses:								
Salaries and wages	249,410	1,099,243	953,388	445	592,235	93,478	2,988,199	2,679,885
Employee benefits	70,492	297,400	220,942	—	151,832	23,719	764,385	745,630
Purchased healthcare	—	11,304	(266,672)	914,862	14,972	—	674,466	610,791
Professional fees	13,676	85,439	70,935	2,439	42,575	7,946	223,010	204,517
Supplies	97,057	455,737	309,872	455	202,596	1,936	1,067,653	965,503
Purchased services	79,823	285,712	127,198	80,864	154,281	(129,027)	598,851	587,922
Depreciation	48,512	107,527	113,083	1,784	56,634	32,693	360,233	333,008
Interest and amortization	8,345	31,653	5,719	—	22,868	203	68,788	63,521
Bad debts	48,284	100,787	51,345	56	57,808	76	258,356	216,717
Other	30,315	114,037	96,641	21,005	53,700	27,162	342,860	330,685
Total operating expenses	645,914	2,588,839	1,682,451	1,021,910	1,349,501	58,186	7,346,801	6,738,179
Excess (deficit) of revenues over expenses from operations	47,434	141,479	119,121	21,388	50,713	(56,754)	323,381	287,962
Net nonoperating gains (losses)	(11,803)	12,953	23,507	29,475	(5,857)	(10,955)	37,320	(444,664)
Excess (deficit) of revenues over expenses	35,631	154,432	142,628	50,863	44,856	(67,709)	360,701	(156,702)
Contributions, grants, investment income, and other	697	(704)	1,131	—	1,365	50,721	53,210	(3,435)
Net assets released from restriction	841	2,268	6,433	—	7,729	1,556	18,827	14,306
Net assets assumed - Willamette Falls Medical Center and Willamette Falls Medical Foundation	—	—	36,911	—	—	—	36,911	—
Change in pension liability	—	—	1,301	—	—	323,942	325,243	(591,843)
Implementation of change in pension measurement date	—	—	—	—	—	—	—	(26,100)
Interdivision transfers	(3,397)	(17,009)	(11,631)	(127)	(9,240)	41,404	—	—
Increase (decrease) in unrestricted net assets	$ 33,772	138,987	176,773	50,736	44,710	349,914	794,892	(763,774)

See accompanying independent auditors' report.