



## 2006 Audited Earnings Report

Meeting the needs of our communities remains at the heart of Providence Health & Services and drives our fiscal operations. Our mission is firmly rooted in the work started 150 years ago by the Sisters of Providence and we honor and live by their commitment every day.

### **Benefiting Our Communities**

As a not-for-profit Catholic health care ministry, Providence embraces its responsibility to provide for the needs of the communities we serve – especially the poor and vulnerable. All Providence regions continued to increase contributions to community benefit programs in 2006, for a total of \$371 million. This is a Providence-wide increase of 16% over 2005. Combined with our capital spending projects, our 2006 investments in our communities totaled over \$1 billion.

### **Providing for the Poor and Vulnerable**

The cornerstone of the Providence mission is to provide quality health care that is accessible for all people in our communities, regardless of their economic situation. In 2006, Providence offered \$128 million in charity care to ensure the poor and vulnerable in our community could access health care. Consistent with other Catholic health care organizations, Providence does not include the unpaid cost of Medicare, Medicaid and bad debt in its cost of charity care numbers.

### **Sustaining Our Mission**

Providence produced a net income of \$457 million for the 12 months ending December 31, 2006. This allowed us to continue to deliver the highest quality care, provide increased community benefit assets and offer charity and discounted care to those who could not afford access to health care.

Our commitment to financial sustainability has allowed Providence to deliver quality care, offer charity care and provide a benefit to the communities we serve for over 150 years. As good financial stewards, we know patient-driven revenue cannot solely fund our mission. A significant part of the 2006 net income increase is due to \$43 million in supply chain savings and \$190 million in investment income and realized gains in the 2006 fiscal year.

A comprehensive annual report for 2006 will be distributed in May and will provide more detail on the benefit Providence provides to the communities we serve.



**PROVIDENCE HEALTH & SERVICES**

Consolidated Financial Statements

December 31, 2006 and 2005

(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, 2006 and 2005, 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 did not audit the 2005 financial statements of Providence Services, a division of Providence Health & Services, which statements reflect total assets constituting 24 percent and total revenues constituting 19 percent of the related consolidated totals. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the 2005 amounts included for Providence Services, is based solely on the report of the other auditors.

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 audit 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 and the report of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Providence Health & Services as of December 31, 2006 and 2005, 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 2006 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 6, 2007

## PROVIDENCE HEALTH & SERVICES

### Consolidated Balance Sheets

December 31, 2006 and 2005

(In thousands of dollars)

<b>Assets</b>	<b>2006</b>	<b>2005</b>
Current assets:		
Cash and cash equivalents	\$ 410,937	349,883
Assets held under securities lending	159,169	—
Accounts receivable, less allowance for bad debts of \$206,585 in 2006 and \$188,064 in 2005	714,824	685,718
Premiums receivable	4,862	3,410
Other receivables, net	112,400	105,974
Supplies inventory, at cost	80,297	81,248
Other current assets	53,474	45,937
Current portion of assets whose use is limited	67,619	94,398
Total current assets	<u>1,603,582</u>	<u>1,366,568</u>
Assets whose use is limited:		
Board-designated cash and investments	2,115,003	2,000,759
Funds held for long-term purposes	27,572	27,267
Gift annuities and trusts	41,672	37,833
Funds held by trustee	322,731	200,723
Assets whose use is limited, net of current portion	<u>2,506,978</u>	<u>2,266,582</u>
Property, plant, and equipment, net	2,929,823	2,608,325
Other assets	223,253	241,002
Total assets	<u>\$ 7,263,636</u>	<u>6,482,477</u>

**PROVIDENCE HEALTH & SERVICES**

Consolidated Balance Sheets

December 31, 2006 and 2005

(In thousands of dollars)

<b>Liabilities and Net Assets</b>	<b>2006</b>	<b>2005</b>
Current liabilities:		
Current portion of long-term debt	\$ 36,769	47,889
Accounts payable	275,762	255,702
Accrued compensation	246,300	227,613
Payable to contractual agencies	91,756	105,916
Unearned premiums/deferred revenue	30,384	34,632
Liability for unpaid medical claims	42,153	48,087
Liability for risk-sharing	18,056	4,323
Liabilities under securities lending	159,169	—
Current portion of self-insurance liability	64,667	65,504
Other, including accrued interest	48,120	51,304
Total current liabilities	<u>1,013,136</u>	<u>840,970</u>
Long-term debt, net of current portion	1,559,559	1,299,943
Other long-term liabilities:		
Self-insurance liability, net of current portion	187,719	167,274
Pension benefit obligation	171,111	189,532
Gift annuity obligations and trusts and other	106,233	125,846
Total other long-term liabilities	<u>465,063</u>	<u>482,652</u>
Total liabilities	<u>3,037,758</u>	<u>2,623,565</u>
Net assets:		
Unrestricted	4,012,733	3,664,370
Temporarily restricted	162,460	143,145
Permanently restricted	50,685	51,397
Total net assets	<u>4,225,878</u>	<u>3,858,912</u>
Total liabilities and net assets	\$ <u><u>7,263,636</u></u>	\$ <u><u>6,482,477</u></u>

See accompanying notes to consolidated financial statements.

**PROVIDENCE HEALTH & SERVICES**

Consolidated Statements of Operations

Years ended December 31, 2006 and 2005

(In thousands of dollars)

	<b>2006</b>	<b>2005</b>
Operating revenues:		
Net patient service revenues	\$ 4,637,229	4,340,077
Premium revenues	854,120	757,954
Other revenues	329,944	272,303
	5,821,293	5,370,334
Operating expenses (including the cost of charity and unsponsored community benefit expenses of \$370,815 in 2006 and \$321,097 in 2005):		
Purchased healthcare	492,461	412,241
Salaries and wages	2,232,082	2,048,921
Employee benefits	594,909	555,767
Professional fees	169,355	147,116
Supplies	816,892	776,473
Depreciation	262,805	257,852
Interest and amortization	52,160	43,977
Bad debts	174,201	166,766
Provider tax	8,649	7,424
Purchased services and other	750,359	698,651
	5,553,873	5,115,188
Excess of revenues over expenses from operations	267,420	255,146
Net nonoperating gains, principally investment income	189,723	105,798
Excess of revenues over expenses	457,143	360,944
Net assets released from restriction and other	18,540	15,237
Change in accrued additional minimum pension liability	52,493	(47,802)
Change in net unrealized gains (losses) on investments	10,708	(3,804)
Cumulative effect of change in accounting principle (note 2)	—	(31,454)
Loss on disposal of discontinued operations (note 1)	(190,177)	—
(Loss) gain from operations of discontinued component – Benefits Healthcare (note 1)	(344)	13,954
Increase in unrestricted net assets	\$ 348,363	307,075

See accompanying notes to consolidated financial statements.

**PROVIDENCE HEALTH & SERVICES**  
Consolidated Statements of Changes in Net Assets  
Years ended December 31, 2006 and 2005  
(In thousands of dollars)

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total net assets</u>
Balance, December 31, 2004	\$ 3,357,295	112,453	45,333	3,515,081
Excess of revenues over expenses	360,944	—	—	360,944
Contributions, grants, and investment income	—	67,027	6,064	73,091
Net assets released from restriction	8,674	(36,345)	—	(27,671)
Other changes in unrestricted net assets	6,563	—	—	6,563
Increase in accrued additional minimum pension liability	(47,802)	—	—	(47,802)
Change in net unrealized gains (losses) on investments	(3,804)	10	—	(3,794)
Cumulative effect of change in accounting principle (note 2)	(31,454)	—	—	(31,454)
Gain from operations of discontinued component – Benefis Healthcare (note 1)	13,954	—	—	13,954
Increase in net assets	<u>307,075</u>	<u>30,692</u>	<u>6,064</u>	<u>343,831</u>
Balance, December 31, 2005	3,664,370	143,145	51,397	3,858,912
Excess of revenues over expenses	457,143	—	—	457,143
Contributions, grants, and investment income	—	69,796	4,254	74,050
Net assets released from restriction	13,978	(45,895)	—	(31,917)
Other changes in unrestricted net assets	4,562	—	—	4,562
Decrease in accrued additional minimum pension liability	52,493	—	—	52,493
Change in net unrealized gains (losses) on investments	10,708	175	—	10,883
Loss on disposal of discontinued operations (note 1)	(190,177)	(4,761)	(4,966)	(199,904)
Loss from operations of discontinued component – Benefis Healthcare (note 1)	(344)	—	—	(344)
Increase (decrease) in net assets	<u>348,363</u>	<u>19,315</u>	<u>(712)</u>	<u>366,966</u>
Balance, December 31, 2006	\$ <u>4,012,733</u>	<u>162,460</u>	<u>50,685</u>	<u>4,225,878</u>

See accompanying notes to consolidated financial statements.

**PROVIDENCE HEALTH & SERVICES**

Consolidated Statements of Cash Flows

Years ended December 31, 2006 and 2005

(In thousands of dollars)

	<b>2006</b>	<b>2005</b>
Operating activities:		
Change in net assets	\$ 366,966	343,831
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	269,980	263,697
Provision for bad debt	174,201	166,766
(Gain) loss on sale of property, plant, and equipment	(6,857)	1,813
Equity income from joint ventures	(24,500)	(17,546)
Changes in certain current assets and current liabilities	(225,634)	(33,425)
Change in other long-term liabilities and other	(4,653)	49,185
Restricted contributions and investment income received	(62,295)	(68,335)
Net realized and unrealized gains on investments	(202,996)	(88,534)
Discontinued operations of Benefis Healthcare (note 1)	209,262	(13,954)
Cumulative effect of change in accounting principle (note 2)	—	31,454
Net cash provided by operating activities	493,474	634,952
Investing activities:		
Property, plant, and equipment additions	(762,290)	(553,121)
Proceeds from disposal of property, plant, and equipment	11,869	17,243
Purchases of investments	(3,089,852)	(1,355,364)
Proceeds from sales of investments	3,165,045	1,130,055
Capital contributions to joint ventures	(2,621)	(5,979)
Distributions from joint ventures	33,069	30,339
Change in other long-term assets and other	(7,513)	(17,230)
Net cash used in investing activities	(652,293)	(754,057)
Financing activities:		
Proceeds from restricted contributions and restricted income	62,295	68,335
Long-term debt borrowings	685,494	64,121
Long-term debt payments	(398,755)	(33,679)
Payment of deferred financing costs and other	(6,746)	(530)
Change in funds held by trustee, net	(122,415)	52,381
Net cash provided by financing activities	219,873	150,628
Increase in cash and cash equivalents	61,054	31,523
Cash and cash equivalents, beginning of year	349,883	318,360
Cash and cash equivalents, end of year	\$ 410,937	349,883
Supplemental disclosure of cash flow information:		
Cash paid for interest (net of amounts capitalized)	\$ 55,138	45,615

See accompanying notes to consolidated financial statements.

## PROVIDENCE HEALTH & SERVICES

### Notes to Consolidated Financial Statements

December 31, 2006 and 2005

#### (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 171 professed members and maintains Provincial Administration facilities in both Seattle 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
- Archdiocese de San Salvador
- Diocese of Boise
- Diocese of Great Falls – Billings
- Diocese of Orange in California
- Diocese of Spokane
- Diocese of Yakima
- Diocese of Stockton
- Diocesis Santiago de Maria, El Salvador

##### (b) *Providence Health & Services*

In December 2005, the Boards of Directors of Providence Health System and of Providence Services, commonly sponsored by the Province, approved a Consolidation Agreement, which integrated the operations of the two health systems. Reporting and operations now reflect the consolidated entity, Providence Health & Services (the Health System).

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:

- Providence Health System – Washington
- Providence Health System – Oregon
- Providence Health System – Southern California (co-sponsored by the Congregation and the American Province of the Little Company of Mary Sisters)
- Providence Everett Medical Center
- Hospice of Snohomish
- Providence Health Care
- St. Patrick Hospital and Health Sciences Center

## PROVIDENCE HEALTH & SERVICES

### Notes to Consolidated Financial Statements

December 31, 2006 and 2005

- St. Mary Medical Center
- St. Thomas Child and Family Center Corporation
- University of Great Falls
- Providence Plan Partners
- Providence Health Plan
- Providence Health Assurance
- Providence Home Services
- 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; The Gamelin St. Elizabeth Association; The Gamelin Washington Association
- Providence Oregon Management Corporation
- The John Gabriel Ryan Association
- Lifecare Ventures, Inc.
- Providence Assurance Cayman Limited

The corporations own or operate twenty-six general acute care hospitals, six assisted living projects, six long-term care facilities, seven homecare and hospice entities, a children's nursing center and Montessori school, a high school, a university, twelve low-income housing projects, a preferred provider organization, a health services contractor, two programs of all inclusive care for the elderly, and twenty 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) *Discontinued Operations*

Effective September 30, 2006, Benefis Healthcare (Benefis) disaffiliated from the Health System. In accordance with generally accepted accounting principles, revenues and expenses from discontinued operations have been removed from the consolidated financial statements of the Health System for all periods presented, and are shown as a (loss) gain from operations of discontinued component – Benefis Healthcare on the consolidated statements of operations and on the consolidated statements of changes in net assets. The assets and liabilities of Benefis are included in the consolidated balance sheet of the Health System at December 31, 2005. In connection with the effective date of the disaffiliation agreement, the remaining net assets at September 30, 2006 were removed from the consolidated balance sheet of the Health System and are shown as a loss from discontinued operations on the consolidated statement of operations and the consolidated statement of changes in net assets.

## PROVIDENCE HEALTH & SERVICES

### Notes to Consolidated Financial Statements

December 31, 2006 and 2005

In accordance with the terms of the disaffiliation agreement, the remaining Series 2002 Montana Facilities Financing Authority revenue bonds issued under the Providence Services Master Indenture, and guaranteed by the Health System, are expected to be defeased in 2007. The defeasement of these bonds will be funded by Benefis. The Series 2002 bonds, totaling \$22,270,000 at December 31, 2006, are included as a component of long-term debt on the consolidated balance sheets. A corresponding receivable from Benefis of \$22,270,000 has been recorded as a component of other assets on the consolidated balance sheet at December 31, 2006, and is due upon the defeasement of the Series 2002 bonds.

In accordance with the disaffiliation agreement, Benefis agreed to make a \$10,000,000 contribution to the Health System, payable over no more than ten years, with the first installment of \$2,000,000 due at closing. The payments must be used by the Health System exclusively for charitable purposes, selected at the sole discretion of the Health System, in the Great Falls and north central region of Montana. The outstanding \$8,000,000 is included as a component of other assets on the consolidated balance sheets at December 31, 2006.

**(d) *The Strategic Alliance Agreement***

In connection with the transfer of certain entities to Swedish Health Services (SHS) in 2000, certain obligations remained on the Health System's consolidated balance sheets as a component of long-term debt. At December 31, 2005, a corresponding long-term receivable from SHS of \$37,657,000 had been recorded as a component of other assets. In December 2006, SHS satisfied its obligation in full by paying the remaining receivable balance and accrued interest to the Health System. Subsequently, in 2007, the Health System repaid \$26,895,000 of the long-term debt and recognized a loss on extinguishment of \$422,000. The Health System charged SHS interest on the outstanding note based on the actual interest incurred for the underlying bonds, which was \$2,510,000 and \$1,817,000 in 2006 and 2005, respectively.

The Strategic Alliance Agreement (the Agreement) between Providence Health System – Washington and SHS also provided for the establishment of a new company to be jointly owned by Providence Health System – Washington and SHS. This joint venture was established to provide opportunities for joint development and delivery of certain new healthcare services and various administrative and billing functions. As part of this transaction, SHS has pledged to make an annual donation to Providence Health System – Washington, if certain financial thresholds have been met, to support the charitable tax-exempt purposes of Providence Health System – Washington. During 2006 and 2005, contributions of approximately \$3,400,000 and \$1,900,000, respectively, were received under the terms of the Agreement and were included in other operating revenues in the accompanying consolidated statements of operations.

**(e) *Affiliated Transactions***

**Interaffiliate Borrowings**

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

## PROVIDENCE HEALTH & SERVICES

### Notes to Consolidated Financial Statements

December 31, 2006 and 2005

#### **Liability Self-insurance**

The Health System has established self-insurance funds for the deductible portion of professional and general liability and workers' compensation insurance coverage. These funds provide insurance coverage for healthcare institutions associated with the Health System. The Health System also operates an off-shore insurance captive, Providence Assurance Cayman Limited, to self-insure certain layers of professional and general liability risk. During 2006, the off-shore insurance captive began the process of redomesticating, which is expected to be completed in 2007. In addition, the Health System maintains excess coverage with independent insurance carriers.

The Health System's funding for estimated self-insured professional and general liability and workers' compensation insurance coverage is based on the self-insurance funds' estimate of the ultimate costs for both reported claims and actuarially determined estimates of claims incurred but not reported. The Health System discounts the ultimate cost of claims at a discount rate of 5.5% as of December 31, 2006 and 2005.

#### **(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.

##### **(b) Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 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) 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 is less than the carrying amount of the asset.

## PROVIDENCE HEALTH & SERVICES

### Notes to Consolidated Financial Statements

December 31, 2006 and 2005

**(e) 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.

**(f) Interest During Construction**

Interest capitalized on internally generated and borrowed funds 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 \$12,394,000 and \$4,351,000 of interest costs during the years ended December 31, 2006 and 2005, respectively.

**(g) Financing Costs**

Financing costs are recorded in other assets and are amortized using the effective interest method over the term of the related debt.

**(h) 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.

**(i) Assets Whose Use is Limited**

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 Board of Directors of Providence Health & Services for future capital improvements and other purposes, over which the board 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, 2006 and 2005.

A decline in fair value below cost that is deemed to be other-than-temporary is recorded as an impairment loss and is classified as nonoperating in the accompanying consolidated statements of operations. A new cost basis is then established for the security.

**(j) Liability for Unpaid Medical Claims**

The liability for unpaid medical claims represents a provision for services provided for which payment had not been made, and includes claims received but not yet paid, estimated claims incurred but not yet billed by providers, outstanding amounts due to contracted providers for primary care services, as well as estimated risk pool settlement liabilities.

**(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.

## PROVIDENCE HEALTH & SERVICES

### Notes to Consolidated Financial Statements

December 31, 2006 and 2005

**(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 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 payers that provide for payments to the divisions at amounts different from their established charges. Payment arrangements for major third-party payers 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 payers, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers. 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 and adjustment of prior years' cost reports and other third-party settlement estimates resulted in an increase in net patient service revenues of approximately \$17,091,000 and \$19,046,000 for the years ended December 31, 2006 and 2005, respectively.

**(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 Un-sponsored 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.

## PROVIDENCE HEALTH & SERVICES

### Notes to Consolidated Financial Statements

December 31, 2006 and 2005

Information for the Health System for the years ended December 31, 2006 and 2005, is summarized below:

	<b>2006</b>	<b>2005</b>
	(In thousands of dollars)	
Cost of charity care provided	\$ 128,027	120,288
Unpaid cost of Medicaid services	152,415	116,456
Education and research programs, net cost	26,297	27,405
Nonbilled services, net cost	23,924	24,086
Negative margin services and other, net cost	40,152	32,862
Un-sponsored community benefit costs	\$ 370,815	321,097
Percentage of total operating expenses, excluding purchased healthcare	7.3%	6.8%

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.

Charity care has also been measured in terms of charges forgone for services furnished under the charity care policy. The forgone charges for services to persons unable to pay were \$330,756,000 and \$299,427,000 for the years ended December 31, 2006 and 2005, respectively.

**(p) Income Taxes**

The Health System and the various corporations within the Health System, except for Providence Assurance Cayman Limited, Lifecare Ventures, Inc., Bourget Health Services, Inc., d/b/a Pathology Associates Medical Laboratories, Providence Physician Services, and Caron Health Corporation, are not-for-profit organizations, and have been recognized as exempt from federal income taxes, except on unrelated business income, under Section 501(c)(3) of the Internal Revenue Code.

Providence Plan Partners (PPP) is a not-for-profit entity and has been recognized as exempt from federal income taxes, except on unrelated business income, as a social welfare organization under Section 501(c)(4) of the Internal Revenue Code.

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 financial position or results of operations of the Health System as of and for the years ended December 31, 2006 and 2005.

## PROVIDENCE HEALTH & SERVICES

### Notes to Consolidated Financial Statements

December 31, 2006 and 2005

**(q) Recently Adopted Accounting Standards**

In March 2005, the Financial Accounting Standards Board (FASB) issued Interpretation No. 47 (FIN 47), *Accounting for Conditional Asset Retirement Obligations, an Interpretation of FASB Statement No. 143* (SFAS 143). This interpretation clarified that an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. Uncertainty about the timing and (or) method of settlement of a conditional asset retirement obligation should be factored into the measurement of the liability when sufficient information exists. The types of asset retirement obligations that are covered by FIN 47 are those for which an entity has a legal obligation to perform an asset retirement activity. However, the timing and (or) method of settling the obligation are conditional on a future event that may or may not be within the control of the entity. SFAS 143 requires the fair value of a liability for a legal obligation associated with an asset retirement be recorded in the period in which the obligation is incurred. When the liability is initially recorded, the cost of the asset retirement is capitalized.

The Health System adopted FIN 47 effective December 31, 2005 and recorded a liability of \$34,543,000, of which \$31,454,000 was recorded as a cumulative effect of a change in accounting principle. Since SFAS 143 requires retrospective application to the inception of the liability, the initial asset retirement obligation was calculated using a discount rate of 3.6%, which approximates the Health System's weighted average cost of capital. The cumulative effect in 2005 of the adoption of FIN 47 reflects the accretion of the liability and the depreciation of the related asset component from the liability inception date through December 31, 2005. The Health System continues to accrete the liability until settlement of such liabilities.

Substantially all the impact of adopting FIN 47, as described above, relates to estimated costs to remove asbestos that is contained within the Health System's facilities. The additional depreciation and accretion costs in 2006 were \$540,000 and \$943,000, respectively.

**(r) New Accounting Pronouncements**

In September 2006, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurement* (SFAS 157). SFAS 157 defines fair value, establishes a framework for the measurement of fair value, and enhances disclosures about fair value measurements. SFAS 157 does not require any new fair value measures. SFAS 157 is effective for fair value measures already required or permitted by other standards for fiscal years after November 15, 2007. The Health System is required to adopt SFAS 157 beginning in fiscal year 2008. SFAS 157 is required to be applied prospectively, except for certain financial instruments. Any transition adjustment will be recognized as an adjustment to opening net assets in the year of adoption. Management is still evaluating the potential impact of SFAS 157, but does not expect SFAS 157 to have a material impact on the financial position, results of operations, or cash flows of the Health System.

In September 2006, the FASB issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* (SFAS 158), which requires the employer to recognize the overfunded or underfunded status of a defined benefit plan as an asset or liability in its balance sheet and to recognize changes in that funded status in the year in which the changes occur through changes in unrestricted net assets. Under SFAS 158, the measurement of the funded status is the

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difference between the fair value of the plan assets compared to the projected benefit obligation of the plan. SFAS 158 will also require the Health System to recognize in unrestricted net assets any unrecognized net actuarial gains or losses and any unrecognized prior service costs or credits as they arise, and disclose in the notes to the financial statements additional information about the effect on net periodic benefit cost on the next fiscal year that arise from the delayed recognition of these items. The Health System will be required to adopt these provisions of SFAS 158 in fiscal year 2007. If SFAS 158 had been adopted by the Health System as of December 31, 2006, a charge to unrestricted net assets and an increase in the pension obligation of approximately \$160,000,000 (unaudited) would have been recorded in the consolidated financial statements. SFAS 158 will also require employers, beginning in fiscal year 2008, to use a measurement date for these types of plans that is the same as the Health System's fiscal year end. The Health System has historically used a September measurement date.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS 159). SFAS 159 permits an organization to measure certain financial instruments at fair value that are not currently required to be measured at fair value. The objective of SFAS 159 is to improve financial reporting by providing companies with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS 159 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. SFAS 159 is effective for the Health System in 2007. Management is still evaluating the potential impact of SFAS 159, but does not expect SFAS 159 to have a material impact on the financial position, results of operations, or cash flows of the Health System.

In July 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, an interpretation of FASB Statement 109 (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements and prescribes a threshold of more-likely-than-not for recognition of tax benefits of uncertain tax positions taken or expected to be taken in a tax return. FIN 48 also provides related guidance on measurement, derecognition, classification, interest and penalties, and disclosure. The provisions of FIN 48 will be effective for the Health System in fiscal year 2007, with any cumulative effect of the change in accounting principle recorded as an adjustment to opening net assets. Management is still evaluating the potential impact of FIN 48, but does not expect FIN 48 to have a material impact on the financial position, results of operations, or cash flows of the Health System.

(s) ***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.

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**(3) Investments**

**(a) Board-designated Cash and Investments and Funds Held by Trustee**

The composition of board-designated cash and investments and funds held by trustee at December 31, 2006 and 2005 is set forth in the following table. Investments are stated at fair value.

	<b>2006</b>	<b>2005</b>
	(In thousands of dollars)	
Board-designated cash and investments:		
Cash and cash equivalents	\$ 144,836	182,801
Government securities	435,275	524,122
Equity securities	922,328	795,430
Fixed income obligations	598,868	515,952
Accrued investment income	13,696	9,024
Total board-designated cash and investments	\$ 2,115,003	2,027,329
Funds held by trustee:		
Cash and cash equivalents	\$ 139,476	64,970
Government securities	22,838	48,515
Equity securities	91,053	77,190
Fixed income obligations	136,983	77,876
Total funds held by trustee	\$ 390,350	268,551

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 \$85,834,000 and \$35,781,000 obtained from borrowings under the Health System's master trust indenture for construction and other projects as of December 31, 2006 and 2005, respectively. The Health System holds \$261,550,000 and \$198,121,000 at December 31, 2006 and 2005, respectively, related to the self-insured trusts. The remainder of funds held by trustee are for requirements on the Health System's defined benefit pension plans, borrowing arrangements, and other items.

Investment income from board-designated cash and investments and funds held by trustee are comprised of the following for the years ended December 31, 2006 and 2005:

	<b>2006</b>	<b>2005</b>
	(In thousands of dollars)	
Nonoperating income:		
Interest income	\$ 73,624	54,449
Net realized gains	114,887	37,995
Changes in net assets:		
Change in net unrealized gains (losses) on investments	10,883	(3,794)

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The following table summarizes the Health System's investments with unrealized losses as of December 31, 2006 (in thousands of dollars):

<u>Description of securities</u>	<u>Less than 12 months</u>		<u>12 months or longer</u>		<u>Total</u>	
	<u>Fair value</u>	<u>Unrealized losses</u>	<u>Fair value</u>	<u>Unrealized losses</u>	<u>Fair value</u>	<u>Unrealized losses</u>
Government securities and fixed income obligations	\$ 377,650	(2,773)	277,966	(7,536)	655,616	(10,309)
Equity securities	31,501	(1,396)	15,978	(325)	47,479	(1,721)
Total temporarily impaired securities	<u>\$ 409,151</u>	<u>(4,169)</u>	<u>293,944</u>	<u>(7,861)</u>	<u>703,095</u>	<u>(12,030)</u>

The following table summarizes the Health System's investments with unrealized losses as of December 31, 2005 (in thousands of dollars):

<u>Description of securities</u>	<u>Less than 12 months</u>		<u>12 months or longer</u>		<u>Total</u>	
	<u>Fair value</u>	<u>Unrealized losses</u>	<u>Fair value</u>	<u>Unrealized losses</u>	<u>Fair value</u>	<u>Unrealized losses</u>
Government securities and fixed income obligations	\$ 256,325	(8,566)	307,494	(6,212)	563,819	(14,778)
Equity securities	20,943	(989)	21,810	(1,010)	42,753	(1,999)
Total temporarily impaired securities	<u>\$ 277,268</u>	<u>(9,555)</u>	<u>329,304</u>	<u>(7,222)</u>	<u>606,572</u>	<u>(16,777)</u>

**(b) Securities Lending Agreement**

The Health System has a securities lending agreement with a financial institution that serves as the lending agent. The agreement authorizes the lending agent to lend securities owned by the Health System to an approved list of borrowers. Under the agreement, the lending agent is 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 agent requires 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 \$159,169,000 at December 31, 2006. The Health System had no securities on loan as part of the program at December 31, 2005. The Health System has recorded income related to the securities lending program of \$126,000 and \$235,000, which is included in net nonoperating gains in the accompanying consolidated statements of operations for the years ended December 31, 2006 and 2005, respectively.

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**(4) Property, Plant, and Equipment**

Property, plant, and equipment and the total accumulated depreciation at December 31, 2006 and 2005 are shown below:

	<u>Approximate useful life (years)</u>	<u>2006</u>	<u>2005</u>
(In thousands of dollars)			
Land and improvements	5-25	\$ 323,583	248,216
Buildings and improvements	5-40	2,218,170	2,207,811
Equipment:			
Fixed	5-25	637,072	582,443
Major movable and minor	3-20	1,855,695	1,776,077
Rental property	15-40	413,902	347,984
Construction in progress	—	448,339	330,734
		<u>5,896,761</u>	<u>5,493,265</u>
Less accumulated depreciation		<u>2,966,938</u>	<u>2,884,940</u>
Property, plant, and equipment, net		<u>\$ 2,929,823</u>	<u>2,608,325</u>

Rental property represents buildings and related improvements which 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.

**(5) Other Assets**

Other assets at December 31, 2006 and 2005 are shown as follows:

	<u>2006</u>	<u>2005</u>
(In thousands of dollars)		
Unamortized financing costs	\$ 23,176	19,487
Investment in joint ventures	58,880	53,800
Receivable from SHS (note 1)	—	37,657
Receivable from Benefis (note 1)	30,270	—
Long-term reinsurance receivable	18,261	19,674
Intangible asset-pension	21,362	20,641
Other	71,304	89,743
Total other assets	<u>\$ 223,253</u>	<u>241,002</u>

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 and primarily are structured to provide outpatient services such as laboratory, outpatient surgery,

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and medical imaging. One such joint venture, located in Anchorage, Alaska, is controlled by the Health System and consequently is consolidated in the financial statements of the Health System. All other joint ventures are accounted for under the equity method of accounting. The equity in earnings from these joint ventures totaled \$24,500,000 and \$17,546,000 for the years ended December 31, 2006 and 2005, respectively, and is included in other operating revenues in the accompanying consolidated statements of operations.

#### (6) Long-term Debt

Long-term debt at December 31, 2006 and 2005 consists of the following:

	2006	2005
	(In thousands of dollars)	
Master trust debt:		
Series 1985, AIDEA Revenue Bonds (Sisters of Providence)	\$ 3,390	4,055
Series 1993, Direct Obligation Notes (Sisters of Providence)	—	4,710
Series 1994, WHCFA Revenue Bonds (Sisters of Providence)	—	9,010
Series 1995, WHCFA Revenue Bonds (Sisters of Providence)	6,285	28,915
Series 1996, CHFFA Revenue Bonds (Sisters of Providence)	24,165	29,020
Series 1997, Direct Obligation Notes (Sisters of Providence)	23,355	24,665
Series 1998, CHFFA Revenue Bonds (Little Company of Mary)	62,540	64,370
Series 1999, WHCFA Revenue Bonds (Sisters of Providence)	9,360	9,880
Series 1999, WHCFA Revenue Bonds (Providence Services)	—	91,695
Series 1999, MHFA Revenue Bonds (Providence Services)	—	25,025
Series 1999A Taxable Insured Variable Rate Bonds (Sisters of Providence)	—	19,600
Series 1999A Taxable Insured Variable Rate Bonds (Providence Services)	—	15,000
Series 1999B Taxable Insured Variable Rate Bonds (Providence Services)	—	23,900
Series 2001A, B, and C, CHFFA Revenue Bonds (Providence Health System)	157,400	157,400
Series 2001A, WHCFA Revenue Bonds (Providence Health System)	105,200	105,200
Series 2001B, WHCFA Revenue Bonds (Providence Health System)	24,925	42,900
Series 2002A, WHCFA Revenue Bonds (Providence Services)	—	68,000
Series 2002B, WHCFA Revenue Bonds (Providence Services)	—	68,000
Series 2002, MFFA Revenue Bonds (Providence Services)	22,270	68,755
Series 2003C, AIDEA Revenue Bonds (Providence Health System)	18,550	18,550
Series 2003H, AIDEA Revenue Bonds (Providence Health System)	36,000	36,000
Series 2003, HFACC Revenue Bonds (Providence Health System)	213,475	213,475

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	<b>2006</b>	<b>2005</b>
	(In thousands of dollars)	
Series 2004, HFAMC Revenue Bonds (Providence Health System)	\$ 100,000	100,000
Series 2005, Direct Obligation Notes (Providence Health System)	58,735	60,000
Series 2006A, WHCFA Revenue Bonds (Providence Health & Services)	212,165	—
Series 2006B, MFFA Revenue Bonds (Providence Health & Services)	68,430	—
Series 2006C, WHCFA Revenue Bonds (Providence Health & Services)	69,425	—
Series 2006D, WHCFA Revenue Bonds (Providence Health & Services)	69,275	—
Series 2006E, WHCFA Revenue Bonds (Providence Health & Services)	26,350	—
Series 2006F, Direct Obligation Notes (Providence Health & Services)	64,500	—
Series 2006G, Direct Obligation Notes (Providence Health & Services)	60,575	—
Series 2006H, AIDEA Revenue Bonds (Providence Health & Services)	54,355	—
Series 2006I, Direct Obligation Notes (Providence Health & Services)	53,600	—
US Bank Credit Facility	2,040	6,120
Master trust debt at par value	1,546,365	1,294,245
Premiums and discounts, net	8,409	7,324
Master trust debt, net of premiums and discounts	1,554,774	1,301,569
Mortgages, capital leases, lines of credit, and other	39,130	43,839
Loans from affiliates	2,424	2,424
Total long-term debt	1,596,328	1,347,832
Less current portion	36,769	47,889
Long-term debt, net of current portion	\$ 1,559,559	1,299,943

Providence Health System – Washington; Providence Health System – Oregon (exclusive of Providence Plan Partners); Providence Health System – Southern California (exclusive of Medical Institute of Little Company of Mary, Lifecare Ventures, Inc., and TrinityCare Hospice); Providence Everett Medical Center, Everett, Washington; Providence Health Care; St. Mary Medical Center; St. Joseph Hospital Corporation, 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

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Group to meet certain financial covenants. In June 2006, with the issuance of the Series 2006A, Series 2006B, Series 2006C, Series 2006D, Series 2006E, Series 2006F, and Series 2006G bonds, the members of the former Providence Services Obligated Group discharged their bonds, allowing them to become members of the Providence Health System Obligated Group.

Loans from affiliates outstanding at December 31, 2006 and 2005 are at various interest rates and have no stated repayment terms.

The Health System recorded a loss on refinancing of debt of \$11,236,000 and \$120,000 in 2006 and 2005, respectively, which was recorded in net nonoperating gains in the accompanying consolidated statements of operations.

#### ***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, 2006 was 3.55%. Annual principal payments range from \$730,000 in 2007 to \$970,000 in 2010.

#### ***Direct Obligation Refunding Notes, Series 1993***

The Series 1993 bonds were issued in February 1993. The bonds bore an interest rate of 8.0% payable semiannually on April 1 and October 1. In June 2006, in conjunction with the issuance of the Series 2006F bonds, these outstanding bonds were legally defeased.

#### ***Washington Health Care Facilities Authority (WHCFA) Revenue Bonds, Refunding Series 1994***

The Series 1994 bonds were issued in October 1994. The bonds bore interest rates ranging from 6.2% to 6.375% payable semiannually on April 1 and October 1. In June 2006, in conjunction with the issuance of the Series 2006E and the Series 2006G bonds, these outstanding bonds were legally defeased.

#### ***Washington Health Care Facilities Authority (WHCFA) Revenue Bonds, Refunding Series 1995***

The Series 1995 bonds were issued in November 1995. The outstanding bonds bear interest rates ranging from 6.0% to 5.5% payable semiannually on April 1 and October 1. In June 2006, in conjunction with the issuance of the Series 2006E bonds, 71% of these outstanding bonds were legally defeased in the amount of \$20,555,000.

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

The Series 1996 bonds were issued in January 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 \$5,120,000 in 2007 to \$1,045,000 in 2016.

#### ***Direct Obligation Notes, Series 1997***

The Series 1997 bonds were issued in March 1997. The outstanding bonds bear interest rates ranging from 7.47% to 7.7% payable semiannually on April 1 and October 1. Annual principal payments range from \$9,645,000 in 2007 to \$750,000 in 2017.

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#### ***California Health Facilities Financing Authority (CHFFA) Insured Revenue Bonds, Series 1998***

The Series 1998 bonds were issued in October 1998. The outstanding bonds bear interest rates ranging from 3.8% to 5.0% payable semiannually on April 1 and October 1. Annual principal payments range from \$1,900,000 in 2007 to \$2,715,000 in 2015.

#### ***Washington Health Care Facilities Authority (WHCFA) Revenue Bonds, Series 1999 (Providence Health System)***

The Series 1999 bonds were issued in April 1999. The outstanding bonds bear interest rates ranging from 4.125% to 4.75% payable semiannually on April 1 and October 1. Annual principal payments range from \$1,540,000 in 2007 to \$2,005,000 in 2015.

#### ***Washington Health Care Facilities Authority (WHCFA) Revenue Bonds, Series 1999 (Providence Services)***

The Series 1999 bonds were issued in June 1999. The bonds bore interest rates ranging from 4.8% to 5.5% payable semiannually on June 1 and December 1. In June 2006, in conjunction with the issuance of the Series 2006A and the Series 2006G bonds, these outstanding bonds were legally defeased.

#### ***Montana Health Facility Authority (MHFA) Revenue Bonds, Series 1999***

The Series 1999 bonds were issued in June 1999. The bonds bore interest rates ranging from 5.375% to 5.45% payable semiannually on June 1 and December 1. In June 2006, in conjunction with the issuance of the Series 2006B and the Series 2006G bonds, these outstanding bonds were legally defeased.

#### ***Direct Obligation Notes, Series 1999A (Providence Health System)***

The Series 1999A (Providence Health System) bonds were issued in April 1999. The bonds were issued as 35-day variable rate bonds. In June 2006, in conjunction with the issuance of the Series 2006F bonds, these outstanding bonds were legally defeased.

#### ***Direct Obligation Notes, Series 1999A (Providence Services)***

The Series 1999A (Providence Services) bonds were issued in July 1999. The bonds were issued as 35-day variable rate bonds. In June 2006, in conjunction with the issuance of the Series 2006F bonds, these outstanding bonds were legally defeased.

#### ***Direct Obligation Notes, Series 1999B (Providence Services)***

The Series 1999B bonds were issued in July 1999. The bonds were issued as 35-day variable rate bonds. In June 2006, in conjunction with the issuance of the Series 2006F bonds, these outstanding bonds were legally defeased.

#### ***California Health Facilities Financing Authority (CHFFA) Insured Variable Rate Revenue Bonds, Series 2001A, B, & C***

The Series 2001A, B, & C bonds were issued in July 2001. The Series 2001A bonds are currently issued as 28-day variable rate bonds. The Series 2001B & C bonds are currently issued as variable rate bonds priced daily. The interest rates in effect on December 31, 2006 were 3.3% for the Series 2001A bonds and 3.6%

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for the Series 2001B & C bonds. Annual principal payments range from \$5,025,000 in 2011 to \$23,125,000 in 2021.

#### ***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 in 2011 to \$170,000 in 2017.

#### ***Washington Health Care Facilities Authority (WHCFA) Revenue Bonds, Series 2001B***

The Series 2001B bonds were issued in June 2001. The bonds are currently issued as 28-day variable rate bonds. The interest rate in effect on December 31, 2006 was 3.65%. Annual principal payments range from \$10,450,000 in 2007 to \$5,850,000 in 2010.

#### ***Washington Health Care Facilities Authority (WHCFA) Variable Rate Revenue Bonds, Series 2002A***

The Series 2002A bonds were issued in July 2002. The bonds were issued as variable rate bonds priced daily. In June 2006, in conjunction with the issuance of the Series 2006C bonds, these outstanding bonds were legally defeased.

#### ***Washington Health Care Facilities Authority (WHCFA) Variable Rate Revenue Bonds, Series 2002B***

The Series 2002B bonds were issued in July 2002. The bonds were issued as 35-day variable rate bonds. In June 2006, in conjunction with the issuance of the Series 2006D bonds, these outstanding bonds were legally defeased.

#### ***Montana Facility Finance Authority (MFFA) Revenue Bonds, Series 2002***

The Series 2002 bonds were issued in July 2002. The bonds bear an interest rate ranging from 3.0% to 5.0% payable semiannually on June 1 and December 1. In June 2006, in conjunction with the issuance of the Series 2006B bonds, 67% of these outstanding bonds were legally defeased in the amount of \$46,360,000. Remaining annual principal payments range from \$160,000 in 2007 to \$90,000 in 2025.

#### ***Alaska Industrial Development and Export Authority (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. Annual principal payments range from \$9,050,000 in 2009 to \$9,500,000 in 2010.

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

The Series 2003H bonds were issued in September 2003. The outstanding bonds bear interest rates ranging from 4.625% to 5.25% payable semiannually on April 1 and October 1. Annual principal payments range from \$8,200,000 in 2008 to \$4,600,000 in 2015.

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

The Series 2003D, E, F, & G bonds were issued in May 2003. The Series 2003D and Series 2003E bonds are currently issued as variable rate bonds priced weekly. The Series 2003F and Series 2003G bonds are currently issued as 28-day variable rate bonds. The interest rates in effect on December 31, 2006 were 3.93% for the Series 2003D and Series 2003E, 3.6% for the Series 2003F bonds, and 3.8% for the Series 2003G bonds. Annual principal payments range from \$1,150,000 in 2008 to \$18,175,000 in 2033.

#### ***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 3.0% to 5.5% payable semiannually on April 1 and October 1. Annual principal payments range from \$1,300,000 in 2007 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 4.45% to 5.17% payable semiannually on April 1 and October 1. Annual principal payments range from \$1,320,000 in 2007 to \$2,115,000 in 2017.

#### ***Washington Health Care Facilities Authority (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 in 2012 to \$6,240,000 in 2026.

#### ***Washington Health Care Facilities Authority (WHCFA) Revenue Bonds, Series 2006C***

The Series 2006C bonds were issued in June 2006. The outstanding bonds are currently issued as 28-day variable rate bonds. The interest rate in effect on December 31, 2006 was 3.0%. Annual principal payments range from \$6,700,000 in 2025 to \$8,825,000 in 2033.

#### ***Washington Health Care Facilities Authority (WHCFA) Revenue Bonds, Series 2006D***

The Series 2006D bonds were issued in June 2006. The outstanding bonds are currently issued as 28-day variable rate bonds. The interest rate in effect on December 31, 2006 was 3.73%. Annual principal payments range from \$6,625,000 in 2025 to \$8,875,000 in 2033.

#### ***Washington Health Care Facilities Authority (WHCFA) Revenue Bonds, Series 2006E***

The Series 2006E bonds were issued in June 2006. The outstanding bonds are currently issued as 35-day variable rate bonds. The interest rate in effect on December 31, 2006 was 3.75%. Annual principal payments range from \$2,550,000 in 2025 to \$3,350,000 in 2033.

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***Direct Obligation Variable Rate Notes, Series 2006F***

The Series 2006F bonds were issued in June 2006. The outstanding bonds are currently issued as 28-day variable rate bonds. The interest rate in effect on December 31, 2006 was 5.35%. Annual principal payments range from \$2,075,000 in 2008 to \$5,325,000 in 2036.

***Direct Obligation Variable Rate Notes, Series 2006G***

The Series 2006G bonds were issued in June 2006. The outstanding bonds are currently issued as 28-day variable rate bonds. The interest rate in effect on December 31, 2006 was 5.35%. Annual principal payments range from \$3,100,000 in 2008 to \$5,350,000 in 2036.

***Alaska Industrial Development and Export Authority (AIDEA) Revenue Bonds, Series 2006H***

The Series 2006H bonds were issued in November 2006. The outstanding bonds bear an interest rate of 5.0% payable semiannually on April 1 and October 1. Annual principal payments range from \$2,545,000 in 2007 to \$4,905,000 in 2036.

***Direct Obligation Variable Rate Notes, Series 2006I***

The Series 2006I bonds were issued in November 2006. The outstanding bonds are currently issued as 28-day variable rate bonds. The interest rate in effect on December 31, 2006 was 5.35%. Annual principal payments range from \$2,525,000 in 2022 to \$4,900,000 in 2036.

Long-term debt maturities for the next five years and thereafter are as follows:

	<b>Master trust</b>	<b>Other</b>	<b>Total</b>
	(In thousands of dollars)		
2007	\$ 33,465	3,304	36,769
2008	32,700	3,560	36,260
2009	34,120	3,672	37,792
2010	36,085	3,584	39,669
2011	38,240	2,725	40,965
Thereafter	1,371,755	22,285	1,394,040
	\$ 1,546,365	39,130	1,585,495

## PROVIDENCE HEALTH & SERVICES

### Notes to Consolidated Financial Statements

December 31, 2006 and 2005

#### *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):

2007	\$	28,570
2008		24,887
2009		22,885
2010		16,128
2011		13,668
Thereafter		14,131
	\$	<u>120,269</u>

Rental expense was \$54,330,000 and \$50,611,000 for the years ended December 31, 2006 and 2005, respectively.

#### (7) **Retirement Plans**

The Health System has a noncontributory cash balance plan covering substantially all employees called the Providence Health System Cash Balance Retirement Plan (the Cash Balance Plan). The plan benefits are based on defined average compensation and years of service. The vesting period is five years. The Health System's funding policy is based on the actuarially determined cost method, and includes normal service cost and prior service costs amortized over a 20-year period. The cash balance plan meets the definition of a defined benefit plan under SFAS No. 87, *Employers' Accounting for Pensions* (SFAS 87). Under the cash balance plan, each employee carries an individual account balance. The Health System makes a defined, annual contribution and provides a defined interest credit to each employee's account.

The Health System also has a defined benefit plan called the Providence Services Pension Plan (the PSP Plan). Effective on January 1, 2007, the Cash Balance Plan was amended. As of this date, the PSP Plan was merged into the Cash Balance Plan and was renamed the Providence Health & Services Cash Balance Retirement Plan. Certain plan benefits were modified at that time that primarily impact new entrants into the plan after December 31, 2006.

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, 2006 and 2005 were \$85,976,000 and \$88,550,000, respectively.

## PROVIDENCE HEALTH & SERVICES

### Notes to Consolidated Financial Statements

December 31, 2006 and 2005

The following disclosures cover both the Cash Balance Plan and the PSP Plan as of and for the years ended December 31, 2006 and 2005. The measurement dates for the defined benefit plans are September 30, 2006 and 2005, 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:

	<b>2006</b>	<b>2005</b>
	(In thousands of dollars)	
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	\$ 1,472,501	1,283,058
Service cost	92,928	81,683
Interest cost	78,555	74,295
Plan amendments	220	1,849
Actuarial (gain) loss	(37,360)	110,159
Benefits paid	(90,535)	(78,543)
Projected benefit obligation at end of year	\$ 1,516,309	1,472,501
Change in fair value of plan assets:		
Fair value of plan assets at beginning of year	\$ 1,107,192	1,005,041
Actual return on plan assets	102,142	109,229
Employer contributions	80,572	71,465
Benefits paid	(90,535)	(78,543)
Fair value of plan assets at end of year	\$ 1,199,371	1,107,192
Funded status	\$ (316,938)	(365,309)
Unrecognized net actuarial loss	138,242	162,324
Accrued additional minimum pension liability	36,574	89,067
Fourth quarter contributions	19,407	19,728
Unrecognized prior service cost	14,741	18,921
Net amount recognized	\$ (107,974)	(75,269)
Weighted average assumptions:		
Discount rate	5.85%	5.50%-5.75%
Rate of increase in compensation levels	3.50-4.00	4.00-5.00
Long-term rate of return on assets	8.00	8.00

**PROVIDENCE HEALTH & SERVICES**

Notes to Consolidated Financial Statements

December 31, 2006 and 2005

Prepaid pension costs are included in other long-term assets, and pension liabilities are included in other long-term liabilities on the Health System's consolidated balance sheets. Net periodic pension cost for the defined benefit plans for 2006 and 2005 is included in employee benefits in the accompanying consolidated statements of operations and includes the following components:

	<u>2006</u>	<u>2005</u>
	(In thousands of dollars)	
Components of net periodic pension cost:		
Service cost	\$ 95,172	83,040
Interest cost	78,555	74,295
Expected return on plan assets	(83,102)	(77,330)
Amortization of prior service cost	4,401	4,195
Recognized net actuarial loss	17,930	8,992
Net periodic pension cost	<u>\$ 112,956</u>	<u>93,192</u>

At December 31, 2006 and 2005, the Health System's accumulated benefit obligation exceeded the fair value of the plan assets held in the various pension plans by \$177,594,000 and \$208,918,000, respectively. In accordance with SFAS 87, the Health System has accrued an additional minimum pension liability and certain other intangible assets to recognize this change in the funded status of the pension plans. The change in the accrual of these amounts on the Health System's consolidated balance sheets resulted in an increase of \$52,493,000 and a decrease of \$47,802,000 in unrestricted net assets in 2006 and 2005, respectively.

The Health System's pension plans' weighted average asset allocations at December 31, 2006 and 2005 by asset category are as follows:

	<u>2006</u>	<u>2005</u>
Asset category:		
Debt securities	17%	21%
Equity securities	68	73
Other	15	6
Total	<u>100%</u>	<u>100%</u>

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 2006 and 2005 expense amounts. This assumption is based on capital market assumptions and the plan's target asset allocation.

## PROVIDENCE HEALTH & SERVICES

### Notes to Consolidated Financial Statements

December 31, 2006 and 2005

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 will revise this estimate.

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):

2007	\$	112,921
2008		124,028
2009		131,670
2010		147,886
2011 – 2016		<u>1,080,172</u>
	\$	<u>1,596,677</u>

The Health System expects to contribute approximately \$82,633,000 to the defined benefit pension plan in 2007.

Total expense for all of the Health System's retirement programs for the years ended December 31, 2006 and 2005 was \$118,049,000 and \$117,902,000, respectively, and are included in employee benefits in the accompanying consolidated statements of operations.

#### (8) Fair Value of Financial Instruments

The fair value of board-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, when available. 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 \$1,599,098,000 and \$1,631,635,000, respectively, as of December 31, 2006, and \$1,355,268,000 and \$1,380,951,000, respectively, as of December 31, 2005.

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.

#### (9) Commitments

The Health System has committed to several construction projects and other purchase commitments with an estimated cost of \$330,050,000 remaining to be spent as of December 31, 2006.

## PROVIDENCE HEALTH & SERVICES

### Notes to Consolidated Financial Statements

December 31, 2006 and 2005

#### (10) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at December 31, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
	(In thousands of dollars)	
Program support	\$ 68,953	69,417
Low income housing	29,815	21,521
Capital acquisition and other	63,692	52,207
Total temporarily restricted net assets	<u>\$ 162,460</u>	<u>143,145</u>

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, 2006 and 2005 because the time or purpose restrictions stipulated by the donor have not been met. Total fundraising expenses were \$8,564,000 and \$7,938,000 for the years ended December 31, 2006 and 2005, 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 \$31,917,000 and \$27,671,000 of assets released from restriction for the years ended December 31, 2006 and 2005, respectively.

Income from permanently restricted net assets is restricted primarily for program support.

#### (11) 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.

**PROVIDENCE HEALTH & SERVICES**

Notes to Consolidated Financial Statements

December 31, 2006 and 2005

**(12) 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, 2006 and 2005, are as follows:

	<u>2006</u>	<u>2005</u>
	(In thousands of dollars)	
Healthcare expenses	\$ 4,129,830	3,851,299
Purchased healthcare expenses	492,461	412,241
General and administrative expenses	931,582	851,648
Total operating expenses	<u>\$ 5,553,873</u>	<u>5,115,188</u>

**PROVIDENCE HEALTH & SERVICES**  
Consolidating Schedule – Balance Sheet Information  
December 31, 2006 (with consolidated totals for 2005)  
(In thousands of dollars)

Assets	Alaska Region	Washington/ Montana Region	Oregon Region	Providence Plan Partners	Southern California Region	System Office, Eliminations, and Other	2006 Total Health System	2005 Total Health System
Current assets:								
Cash and cash equivalents	\$ 45,087	189,463	25,534	17,803	24,510	108,540	410,937	349,883
Assets held under securities lending	—	—	—	—	—	159,169	159,169	—
Accounts receivable, net	93,448	274,006	209,641	—	159,042	(21,313)	714,824	685,718
Premiums receivable	—	—	409	4,453	—	—	4,862	3,410
Other receivables, net, including affiliate	8,832	26,152	40,378	7,061	35,223	(5,246)	112,400	105,974
Supplies inventory, at cost	13,807	38,673	13,535	—	14,144	138	80,297	81,248
Other current assets	1,930	24,554	8,992	409	5,473	12,116	53,474	45,937
Current portion of assets whose use is limited	5	471	1,386	—	361	65,396	67,619	94,398
<b>Total current assets</b>	<b>163,109</b>	<b>553,319</b>	<b>299,875</b>	<b>29,726</b>	<b>238,753</b>	<b>318,800</b>	<b>1,603,582</b>	<b>1,366,568</b>
Assets whose use is limited:								
Board-designated cash and investments	190,330	489,373	822,132	377,150	170,540	65,478	2,115,003	2,000,759
Funds held for long-term purposes	21,877	931	453	—	—	4,311	27,572	27,267
Gift annuities and trusts	939	4,374	22,172	—	7,894	6,293	41,672	37,833
Funds held by trustee	—	84,741	1,532	—	—	236,458	322,731	200,723
<b>Assets whose use is limited, net</b>	<b>213,146</b>	<b>579,419</b>	<b>846,289</b>	<b>377,150</b>	<b>178,434</b>	<b>312,540</b>	<b>2,506,978</b>	<b>2,266,582</b>
Property, plant, and equipment, net	409,283	952,312	940,602	3,033	502,289	122,304	2,929,823	2,608,325
Other assets	51,483	113,774	13,294	332	67,552	(23,182)	223,253	241,002
<b>Total assets</b>	<b>\$ 837,021</b>	<b>2,198,824</b>	<b>2,100,060</b>	<b>410,241</b>	<b>987,028</b>	<b>730,462</b>	<b>7,263,636</b>	<b>6,482,477</b>
<b>Liabilities and Net Assets</b>								
Current liabilities:								
Current portion of long-term debt	\$ 2,171	13,524	2,146	—	7,957	10,971	36,769	47,889
Accounts payable	39,203	103,523	83,013	653	44,439	4,931	275,762	255,702
Accrued compensation	27,525	80,136	68,716	—	35,603	34,320	246,300	227,613
Payable to contractual agencies	4,217	37,159	22,865	7,277	20,238	—	91,756	105,916
Unearned premiums/deferred revenue	1,849	2,456	9,506	8,317	4,010	4,246	30,384	34,632
Liability for unpaid medical claims	—	6	205	59,877	3,756	(21,691)	42,153	48,087
Liability for risk-sharing	—	—	66	15,675	2,315	—	18,056	4,323
Liabilities under securities lending	—	—	—	—	—	159,169	159,169	—
Current portion of self-insurance liability	—	—	—	—	—	64,667	64,667	65,504
Other, including accrued interest and affiliate	2,236	20,455	9,368	19,171	4,546	(7,656)	48,120	51,304
<b>Total current liabilities</b>	<b>77,201</b>	<b>257,259</b>	<b>195,885</b>	<b>110,970</b>	<b>122,864</b>	<b>248,957</b>	<b>1,013,136</b>	<b>840,970</b>
Long-term debt, net of current portion	215,916	693,084	333,204	—	248,575	68,780	1,559,559	1,299,943
Gift annuity obligations and trusts and other	40,994	22,864	24,359	1,106	16,517	359,223	465,063	482,652
<b>Total liabilities</b>	<b>334,111</b>	<b>973,207</b>	<b>553,448</b>	<b>112,076</b>	<b>387,956</b>	<b>676,960</b>	<b>3,037,758</b>	<b>2,623,565</b>
Net assets:								
Unrestricted	497,198	1,194,759	1,471,681	298,165	548,600	2,330	4,012,733	3,664,370
Temporarily restricted	5,712	20,777	53,234	—	37,790	44,947	162,460	143,145
Permanently restricted	—	10,081	21,697	—	12,682	6,225	50,685	51,397
<b>Total net assets</b>	<b>502,910</b>	<b>1,225,617</b>	<b>1,546,612</b>	<b>298,165</b>	<b>599,072</b>	<b>53,502</b>	<b>4,225,878</b>	<b>3,858,912</b>
<b>Total liabilities and net assets</b>	<b>\$ 837,021</b>	<b>2,198,824</b>	<b>2,100,060</b>	<b>410,241</b>	<b>987,028</b>	<b>730,462</b>	<b>7,263,636</b>	<b>6,482,477</b>

See accompanying independent auditors' report.

**PROVIDENCE HEALTH & SERVICES**

Consolidating Schedule – Statement of Operations Information

December 31, 2006 (with consolidated totals for 2005)

(In thousands of dollars)

	<b>Alaska Region</b>	<b>Washington/ Montana Region</b>	<b>Oregon Region</b>	<b>Providence Plan Partners</b>	<b>Southern California Region</b>	<b>System Office, Eliminations, and Other</b>	<b>2006 Total Health System</b>	<b>2005 Total Health System</b>
Operating revenues:								
Net patient service revenues	\$ 545,779	1,874,860	1,514,257	—	910,655	(208,322)	4,637,229	4,340,077
Premium revenues	—	15,474	36,973	806,585	—	(4,912)	854,120	757,954
Other revenues	33,718	165,033	136,592	13,896	30,458	(49,753)	329,944	272,303
Total operating revenues	<u>579,497</u>	<u>2,055,367</u>	<u>1,687,822</u>	<u>820,481</u>	<u>941,113</u>	<u>(262,987)</u>	<u>5,821,293</u>	<u>5,370,334</u>
Operating expenses:								
Purchased healthcare	—	—	13,019	680,801	15,196	(216,555)	492,461	412,241
Salaries and wages	213,593	832,528	745,297	516	356,352	83,796	2,232,082	2,048,921
Employee benefits	54,982	198,631	170,494	17	133,244	37,541	594,909	555,767
Professional fees	9,630	71,787	52,036	3,195	22,469	10,238	169,355	147,116
Supplies	85,503	350,559	244,677	728	133,534	1,891	816,892	776,473
Depreciation	31,259	89,368	83,160	3,032	47,088	8,898	262,805	257,852
Interest and amortization	2,985	29,588	7,616	276	8,043	3,652	52,160	43,977
Bad debts	34,435	73,226	32,170	79	34,090	201	174,201	166,766
Provider tax	—	—	8,649	—	—	—	8,649	7,424
Purchased services and other	105,526	311,866	247,654	77,344	154,379	(146,410)	750,359	698,651
Total operating expenses	<u>537,913</u>	<u>1,957,553</u>	<u>1,604,772</u>	<u>765,988</u>	<u>904,395</u>	<u>(216,748)</u>	<u>5,553,873</u>	<u>5,115,188</u>
Excess (deficit) of revenues over expenses from operations	41,584	97,814	83,050	54,493	36,718	(46,239)	267,420	255,146
Net nonoperating gains, principally investment income	<u>15,668</u>	<u>57,098</u>	<u>66,509</u>	<u>11,513</u>	<u>17,813</u>	<u>21,122</u>	<u>189,723</u>	<u>105,798</u>
Excess (deficit) of revenues over expenses	57,252	154,912	149,559	66,006	54,531	(25,117)	457,143	360,944
Net assets released from restriction	2,628	234	7,557	—	2,819	740	13,978	8,674
Other changes in unrestricted net assets	(197)	2,801	(2,556)	—	928	3,586	4,562	6,563
Change in accrued additional minimum pension liability	—	—	—	—	—	52,493	52,493	(47,802)
Interdivision transfers	(11,744)	(30,483)	(16,315)	(1,230)	(17,085)	76,857	—	—
Change in net unrealized gains (losses) on investments	(364)	(13,761)	11,754	3,253	2,904	6,922	10,708	(3,804)
Cumulative effect of change in accounting principle (note 2)	—	—	—	—	—	—	—	(31,454)
Loss on disposal of discontinued operations (note 1)	—	—	—	—	—	(190,177)	(190,177)	—
(Loss) gain from operations of discontinued component – Benefis Healthcare (note 1)	—	—	—	—	—	(344)	(344)	13,954
Increase (decrease) in unrestricted net assets	<u>\$ 47,575</u>	<u>113,703</u>	<u>149,999</u>	<u>68,029</u>	<u>44,097</u>	<u>(75,040)</u>	<u>348,363</u>	<u>307,075</u>

See accompanying independent auditors' report.