In the face of a tough economy, Providence Health & Services has taken steps to protect and strengthen its ability to serve its communities. While Providence is not immune to market volatility, through good stewardship and prudent management controls, the health system has maintained healthy fiscal operations. This commitment to financial sustainability, coupled with the spirit and drive of the people of Providence, enables Providence to continue to deliver the highest quality care, provide increased community benefit and offer 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 we serve – especially the poor and vulnerable. All Providence regions increased contributions to community benefit programs in 2008, for a total of nearly $509 million. This is a Providence-wide increase of 23 percent over 2007 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 2008, Providence offered nearly $170 million in charity care. This is nearly a 19 percent increase from the amount of free and discounted care offered in 2007. 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

Like nearly every organization, Providence's net income in 2008 was affected by the investment market volatility. But, through an overall conservative approach to investments as well as sound stewardship, Providence's financial performance in 2008 was a solid effort in continuing to sustain the health system. Providence's net operating income for 2008 was $288 million. Providence's non-operating losses for 2008 were $427 million, primarily as a result of investment losses of 17.4 percent.

While these are difficult economic times, the Providence Mission is firmly rooted in the work started more than 153 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.

A comprehensive community benefit report for 2008 will be available in May and will provide more information about the Providence Mission.

Fiscal Year 2008 – Financial Performance Report

Net operating income of $288.0 million exceeded budget by $18.7 million while running $17.2 million below 2007. In summary, the positive budget variance was driven primarily by patient volume.

The $47.0 million negative revenue or rate variance is the result of net service revenue per case running 0.8% below budget and 4.5% greater than 2007. In this case, the 4.5% increase over prior year is the more important variance as it demonstrates the market pressures on pricing and the demand for affordability. The combination of deliberate growth initiatives and focused elimination of operating cost-related waste through standardization, compliance and utilization has positioned the System to perform well in a declining revenue market.

Pressure on pricing will continue to intensify in 2009 with further reductions in Medicaid budgets, growing uninsured and declines in personal discretionary spending that will put further pressure on commercial premiums and focus on operations to develop alternative, lower cost-of-care models and sites. 2009 budgeted net service revenue per case growth of 3.9% has been reforecast to 3.0%.

The net loss of $156.7 million was $498.1 million less than budgeted net income and $811.3 million less than 2007 net income. The 2008 negative budget variance on the following page is primarily the result of $470.0 million in unrealized investment losses. The $470.0 million unrealized investment loss represents a 19.2% negative investment return on $2.5 billion in cash and investments.

The following Table is the consolidated key financial indicators report:

Key Financial Indicators	---- December 2008 ----		
	Actual	Budget	2007
Net Operating Income % Net Operating Income Return	$288.0m 4.1%	$269.3m 3.9%	$305.2m 4.8%
Net Income (loss) % Net Income Return	$(156.7)m (2.4%)	$341.4m 4.9%	$654.6m 9.8%
Charity Care Services % Net Patient Revenue	5.2%	4.0%	4.7%
Inpatient Activity – Inpatient Admissions	253,023	258,924	245,360
Outpatient Activity – Outpatient Revenue	$4,846m	$4,710m	$4,249m
Long-term Care Activity – Resident Days	495,016	535,109	528,991
Rate - Net Service Revenue/CMAA	$10,584	$10,669	$10,131
Labor Productivity – FTEs/AOB	7.98	7.98	7.79
Supplies % Net Operating Revenue	13.7%	13.8%	13.7%
Expense per CMAA	$10,081	$10,186	$9,566
Accounts Receivable Days	51	51	52
Days of Cash on Hand	145	156	168

Health Plan Administrative Expense PMPM	$28.75	$29.73	$27.97
Health Plan Total Membership	284,336	263,125	254,944

Inpatient admissions ran 2.3% below budget but exceeded 2007 by 3.1%. Below budget performance occurred in all regions except California. The most significant variances occurred in the Portland service area, Missoula and Medford.

Long-term care activity, excluding the Mary Conrad Center, ran 3.0% below budget and 2.1% below 2007. Below budget performance occurred in all regions and is primarily the result of continued growth in less capital intensive competitive services such as home care services, residential care and assisted living as well as reduction in Medicaid coverage.

Net service revenue per case ran 0.8% below budget and exceeded 2007 by 4.5%. The below budget net service revenue performance occurred in all regions except Oregon and Washington-Montana. The overall below budget performance is primarily the result of less than budgeted growth in commercial payor mix and greater than budgeted Medicaid discounts.

Days of cash on hand ran 11 days below budget and 23 days below 2007. The negative budget variance is primarily a result of the previously mentioned $470.0 million unrealized investment loss. The $470.0 million unrealized investment loss equates to 28 days of cash on hand.

The following Table displays key balance sheet indicators' performance vs. Moody's Aa2 rating report:

Balance Sheet Indicators	**---- December 2008 ----**		
	@ Benchmark	PH&S	Moody's Aa2
Days of Cash on Hand	No	145	185
Long-term Debt to Total Capitalization	Yes	24%	33%
Cash to Debt	No	129%	148%

While the days of cash on hand is below benchmark, the debt-to-total capitalization positive variance from benchmark of 9% equates to $700 million of debt capacity or 41 days of cash on hand. The combinations of the combined ratios result in the current Aa2 rating on the balance sheet side.

In October, the System issued $289,195,000 through the California Health Facilities Financing 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. Following is a list of requested performance metrics.

Performance Metrics

	2008 Year-To-Date				
	Actual	Budget	% Variance	Last Year	% Variance
Volume:					
Acute Adjusted Admissions	412,212	419,960	-1.80%	402,353	2.50%
Total Acute Admissions	253,023	258,924	-2.30%	245,360	3.10%
Total Acute Patient Days	1,155,737	1,163,510	-0.70%	1,112,493	3.90%
Acute Outpatient Visits	5,223,359	5,329,590	-2.00%	5,038,815	3.70%
Primary Care Visits	2,028,487	2,014,659	0.70%	1,662,917	22.00%
Long-Term Care Patient Days	495,016	540,257	-8.40%	534,101	-7.30%
Home Health Visits	552,805	610,834	-9.50%	527,283	4.80%
Hospice Days	623,865	648,415	-3.80%	618,624	0.80%
Housing and Assisted Living Days	488,405	468,415	4.30%	485,281	0.60%
Health Plan Members	3,211,901	3,104,909	3.40%	2,999,278	7.10%
Total Occupancy %	63.90%	68.10%	-6.10%	65.90%	-3.00%
Total Average Daily Census	3,158	3,179	-0.70%	3,048	3.60%
Efficiency:					
FTE's	41,035	41,061	0.10%	38,786	-5.80%
YTD Overall Case-Mix Index	1.3887	1.3292	4.50%	1.341	3.60%
YTD Case-Mix Adj Admissions (CMAA)	572,435	558,210	2.50%	539,538	6.10%
YTD Acute Care LOS (case-mix adj)	3.3	3.4	-2.70%	3.4	-2.70%
YTD Net Svc Rev/CMAA	10,584	10,669	-0.80%	10,131	4.50%
YTD Net Expense/CMAA	10,081	10,186	1.00%	9,566	-5.40%
YTD Paid Hours/CMAA	149	153	2.50%	150	0.30%
YTD Productive Hours/CMAA	132	134	1.10%	131	-1.50%
YTD Supplies Expense/CMAA	1,687	1,708	1.30%	1,612	-4.60%
YTD Med Supplies Exp/CMAA	1,022	1,022	0.00%	998	-2.40%
FTE's Per Adjusted Occupied Bed	7.98	7.96	-0.20%	7.76	-2.80%
Financial Performance:					
Operating Margin	4.10%	3.90%	5.40%	4.80%	-14.70%
Total Margin	-2.40%	4.90%	-148.80%	9.80%	-124.40%
Capital Spending ('000)	612,953	939,955	34.80%	653,285	6.20%
Debt Service Coverage	7.5	7.1	5.50%	8.8	-14.70%
EBIDA ('000)	239,826	752,622	-68.10%	1,009,835	-76.30%
Days of Total Cash on Hand	145	156	-6.70%	168	-13.90%
Net Patient AR Days (3 mo rolling ave)	51	51	-0.20%	52	2.90%
Ave Yearly Salary/FTE (w/o benefits)	65,307	64,646	-1.00%	62,215	-5.00%
Employee Benefits as a % of Salaries	27.80%	28.20%	1.30%	25.70%	-8.10%
Current Ratio	1.2	1.4	-12.00%	1.5	-19.40%
Supplies as a % of Net Svc Revenue	17.10%	17.10%	0.30%	17.10%	0.00%
Supplies as a % of Net Op Revenue	13.70%	13.80%	0.20%	13.70%	-0.30%
Bad Debt & Charity as a % of Gross Svc	4.30%	4.00%	6.90%	4.50%	-6.10%
Community Benefit: ('000)					
Cost of Charity Care Provided	169,853	141,329	20.20%	142,947	18.80%
Medicaid Charity	197,780	168,174	17.60%	158,343	24.90%
Education and Research Programs	34,807	22,152	57.10%	26,169	33.00%
Unpaid Cost of Other Govt Programs	16,040	19,378	-17.20%	16,822	-4.60%
Negative Margin Services and Other	55,211	39,201	40.80%	42,272	30.60%
Non-Billed Services	35,166	17,883	96.60%	26,088	34.80%
Total Community Benefit	508,858	408,117	24.70%	412,640	23.30%

Auction Debt Update

In February, Providence Health & Services (PH&S) held $720.5 million in auction rate debt, in 14 different series of bonds resetting on staggered dates. When the auction market began to deteriorate, the System developed a diversified plan to address the increasing interest expense being incurred on the System's variable-rate debt. As of October, one series remains in auction mode with an outstanding balance of $11.35 million. It is expected this series will be refinanced within the next 12 months at the time other financing is undertaken. Six of the series have been converted or refinanced into fixed-rate debt and seven of the series have been converted to different forms of variable-rate vehicles backed by self-liquidity. One of the rating agency's requirements for granting a short-term rating utilizing self-liquidity is a monthly reporting providing a summary of the System's cash and investments 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 March 2008)*

INSTRUCTIONS: Fill in Name, Date and Shaded Cells to Compute Coverage Ratios

Liquidity Assessment Provider Name:	Providence Health & Services Investment Portfolio
Portfolio As of Date:	December 31, 2008

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***	**%**	***Times Coverage***	***Contribution to Coverage Ratio***
Cash & Cash Equivalents *	$ 350.72			$ 350.72	34.40%	1.00	0.3440
S&P rated money market funds (> Am)	$ 17.97			$ 17.97	1.76%	1.00	0.0176
Highly rated (A-1 or A-1+) dedicated bank line	$ -			$ -	0.00%	1.00	-
Highly rated (A-1 or A-1+) money market instruments (< 1yr)	$ -			$ -	0.00%	1.10	-
U.S. Treasury Debt Obligations (> 1 year)	$ 12.12			$ 12.12	1.19%	1.10	0.0131
U.S. TIPs	$ 6.66			$ 6.66	0.65%	1.15	0.0075
U.S. Agencies (> 1 year)	$ 55.26			$ 55.26	5.42%	1.20	0.0650
Investment Grade Debt (that is not included above)	$ 197.56			$ 197.56	19.38%	1.50	0.2906
Equities**			$ 351.89	$ 351.89	34.51%	2.00	0.6903
Non-Investment Grade Debt			$ 27.40	$ 27.40	2.69%	2.50	0.0672
Totals	$ 640.29	$ -	$ 379.29	$1,019.58	100%		1.495
							REQUIRED RATIO

Enter amount of Debt Maturing in:			
Same Day Mode	*Next Day Mode*	*> Next Day Mode*	TOTAL SUPPORTED BY SELF LIQUIDITY
$50.00	$63.48	$300.00	

11.63	***#DIV/0!***	***0.98***	**$413.48**	2.47	***0.97***
Same Day +/-	***Next Day +/-***	***> Next Day +/-***		***CURRENT RATIO***	***Total Debt +/-***

* *Cash & Cash Equivalents* (using a coverage ratio of 1.00x) covers only cash/bank deposits with A-1 or A-1+ rated entities and US Government securities maturing in under one year. Additionally, a 1.00x coverage ratio can be used for cash/bank deposits with entities rated less than A-1 that are less than $100,000.

Mike Butler, CFO

KPMG

PROVIDENCE HEALTH & SERVICES

Consolidated Financial Statements

December 31, 2008 and 2007

(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, 2008 and 2007, 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, 2008 and 2007, and the results of its operations and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

As discussed in the notes 2 and 7 to the consolidated financial statements, the Health System adopted Statement of Financial Accounting Standards (SFAS) No. 158, *Employers' Accounting for the Defined Benefit and Other Post Retirement Plans*, as of December 31, 2007. Also as discussed in notes 2 and 8, the Health System adopted SFAS No. 157, *Fair Value Measurement*, during 2008.

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 2008 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, 2009

PROVIDENCE HEALTH & SERVICES

Consolidated Balance Sheets

December 31, 2008 and 2007

(In thousands of dollars)

Assets		2008	2007
Current assets:			
Cash and cash equivalents	$	491,812	359,390
Short-term board-designated investments		223,083	—
Assets held under securities lending		204,524	257,001
Accounts receivable, less allowance for bad debts of $169,370 in 2008 and $226,562 in 2007		813,723	751,915
Other receivables, net		150,994	126,981
Supplies inventory		111,358	87,092
Other current assets		59,538	51,595
Current portion of funds held by trustee		81,476	71,403
Total current assets		2,136,508	1,705,377
Assets whose use is limited:			
Board-designated cash and investments		1,736,404	2,189,463
Gift annuities, trusts, and other		37,061	52,864
Funds held by trustee		122,780	346,299
Assets whose use is limited, net of current portion		1,896,245	2,588,626
Property, plant, and equipment, net		3,666,673	3,289,435
Other assets		214,960	189,480
Total assets	$	7,914,386	7,772,918

See accompanying notes to consolidated financial statements.

PROVIDENCE HEALTH & SERVICES

Consolidated Balance Sheets

December 31, 2008 and 2007

(In thousands of dollars)

Liabilities and Net Assets	**2008**	**2007**
Current liabilities:		
Current portion of long-term debt	$ 33,664	33,240
Master trust debt classified as short-term	553,997	—
Short-term debt	20,000	—
Accounts payable	292,449	276,523
Accrued compensation	304,383	256,314
Payable to contractual agencies	77,325	79,977
Unearned premiums/deferred revenue	32,756	31,686
Liability for unpaid medical claims	53,265	41,511
Liability for risk-sharing	15,263	13,826
Liabilities under securities lending	218,233	257,001
Current portion of self-insurance liability	79,949	68,934
Other, including accrued interest	45,272	52,123
Total current liabilities	1,726,556	1,111,135
Long-term debt, net of current portion	1,148,619	1,484,974
Other long-term liabilities:		
Self-insurance liability, net of current portion	199,114	194,478
Pension benefit obligation	845,861	225,956
Gift annuity obligations and trusts	16,605	17,173
Other liabilities	66,676	66,644
Total other long-term liabilities	1,128,256	504,251
Total liabilities	4,003,431	3,100,360
Net assets:		
Unrestricted	3,683,197	4,446,971
Temporarily restricted	173,234	170,957
Permanently restricted	54,524	54,630
Total net assets	3,910,955	4,672,558
Total liabilities and net assets	$ 7,914,386	7,772,918

See accompanying notes to consolidated financial statements.

PROVIDENCE HEALTH & SERVICES

Consolidated Statements of Operations

Years ended December 31, 2008 and 2007

(In thousands of dollars)

		2008	2007
Operating revenues:			
Net patient service revenues	$	5,653,268	5,092,729
Premium revenues		1,016,421	912,904
Other revenues		356,452	342,404
Total operating revenues		7,026,141	6,348,037
Operating expenses:			
Salaries and wages		2,679,885	2,413,085
Employee benefits		745,630	621,115
Purchased healthcare		610,791	539,351
Professional fees		204,517	186,276
Supplies		965,503	869,909
Depreciation		333,008	292,368
Interest and amortization		63,521	62,884
Bad debts		216,717	226,578
Provider tax		8,804	10,664
Purchased services and other		909,803	820,646
Total operating expenses		6,738,179	6,042,876
Excess of revenues over expenses from operations		287,962	305,161
Net nonoperating (losses) gains, principally investment related (losses) gains		(444,664)	349,421
(Deficit) excess of revenues over expenses		(156,702)	654,582
Net assets released from restriction and other		10,871	21,566
Change in pension liability		(591,843)	25,925
Implementation of SFAS 158		(26,100)	(96,304)
Change in net unrealized gains on investments		—	42,856
Reclassification of investment portfolio to trading		—	(214,387)
(Decrease) increase in unrestricted net assets	$	(763,774)	434,238

See accompanying notes to consolidated financial statements.

PROVIDENCE HEALTH & SERVICES

Consolidated Statements of Changes in Net Assets

Years ended December 31, 2008 and 2007

(In thousands of dollars)

		Unrestricted	Temporarily restricted	Permanently restricted	Total net assets
Balance, December 31, 2006	$	4,012,733	162,460	50,685	4,225,878
Excess of revenues over expenses		654,582	—	—	654,582
Contributions, grants, and investment income		—	60,410	3,945	64,355
Net assets released from restriction and other		21,566	(51,913)	—	(30,347)
Decrease in accrued additional minimum pension liability		25,925	—	—	25,925
Implementation of SFAS 158		(96,304)	—	—	(96,304)
Change in net unrealized gains on investments		42,856	—	—	42,856
Reclassification of investment portfolio to trading		(214,387)	—	—	(214,387)
Increase in net assets		434,238	8,497	3,945	446,680
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, and investment income (loss)		—	51,216	(106)	51,110
Net assets released from restriction and other		10,871	(48,939)	—	(38,068)
Increase in pension liability		(591,843)	—	—	(591,843)
Implementation of SFAS 158		(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

See accompanying notes to consolidated financial statements.

PROVIDENCE HEALTH & SERVICES

Consolidated Statements of Cash Flows

Years ended December 31, 2008 and 2007

(In thousands of dollars)

		2008	2007
Cash flows from operating activities:			
Change in net assets	$	(761,603)	446,680
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Depreciation and amortization		339,757	298,684
Provision for bad debt		216,717	226,578
Loss (gain) on sale of property, plant, and equipment		1,179	(2,866)
Equity income from joint ventures		(33,883)	(35,746)
Restricted contributions and investment income received		(56,824)	(60,413)
Net realized and unrealized losses (gains) on investments		423,628	(175,757)
Implementation of SFAS 158		26,100	96,304
Changes in certain current assets and current liabilities		(274,740)	(287,930)
Change in other long-term liabilities and other		596,153	(22,966)
Net cash provided by operating activities		476,484	482,568
Cash flows from investing activities:			
Property, plant, and equipment additions		(612,953)	(653,285)
Proceeds from disposal of property, plant, and equipment		4,561	8,204
Purchases of investments		(3,231,423)	(3,604,214)
Proceeds from sales of investments		3,253,353	3,697,236
Capital contributions to joint ventures		(6,096)	(9,416)
Distributions from joint ventures		14,807	25,755
Change in other long-term assets and other		(8,612)	30,425
Providence Tarzana Medical Center purchase		(86,147)	—
Net cash used in investing activities		(672,510)	(505,295)
Cash flows from financing activities:			
Proceeds from restricted contributions and restricted income		56,824	60,413
Long-term debt borrowings		1,099,738	4,163
Long-term debt payments		(861,318)	(90,877)
Payment of deferred financing costs and other		4,894	527
Change in funds held by trustee, net		28,310	(3,046)
Net cash provided by (used in) financing activities		328,448	(28,820)
Increase (decrease) in cash and cash equivalents		132,422	(51,547)
Cash and cash equivalents, beginning of year		359,390	410,937
Cash and cash equivalents, end of year	$	491,812	359,390
Supplemental disclosure of cash flow information:			
Cash paid for interest (net of amounts capitalized)	$	55,333	55,221

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 166 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
- Archdiocesis de San Salvador
- 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 System – Oregon
- Providence Health System – Southern California (cosponsored 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

(Continued)

- 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, Inc.

Effective January 1, 2009, Providence Everett Medical Center, Hospice of Snohomish, Providence Health Care, and St. Mary Medical Center were merged into Providence Health & Services – Washington.

The corporations own or operate 27 general acute care hospitals, five 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, 12 low-income housing projects, a preferred provider organization, 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 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. 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. In addition, 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 are based on management's estimate of the ultimate costs for both reported claims and actuarially determined estimates of claims incurred-but-not-reported.

(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 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 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.

(Continued)

(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 $12,322,000 and $14,288,000 of interest costs during the years ended December 31, 2008 and 2007, 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

On December 1, 2007, the Health System changed the designation of substantially all of its investments in debt and equity securities to trading. Prior to December 1, 2007, investments in debt or equity securities with readily determined fair values had been considered available-for-sale. All investments in debt and equity securities are reported on the consolidated balance sheets at fair value principally based on quoted market prices. At December 31, 2008, the fair value of investments designated as trading totaled $2,172,797,000, which represents 99% of 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, 2008 and 2007.

A decline in fair value below cost, for available-for-sale securities, 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. For the available-for-sale securities held by the Health System, there was no other-than-temporary impairment recorded in 2008 or 2007.

(k) 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, and outstanding amounts due to contracted providers for primary care services.

(l) 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.

(m) Donor-Restricted Gifts

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

(n) Net Patient Service Revenues

The divisions of the Health System have agreements with governmental and other third-party payors that provide for payments to the divisions at amounts different from 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 $21,126,000 and $22,575,000 for the years ended December 31, 2008 and 2007, respectively.

(o) ***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.

(p) ***Charity and Unsponsored Community Benefit Costs***

The divisions of the Health System have policies that provide for serving those without the ability to pay. The policies also provide for discounted sliding scale payments based on the income and assets of the person responsible for the bill. In addition to 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, 2008 and 2007 is summarized below:

		2008	2007
		(In thousands of dollars)	
Cost of charity care provided	$	169,853	142,947
Unpaid cost of Medicaid services		197,780	158,343
Education and research programs, net cost		34,807	26,169
Nonbilled services, net cost		35,166	26,088
Negative margin services and other, net cost		71,252	59,093
Unsponsored community benefit costs	$	508,858	412,640
Percentage of total operating expenses, excluding purchased healthcare		8.3%	7.5%

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 $452,624,000 and $391,767,000 for the years ended December 31, 2008 and 2007, respectively.

(Continued)

(q) Income Taxes

The Health System and the various corporations within the Health System, except for Providence Assurance, Inc., 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 (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 financial position or results of operations of the Health System as of and for the years ended December 31, 2008 and 2007.

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.

(r) Recently Adopted Accounting Standards

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 158 (SFAS 158), *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans,* 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 difference between the fair value of the plan assets compared with the projected benefit obligation of the plan. SFAS 158 requires 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. Effective December 31, 2007, the Health System adopted the recognition and disclosure provisions of SFAS 158, resulting in a charge of $96,304,000 to unrestricted net assets and an increase in the pension obligation at December 31, 2007. Additionally, the Health System adopted the measurement date provisions of SFAS 158 during fiscal year 2008, 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 SFAS 158 resulted in a charge of $26,100,000 to unrestricted net assets at December 31, 2008. Refer to note 7 for more information regarding the Health System's pension plan disclosures under SFAS 158.

In September 2006, the FASB issued SFAS No. 157 (SFAS 157), *Fair Value Measurement.* 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. During 2008, the Health System adopted the provisions of SFAS 157 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. The adoption of SFAS 157 did not have a significant impact to the Health System's consolidated financial statements. Refer to note 8 for more information regarding the Health System's fair value disclosures under SFAS 157.

Additionally, in October 2008, the FASB issued FASB Staff Position (FSP) FAS 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active*, which was effective immediately. FSP FAS 157-3 clarifies the application of SFAS 157 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 FSP FAS 157-3 in its determination of estimated fair values during 2008.

In February 2007, the FASB issued SFAS No. 159 (SFAS 159), *The Fair Value Option for Financial Assets and Financial Liabilities.* SFAS 159 permits an organization to measure certain financial instruments at fair value that are not currently required to be measured at fair value. 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. Effective January 1, 2008, the Health System adopted SFAS 159 and elected not to change the measurement of any existing financial instruments that were not previously recorded at fair value. Accordingly, the adoption of SFAS 159 did not have any effect on the Health System's consolidated financial statements.

The Health System adopted FASB Interpretation No. (FIN) 48 (FIN 48), *Accounting for Uncertainty in Income Taxes,* on January 1, 2007. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes.* FIN 48 also prescribes a recognition threshold and measurement standard for the financial statement recognition and measurement of an income tax position taken or expected to be taken in a tax return. Only tax positions that meet the more-likely than-not recognition threshold at the effective date may be recognized or continue to be recognized upon adoption. In addition, FIN 48 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The adoption of FIN 48 did not have a significant impact on the consolidated financial statements 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.

(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, 2008 and 2007 is set forth in the following table. Investments are stated at fair value.

		2008	2007
		(In thousands of dollars)	
Board-designated cash and investments:			
Cash and cash equivalents	$	217,516	118,465
Government securities		523,180	613,319
Equity securities		651,376	893,295
Fixed income obligations		551,441	544,251
Accrued investment income		15,974	20,133
Total board-designated cash and investments	$	1,959,487	2,189,463
Funds held by trustee:			
Cash and cash equivalents	$	72,091	106,189
Government securities		29,243	112,894
Equity securities		56,489	94,311
Fixed income obligations		46,433	104,308
Total funds held by trustee	$	204,256	417,702

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 $33,564,000 and $62,137,000 obtained from borrowings under the Health System's master trust indenture for construction and other ongoing projects as of December 31, 2008 and 2007, respectively. The Health System holds $154,493,000 and $339,629,000 at December 31, 2008 and 2007, respectively, related to the self-insurance and pension trusts. During 2008, management transferred $158,802,000 of the trusts' investments from funds held by trustee to board-designated investments. 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 board-designated. The remainder of funds held by trustee are for the Health System's borrowing arrangements and other items.

The Health System does not hold alternative investments (investments that do not have readily determinable fair values) in its investment portfolios. Additionally, 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.

Investment income from board-designated cash and investments and funds held by trustee are comprised of the following for the years ended December 31, 2008 and 2007:

		2008	2007
		(In thousands of dollars)	
Nonoperating income:			
Interest income	$	84,194	87,025
Net realized (losses) gains on sale of investments		(27,184)	110,673
Net recognized (losses) gains on trading securities		(469,999)	150,037
Changes in net assets:			
Change in net unrealized gains on investments	$	—	42,856
Reclassification of investments to trading		—	(214,387)

As of December 1, 2007, the Health System elected to designate its investment portfolio as trading, which resulted in all gains and losses as being recognized currently as nonoperating activity. The effect of the change in classification of investments to trading resulted in $214,387,000 of cumulative unrealized net gains being recognized as nonoperating gains at December 1, 2007 in the consolidated statements of operations. In December 2007, the Health System recorded unrealized losses on investments of $64,350,000 in nonoperating (losses) gains in the consolidated statements of operations.

(b) Securities Lending Agreements

The Health System has securities lending agreements with financial institutions that serve as the lending agent. These agreements authorize the lending agents to lend securities owned by the Health System to an approved list of borrowers. Under the agreements, the lending agents are responsible for negotiating each loan for an unspecified term while retaining the power to terminate the loan at any time. At the time each loan is made, the lending agents require collateral equal to 102% of the market value of the loaned securities and accrued interest. While any securities are loaned, the Health System retains all rights of ownership, except it waives its right to vote such securities. The collateral related to the securities loaned totaled $204,524,000 and $257,001,000 at December 31, 2008 and 2007, respectively. In connection with securities lending activities the Health System has recognized a net investment loss of $12,057,000 and a net investment gain of $461,000, for the years ended December 31, 2008, and 2007, respectively. Net investment gains and losses are included in net nonoperating (losses) gains in the accompanying consolidated statements of operations.

(4) Property, Plant, and Equipment

Property, plant, and equipment and the total accumulated depreciation at December 31, 2008 and 2007 are shown below:

	Approximate useful life (years)	2008	2007
		(In thousands of dollars)	
Land and improvements	5 – 25	$ 454,577	364,163
Buildings and improvements	5 – 40	2,718,513	2,437,692
Equipment:			
Fixed	5 – 25	740,715	660,719
Major movable and minor	3 – 20	2,216,746	2,032,582
Rental property	15 – 40	615,620	524,124
Construction in progress	—	416,146	490,908
		7,162,317	6,510,188
Less accumulated depreciation		3,495,644	3,220,753
Property, plant, and equipment, net		$ 3,666,673	3,289,435

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.

(5) Other Assets

Other assets at December 31, 2008 and 2007 are shown as follows:

	2008	2007
	(In thousands of dollars)	
Unamortized financing costs, net	$ 15,411	21,919
Investment in joint ventures	89,620	80,479
Interest in noncontrolled foundations	12,506	11,050
Notes receivable	26,487	18,256
Long-term reinsurance receivable	23,562	20,908
Goodwill	7,100	7,629
Other	40,274	29,239
Total other assets	$ 214,960	189,480

(Continued)

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 $36,648,000 and $35,746,000 for the years ended December 31, 2008 and 2007, respectively, which is included in other operating revenues in the accompanying consolidated statements of operations.

(6) Short-Term and Long-Term Debt

Short-term and long-term debt at December 31, 2008 and 2007 consists of the following:

		2008	2007
		(In thousands of dollars)	
Master trust debt:			
Series 1985, AIDEA Revenue Bonds (Sisters of Providence)	$	1,855	2,660
Series 1996, CHFFA Revenue Bonds (Sisters of Providence)		14,765	19,045
Series 1997, Direct Obligation Notes (Sisters of Providence)		10,305	13,710
Series 1998, CHFFA Revenue Bonds (Little Company of Mary)		—	60,640
Series 2001A, B, and C, CHFFA Revenue Bonds (Providence Health System)		—	157,400
Series 2001A, WHCFA Revenue Bonds (Providence Health System)		105,200	105,200
Series 2001B, WHCFA Revenue Bonds (Providence Health System)		11,350	14,475
Series 2003C, AIDEA Revenue Bonds (Providence Health System)		18,550	18,550
Series 2003H, AIDEA Revenue Bonds (Providence Health System)		27,800	36,000
Series 2003, HFACC Revenue Bonds (Providence Health System)		212,325	213,475
Series 2004, HFAMC Revenue Bonds (Providence Health System)		97,800	98,700
Series 2005, Direct Obligation Notes (Providence Health System)		56,035	57,415
Series 2006A, WHCFA Revenue Bonds (Providence Health & Services)		210,555	210,555
Series 2006B, MFFA Revenue Bonds (Providence Health & Services)		68,430	68,430

		2008	2007
		(In thousands of dollars)	
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 2006F, Direct Obligation Notes (Providence Health Health & Services)		—	53,250
Series 2006G, Direct Obligation Notes (Providence Health Health & Services)		—	60,575
Series 2006H, AIDEA Revenue Bonds (Providence Health Health & Services)		54,355	54,355
Series 2006I, Direct Obligation Notes (Providence Health Health & Services)		—	53,600
Series 2008C, CHFFA Revenue Bonds (Providence Health & Services)		289,195	—
Commercial Paper, Series 2008A		194,000	—
US Bank Credit Facility		148,472	—
Master trust debt at par value		1,686,042	1,463,085
Premiums and discounts, net		2,448	7,676
Master trust debt, including premiums and discounts, net		1,688,490	1,470,761
Long-term debt subject to short-term remarketing agreements		211,525	—
Short-term master trust debt		342,472	—
Master trust debt, net of short-term portion		1,134,493	1,470,761
Mortgages, capital leases, and other		45,366	45,029
Loans from unconsolidated affiliate		2,424	2,424
Total long-term debt		1,182,283	1,518,214
Less current portion		33,664	33,240
Long-term debt, net of current portion	$	1,148,619	1,484,974

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 Group to meet certain financial covenants.

Loans from unconsolidated affiliate outstanding at December 31, 2008 and 2007 are at various interest rates and have no stated repayment terms.

The Health System recorded losses on refinancing of debt of $11,157,000 and $655,000 in 2008 and 2007, respectively, which were recorded in net nonoperating (losses) gains in the accompanying consolidated statements of operations.

Short-Term Debt

Line of Credit

The Health System maintains a $50,000,000 revolving credit facility with the Bank of America, of which $20,000,000 in borrowings were outstanding at December 31, 2008. The interest rate in effect on December 31, 2008 was 2.74%.

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, 2008 was 1.68%. Annual scheduled principal payments range from $800,000 in 2009 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 2008, the Health System actively made principal and interest payments on matured commercial paper and reissued new commercial paper, maintaining a balance ranging between $170,000,000 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 $148,472,000 in borrowings were outstanding at December 31, 2008. The interest rate in effect on December 31, 2008 was 0.94%.

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, 2008 was 6.0%. Annual principal payments range from $885,000 in 2009 to $970,000 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 $4,490,000 in 2009 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 $1,575,000 in 2009 to $750,000 in 2017.

California Health Facilities Financing Authority (CHFFA) Insured Revenue Bonds (Little Company of Mary Health Services), Series 1998

The Series 1998 bonds were issued in October 1998. The outstanding bonds bore interest rates ranging from 4.0% to 5.0% payable semiannually on April 1 and October 1. In connection with the issuance of the Series 2008C bonds, the remaining $58,650,000 of outstanding bonds were defeased in November 2008.

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

The Series 2001A, B, and C bonds were issued in July 2001. The Series 2001A bonds were issued as 28-day auction rate bonds. The Series 2001B and C bonds were issued as auction rate bonds priced daily. In connection with the issuance of the Series 2008C bonds, the remaining $157,400,000 of outstanding bonds were defeased in November 2008.

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.

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 auction rate bonds. The interest rate in effect on December 31, 2008 was 0.06%. Annual principal payments range from $5,500,000 in 2009 to $5,850,000 in 2010.

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 beginning 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 $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 3.3% to 5.5% payable semiannually on April 1 and October 1. Annual principal payments range from $495,000 in 2009 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 4.66% to 5.39% payable semiannually on April 1 and October 1. Annual principal payments range from $1,440,000 in 2009 to $4,160,000 in 2030.

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

The Series 2006A bonds were issued in June 2006. The outstanding bonds bear interest 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. In April 2006, $1,610,000 of these outstanding bonds were remedially defeased.

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.

Washington Health Care Facilities Authority (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.

Washington Health Care Facilities Authority (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.

(Continued)

Washington Health Care Facilities Authority (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.

Direct Obligation Variable Rate Notes, Series 2006F

The Series 2006F notes were issued in June 2006 as 28-day auction rate bonds. In February 2007, the outstanding notes were redeemed in the amount of $11,250,000. In April 2008, the remaining $53,250,000 of these notes were redeemed with proceeds from the issuance of commercial paper.

Direct Obligation Variable Rate Notes, Series 2006G

The Series 2006G notes were issued in June 2006 as 28-day auction rate bonds. In April 2008, the remaining $60,575,000 of these notes were redeemed with proceeds from the issuance of commercial paper.

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 beginning in 2022 to $4,905,000 in 2036.

Direct Obligation Variable Rate Notes, Series 2006I

The Series 2006I notes were issued in November 2006 as 28-day auction rate bonds. In April 2008, the remaining $53,600,000 of these notes were redeemed with proceeds from the issuance of commercial paper.

California Health Facilities Financing Authority (CHFFA), Series 2008C

The Series 2008C bonds were issued in November 2008. The outstanding bonds bear interest rates ranging from 3.0% to 6.50% payable semiannually on April 1 and October 1. Annual principal payments range from $3,000,000 in 2009 to $50,000,000 in 2038.

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)	
2009	$ 27,235	6,429	33,664
2010	29,390	6,261	35,651
2011	30,840	5,165	36,005
2012	32,325	2,825	35,150
2013	33,055	2,475	35,530
Thereafter	1,190,725	22,211	1,212,936
Scheduled principal payments of long-term debt	$ 1,343,570	45,366	1,388,936
Short-term master trust debt	342,472		
Total master trust debt	$ 1,686,042		

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):

2009	$ 29,617
2010	25,148
2011	21,697
2012	18,880
2013	16,014
Thereafter	90,951
	$ 202,307

Rental expense was $65,704,000 and $57,250,000 for the years ended December 31, 2008 and 2007, respectively, and is included in other expenses in the accompanying consolidated statements of operations.

(7) Retirement Plans

The Health System has a noncontributory cash balance plan covering substantially all employees called the Providence Health & Services Cash Balance Retirement Plan (the Cash Balance Plan). The plan benefits are based on defined average compensation and years of service. The vesting period 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 (SFAS 87), *Employers' Accounting for Pensions.*

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 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, 2008 and 2007 were $159,667,000 and $117,800,000, respectively.

As discussed in note 2(r), the Health System adopted the recognition and disclosure provisions of SFAS 158 effective December 31, 2007. The recognition provisions of SFAS 158 require companies to recognize the funded status of defined benefit pension and other postretirement plans as a net asset or liability on its balance sheet. The adoption of the recognition provisions of SFAS 158 during 2007 caused a reduction in assets of $21,362,000 and an increase in liabilities of $74,942,000, for a total reduction in net assets of $96,304,000. Subsequent to adoption, adjustments to the funded status of the plan are recognized as increases or decreases to net assets in the corresponding accounting period.

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 of SFAS 158 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.

(Continued)

The measurement dates for the defined benefit plans are December 31, 2008 and September 30, 2007, 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:

		2008	2007
		(In thousands of dollars)	
Change in projected benefit obligation:			
Projected benefit obligation at beginning of year	$	1,618,271	1,516,309
Service cost		103,652	92,475
Interest cost		98,546	85,174
Plan amendments		—	42,016
Actuarial loss (gain)		45,096	(24,400)
Benefits paid and other		(126,592)	(93,303)
Measurement date change		50,549	—
Projected benefit obligation at end of year		1,789,522	1,618,271
Change in fair value of plan assets:			
Fair value of plan assets at beginning of year		1,357,644	1,199,371
Actual return on plan assets		(464,207)	173,228
Employer contributions		139,045	78,348
Benefits paid and other		(124,630)	(93,303)
Measurement date change		24,449	—
Fair value of plan assets at end of year		932,301	1,357,644
Funded status		(857,221)	(260,627)
Fourth quarter contributions		—	21,349
Adjusted funded status		(857,221)	(239,278)
Unrecognized net actuarial loss		660,983	58,151
Accrued additional minimum pension liability		—	—
Unrecognized prior service cost		38,047	48,820
Net amount recognized	$	(158,191)	(132,307)
Amounts recognized in the balance sheet consist of:			
Current liabilities	$	(11,359)	(13,322)
Noncurrent liabilities		(845,861)	(225,956)
Unrestricted net assets		699,029	106,971
Net amount recognized	$	(158,191)	(132,307)
Weighted average assumptions:			
Discount rate		6.50%	6.35%
Rate of increase in compensation levels		3.69 – 4.00	3.65 – 4.00
Long-term rate of return on assets		8.00	8.00

(Continued)

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 2008 and 2007 is included in employee benefits in the accompanying consolidated statements of operations and includes the following components:

		2008	2007
		(In thousands of dollars)	
Components of net periodic pension cost:			
Service cost	$	106,951	95,285
Interest cost		98,546	85,174
Expected return on plan assets		(101,096)	(88,845)
Amortization of prior service cost		8,314	7,872
Recognized net actuarial loss		1,922	5,137
Net periodic pension cost	$	114,637	104,623

The accumulated benefit obligation was $1,621,280,000 and $1,464,622,000 at December 31, 2008 and 2007, respectively.

The Health System's pension plans' weighted average asset allocations at December 31, 2008 and 2007 by asset category are as follows:

	2008	2007
Asset category:		
Debt securities	60%	20%
Equity securities	42	70
Other, net of pending trades	(2)	10
Total	100%	100%

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% in calculating the 2008 and 2007 expense amounts. This assumption is based on capital market assumptions and the plan's target asset allocation.

The asset category other includes plan investments in two hedge funds with an estimated fair value of $90,557,000 and $104,573,000 as of the plan measurement dates of December 31, 2008 and September 30, 2007, respectively. The fair value of these alternative investments were estimated by management using information provided by the fund managers. Because these investments are not readily marketable, their estimated value is subject to uncertainty and therefore may differ from the value that would have been used had a ready market for such investments existed.

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):

2009	$	145,187
2010		155,294
2011		169,744
2012		189,591
2013 – 2018		1,279,440
	$	1,939,256

The Health System expects to contribute approximately $140,000,000 to the defined benefit pension plans in 2009.

Total expense for all of the Health System's retirement programs for the years ended December 31, 2008 and 2007 was $155,938,000 and $138,423,000, respectively, and are included in employee benefits in the accompanying consolidated statements of operations.

(8) Fair Value of Financial Instruments

The Health System adopted SFAS 157 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. SFAS 157 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 bases (including items that are required to be measured at fair value and items for which the fair value option as been elected) at December 31, 2008:

		Fair Value Measurements at Reporting Date Using		
	December 31, 2008	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Board-designated cash and investments	$ 1,957,430	1,101,092	847,793	8,545
Assets held under securities lending	204,524	11,000	189,223	4,301
Funds held by trustee	204,256	148,821	55,435	—
Gift annuities, trusts, and other	36,887	21,562	15,325	—
Total	$ 2,403,097	1,282,475	1,107,776	12,846
Liabilities:				
Liabilities under securities lending	$ 218,233	11,000	200,716	6,517
Total	$ 218,233	11,000	200,716	6,517

The Health System holds $2,057,000 and $174,000 in board-designated cash and investments and gifts, annuities, trust and other, respectively that are not stated at fair value at December 31, 2008.

(Continued)

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 SFAS 157 for the year ended December 31, 2008:

		Assets		Liabilities
		Board-designated investments	**Assets held under Securities lending**	**Liabilities under Securities lending**
Balance at December 31, 2007	$	4,421	6,392	6,639
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	6,516
Total gains or losses for 2008 included in income attributable to the change in unrealized gains (or losses) relating to assets and liabilities held at December 31, 2008	$	(3,355)	—	—

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. 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 $1,767,856,000 and $1,694,297,000, respectively, as of December 31, 2008, and $1,521,879,000 and $1,530,277,000, respectively, as of December 31, 2007.

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 $346,837,000 remaining to be spent as of December 31, 2008, payable through 2011.

(10) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at December 31, 2008 and 2007:

		2008	2007
		(In thousands of dollars)	
Program support	$	86,031	68,643
Low income housing		30,391	30,399
Capital acquisition and other		56,812	71,915
Total temporarily restricted net assets	$	173,234	170,957

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, 2008 and 2007 because the time or purpose restrictions stipulated by the donor have not been met. Total fundraising expenses were $7,501,000 and $8,950,000 for the years ended December 31, 2008 and 2007, 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 $34,429,000 and $28,202,000 of assets released from restriction for the years ended December 31, 2008 and 2007, 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.

(Continued)

(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, 2008 and 2007 are as follows:

		2008	2007
		(In thousands of dollars)	
Healthcare expenses	$	5,080,621	4,545,654
Purchased healthcare expenses		610,791	539,351
General and administrative expenses		1,046,767	957,871
Total operating expenses	$	6,738,179	6,042,876

Schedule 1

PROVIDENCE HEALTH & SERVICES

Consolidating Schedule – Balance Sheet Information

December 31, 2008 (with consolidated totals for 2007)

(In thousands of dollars)

Assets	Alaska Region	Washington/ Montana Region	Oregon Region	Providence Plan Partners	Southern California Region	System Office, Eliminations, and Other	2008 Total Health System	2007 Total Health System
Current assets:								
Cash and cash equivalents	$ 46,558	219,765	23,704	47,746	28,444	125,595	491,812	359,390
Short-term board designated investments	—	—	223,083	—	—	—	223,083	—
Assets held under securities lending	—	—	—	—	—	204,524	204,524	257,001
Accounts receivable, net	100,307	306,829	229,375	—	203,513	(26,301)	813,723	751,915
Other receivables, net	16,410	36,123	52,729	12,276	109,819	(76,363)	150,994	126,981
Supplies inventory	13,340	47,684	29,611	—	20,517	206	111,358	87,092
Other current assets	2,342	29,195	10,568	1,249	7,062	9,122	59,538	51,595
Current portion of funds held by trustee	—	64	1,117	—	—	80,295	81,476	71,403
Total current assets	178,957	639,660	570,187	61,271	369,355	317,078	2,136,508	1,705,377
Assets whose use is limited:								
Board-designated cash and investments	193,649	404,508	405,429	396,066	158,755	177,997	1,736,404	2,189,463
Gift annuities, trust and other	845	6,070	18,581	—	6,754	4,811	37,061	52,864
Funds held by trustee	—	33,289	14,946	—	—	74,545	122,780	346,299
Assets whose use is limited, net	194,494	443,867	438,956	396,066	165,509	257,353	1,896,245	2,588,626
Property, plant, and equipment, net	443,072	1,120,578	1,169,016	3,492	710,528	219,987	3,666,673	3,289,435
Other assets	41,276	122,833	74,899	24	73,752	(97,824)	214,960	189,480
Total assets	$ 857,799	2,326,938	2,253,058	460,853	1,319,144	696,594	7,914,386	7,772,918
Liabilities and Net Assets								
Current liabilities:								
Current portion of long-term debt	$ 11,529	3,065	3,661	—	9,993	5,416	33,664	33,240
Master trust debt classified as short-term	39,350	82,776	212,877	—	86,147	132,847	553,997	—
Short-term debt	—	—	—	—	20,000	—	20,000	—
Accounts payable	20,143	107,833	80,980	606	64,870	18,017	292,449	276,523
Accrued compensation	29,462	103,756	95,124	294	54,235	21,512	304,383	256,314
Payable to contractual agencies	3,613	32,167	26,118	1,757	13,670	—	77,325	79,977
Unearned premiums/deferred revenue	632	2,953	13,883	8,696	3,424	3,168	32,756	31,686
Liability for unpaid medical claims	—	(5)	—	77,436	2,145	(26,311)	53,265	41,511
Liability for risk-sharing	—	—	51	12,083	3,129	—	15,263	13,826
Liabilities under securities lending	—	—	—	—	—	218,233	218,233	257,001
Current portion of self-insurance liability	—	—	—	—	—	79,949	79,949	68,934
Other, including accrued interest	2,934	46,071	10,127	13,522	42,649	(70,031)	45,272	52,123
Total current liabilities	107,663	378,616	442,821	114,394	300,262	382,800	1,726,556	1,111,135
Long-term debt, net of current portion	153,602	590,830	115,510	—	367,594	(78,917)	1,148,619	1,484,974
Other long-term liabilities	17,449	21,109	18,882	1,849	22,996	1,045,971	1,128,256	504,251
Total liabilities	278,714	990,555	577,213	116,243	690,852	1,349,854	4,003,431	3,100,360
Net assets:								
Unrestricted	575,203	1,301,067	1,602,225	344,610	565,475	(705,383)	3,683,197	4,446,971
Temporarily restricted	3,882	27,184	48,874	—	47,522	45,772	173,234	170,957
Permanently restricted	—	8,132	24,746	—	15,295	6,351	54,524	54,630
Total net assets	579,085	1,336,383	1,675,845	344,610	628,292	(653,260)	3,910,955	4,672,558
Total liabilities and net assets	$ 857,799	2,326,938	2,253,058	460,853	1,319,144	696,594	7,914,386	7,772,918

See accompanying independent auditors' report.

Schedule 2

PROVIDENCE HEALTH & SERVICES

Consolidating Schedule – Statement of Operations Information

December 31, 2008 (with consolidated totals for 2007)

(In thousands of dollars)

	Alaska Region	Washington/ Montana Region	Oregon Region	Providence Plan Partners	Southern California Region	System Office, Eliminations, and Other	2008 Total Health System	2007 Total Health System
Operating revenues:								
Net patient service revenues	$ 633,913	2,328,415	1,805,341	—	1,144,428	(258,829)	5,653,268	5,092,729
Premium revenues	—	21,096	48,271	947,054	—	—	1,016,421	912,904
Other revenues	37,378	179,866	146,417	24,953	32,557	(64,719)	356,452	342,404
Total operating revenues	671,291	2,529,377	2,000,029	972,007	1,176,985	(323,548)	7,026,141	6,348,037
Operating expenses:								
Salaries and wages	233,148	1,012,215	882,452	457	459,100	92,513	2,679,885	2,413,085
Employee benefits	65,241	300,143	210,609	—	159,017	10,620	745,630	621,115
Purchased healthcare	—	—	17,031	843,088	14,662	(263,990)	610,791	539,351
Professional fees	9,685	79,364	67,036	2,915	38,297	7,220	204,517	186,276
Supplies	94,863	425,262	273,389	799	168,586	2,604	965,503	869,909
Depreciation	44,386	101,504	104,405	1,628	55,063	26,022	333,008	292,368
Interest and amortization	8,332	31,360	11,526	—	11,410	893	63,521	62,884
Bad debts	45,131	75,743	49,575	74	45,962	232	216,717	226,578
Provider tax	—	—	8,804	—	—	—	8,804	10,664
Purchased services and other	112,940	394,454	262,721	91,774	183,339	(135,425)	909,803	820,646
Total operating expenses	613,726	2,420,045	1,887,548	940,735	1,135,436	(259,311)	6,738,179	6,042,876
Excess (deficit) of revenues over expenses from operations	57,565	109,332	112,481	31,272	41,549	(64,237)	287,962	305,161
Net nonoperating gains, principally investment income and gains	(30,812)	(112,459)	(138,315)	(36,527)	(68,399)	(58,152)	(444,664)	349,421
Excess (deficit) of revenues over expenses	26,753	(3,127)	(25,834)	(5,255)	(26,850)	(122,389)	(156,702)	654,582
Net assets released from restriction and other	914	2,362	2,938	—	4,826	(169)	10,871	21,566
Change in accrued additional minimum pension liability	—	—	—	—	—	(591,843)	(591,843)	25,925
Implementation of SFAS 158	—	—	—	—	—	(26,100)	(26,100)	(96,304)
Interdivision transfers	(9,748)	(18,978)	(24,562)	(8,754)	(13,967)	76,009	—	—
Change in net unrealized gains (losses) on investments	—	—	—	—	—	—	—	42,856
Reclassification of investment portfolio to trading	—	—	—	—	—	—	—	(214,387)
Increase (decrease) in unrestricted net assets	$ 17,919	(19,743)	(47,458)	(14,009)	(35,991)	(664,492)	(763,774)	434,238

See accompanying independent auditors' report.