KPMG

SOUTHWEST WASHINGTON MEDICAL CENTER

Financial Statements

December 31, 2010 and 2009

(With Independent Auditors' Report Thereon)

KPMG

KPMG LLP
Suite 3800
1300 South West Fifth Avenue
Portland, OR 97201

Independent Auditors' Report

The Board of Directors
Southwest Washington Medical Center:

We have audited the accompanying balance sheets of Southwest Washington Medical Center (the Medical Center), a Washington not-for-profit corporation, as of December 31, 2010 and 2009, and the related statements of operations and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Medical Center's management. Our responsibility is to express an opinion on these 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 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 Medical Center'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 financial statements referred to above present fairly, in all material respects, the financial position of Southwest Washington Medical Center as of December 31, 2010 and 2009, and the result of its operations and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

KPMG LLP

May 27, 2011

SOUTHWEST WASHINGTON MEDICAL CENTER

Balance Sheets

December 31, 2010 and 2009

Assets		2010	2009
Current assets:			
Cash and cash equivalents	$	8,984,000	3,243,000
Patient accounts receivable, less allowance for uncollectible accounts of $18,685,000 in 2010 and $16,423,000 in 2009		65,054,000	60,506,000
Receivable from affiliates, net		1,564,000	3,207,000
Other accounts receivable		131,000	232,000
Supplies inventory		6,005,000	5,682,000
Prepaid expenses		6,398,000	6,409,000
Funds held by trustee		135,000	135,000
Total current assets		88,271,000	79,414,000
Assets whose use is limited, designated by board for capital improvements		191,787,000	178,454,000
Property, plant, and equipment, net		282,519,000	296,177,000
Other assets:			
Unamortized financing costs		1,270,000	1,362,000
Interest in net assets of the Foundation		30,948,000	29,940,000
Total assets	$	594,795,000	585,347,000

(Continued)

SOUTHWEST WASHINGTON MEDICAL CENTER

Balance Sheets

December 31, 2010 and 2009

Liabilities and Net Assets		**2010**	**2009**
Current liabilities:			
Line of credit	$	—	5,000,000
Current portion of long-term debt		3,755,000	3,525,000
Accounts payable		21,772,000	17,096,000
Payable to contractual agencies		3,664,000	3,662,000
Accrued salaries and wages		22,266,000	21,293,000
Interest payable		1,050,000	935,000
Other current liabilities		9,670,000	5,551,000
Total current liabilities		62,177,000	57,062,000
Estimated medical malpractice claims		4,094,000	7,531,000
Deferred gain on building sale		16,549,000	19,370,000
Long-term debt, net of current portion:			
Washington Health Care Facilities Authority Revenue Bonds		155,385,000	159,140,000
Unamortized bond discount		(831,000)	(893,000)
Fair value of interest rate swaps		12,428,000	8,468,000
Total long-term debt, net of current portion		166,982,000	166,715,000
Pension obligation		49,325,000	71,100,000
Total liabilities		299,127,000	321,778,000
Net assets:			
Unrestricted net assets		266,576,000	234,967,000
Temporarily restricted net assets		22,603,000	22,130,000
Permanently restricted net assets		6,489,000	6,472,000
Total net assets		295,668,000	263,569,000
Total liabilities and net assets	$	594,795,000	585,347,000

See accompanying notes to financial statements.

SOUTHWEST WASHINGTON MEDICAL CENTER

Statements of Operations and Changes in Net Assets

Years ended December 31, 2010 and 2009

		2010	2009
Revenues:			
Net patient service revenues	$	522,122,000	484,674,000
Other operating revenues		10,853,000	10,271,000
Total revenues		532,975,000	494,945,000
Operating expenses:			
Salaries and wages		197,739,000	191,047,000
Employee benefits		69,474,000	57,687,000
Supplies		79,086,000	74,644,000
Purchased services		39,116,000	40,467,000
Professional fees		23,152,000	19,455,000
Depreciation		34,553,000	31,874,000
Provision for bad debts		48,534,000	35,391,000
Interest and amortization		8,878,000	7,045,000
Other		25,988,000	25,899,000
Total operating expenses		526,520,000	483,509,000
Excess of revenues over expenses from operations		6,455,000	11,436,000
Net nonoperating income:			
Net investment gain (loss)		36,444,000	(6,424,000)
Net loss from medical office building		—	(2,000)
Change in fair value of interest rate swaps		(3,960,000)	12,689,000
Other net nonoperating gain		2,110,000	2,759,000
Total net nonoperating income		34,594,000	9,022,000
Excess of revenues over expenses		41,049,000	20,458,000
Other changes in unrestricted net assets:			
Change in net unrealized gains and losses on investments		(14,213,000)	25,550,000
Change in pension liability		25,628,000	5,128,000
Net assets transferred to affiliated organizations		(22,430,000)	(46,237,000)
Donated land, buildings, or equipment		1,056,000	3,007,000
Change in interest in net assets of the Foundation		519,000	(143,000)
Increase in unrestricted net assets		31,609,000	7,763,000
Change in temporarily restricted net assets:			
Change in interest in net assets of the Foundation		473,000	(1,710,000)
Increase (decrease) in temporarily restricted net assets		473,000	(1,710,000)
Change in permanently restricted net assets:			
Change in interest in net assets of the Foundation		17,000	50,000
Increase in permanently restricted net assets		17,000	50,000
Increase in net assets		32,099,000	6,103,000
Net assets, beginning of year		263,569,000	257,466,000
Net assets, end of year	$	295,668,000	263,569,000

See accompanying notes to financial statements.

SOUTHWEST WASHINGTON MEDICAL CENTER

Statements of Cash Flows

Years ended December 31, 2010 and 2009

		2010	2009
Cash flows from operating activities:			
Increase in net assets	$	32,099,000	6,103,000
Adjustments to reconcile increase in net assets to net cash provided by operating activities:			
Depreciation and amortization		34,707,000	31,959,000
Provision for bad debts		48,535,000	35,391,000
Net assets transferred to affiliated organizations		22,430,000	46,237,000
(Gain)/loss on sale of property, plant, and equipment		(605,000)	64,000
Net realized and unrealized gains on investments		(19,797,000)	(17,950,000)
Change in fair value of interest rate swaps		3,960,000	(12,689,000)
Contributions restricted for purchase of property or equipment		(1,056,000)	(1,902,000)
(Increase) decrease in interest in net assets of the Foundation		(1,008,000)	1,803,000
Changes in assets and liabilities:			
Patient accounts receivable		(53,083,000)	(31,619,000)
Receivable from affiliates, net		1,643,000	14,280,000
Other accounts receivable		101,000	287,000
Supplies inventory		(323,000)	(238,000)
Other assets		11,000	(2,112,000)
Accounts payable		4,676,000	(3,804,000)
Payable to contractual agencies		2,000	1,016,000
Accrued salaries and wages		973,000	1,776,000
Interest payable		115,000	(59,000)
Estimated medical malpractice claims		(3,437,000)	(49,000)
Pension obligation		(21,775,000)	(6,252,000)
Other current liabilities		4,119,000	310,000
Deferred gain on building sale		(2,821,000)	(2,822,000)
Net cash provided by operating activities		49,466,000	59,730,000
Cash flows from investing activities:			
Additions to property, plant, and equipment		(20,316,000)	(53,192,000)
Proceeds from the sale of property or equipment		26,000	60,000
Purchases of assets whose use is limited		(238,234,000)	(23,052,000)
Proceeds from the sale of assets whose use is limited		244,698,000	55,566,000
Net cash used in investing activities		(13,826,000)	(20,618,000)
Cash flows from financing activities:			
Net assets transferred to affiliated organizations		(22,430,000)	(46,237,000)
Restricted contributions received		1,056,000	1,902,000
(Payments on) proceeds from line of credit, net		(5,000,000)	5,000,000
Repayment of long-term debt		(3,525,000)	(3,355,000)
Net cash used in financing activities		(29,899,000)	(42,690,000)
Increase (decrease) in cash and cash equivalents		5,741,000	(3,578,000)
Cash and cash equivalents, beginning of year		3,243,000	6,821,000
Cash and cash equivalents, end of year	$	8,984,000	3,243,000
Supplemental disclosures:			
Cash paid for interest	$	6,774,000	6,873,000
Change in accounts payable related to acquisition of property, plant, and equipment		(239,000)	(939,000)

See accompanying notes to financial statements.

(1) Summary of Significant Accounting Policies

(a) Organization

Southwest Washington Medical Center (the Medical Center) owns and operates two hospital campuses in Vancouver, Washington. Southwest Washington Health System (SWHS), a Washington not-for-profit corporation, is the parent and sole member of the Medical Center. Southwest Washington Medical Center Foundation (the Foundation) is an affiliate not-for-profit corporation whose primary purpose is to assist the Medical Center in fulfilling its mission. Columbia United Providers (CUP), Urgent Care of Southwest Washington, Southwest Washington Regional Surgery Center, Advanced Medical Imaging Center, LLC, Property and Building Company, LLC, and Southwest Washington Medical Group, PS are additional affiliated corporations.

(b) Cash and Cash Equivalents

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

(c) Supplies Inventory

Supplies inventory is stated at the lower of average cost or fair value.

(d) Assets Whose Use Is Limited

Assets whose use is limited include assets held by trustees under indenture agreements and designated assets set aside by the board of directors for future capital improvements over which the board retains control and may, at its discretion, subsequently use for other purposes.

Investments in marketable equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the balance sheets. The fair value of all debt and equity securities with a readily determinable fair value is based on quotations obtained from national security exchanges. Alternative investments include investments in real estate investment trusts, private equity trusts and distressed debt funds. Investments in collective funds are valued at the fund's net asset value (NAV) of underlying investments, which are not readily marketable. Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) Topic 820 *Fair Value Measurement and Disclosure*, allows for the use of NAV as a practical expedient for the estimation of the fair value of investments in investment companies for which the investment does not have a readily determinable fair value. The estimated fair value of the fund may differ from the value that would have been used had a ready market existed for the fund. Investments in limited partnerships, real estate trusts, and hedge funds are recorded at estimated fair value using the equity method of accounting.

Investment income (including realized gains and losses, interest, and dividends) is included in the excess of revenues over expenses unless the income is restricted by donor or law. Unrealized gains and losses on investments are excluded from the excess of revenues over expenses unless the investments are trading securities or if an unrealized loss is determined to be other than temporary for any security that is other than trading. Certain other investments that meet specific criteria are accounted for under the equity method.

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(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 as incurred. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

When property, plant, and equipment are sold or retired, the cost and the related accumulated depreciation are removed from the accounts and the resulting gain or loss is recognized.

The Medical Center assesses potential impairment to its long-lived assets when there is evidence that events or changes in circumstances have made recovery of the asset's carrying value unlikely. An impairment loss is indicated when the sum of expected undiscounted future net cash flows is less than the carrying amount. The loss recognized is the difference between the fair value and the carrying amount.

The depreciation provision is computed using the straight-line method, which allocates the cost of assets ratably over their estimated useful lives, ranging from 5 to 70 years for buildings and building improvements, 3 to 20 years for equipment, and 5 to 25 years for land improvements.

(f) ***Payable to Contractual Agencies***

For services that are paid under cost-reimbursed contractual arrangements with Medicare, the Medical Center is paid at an interim rate during the year based on a percentage of actual charges. The difference between the interim rate and the actual payment based on defined allowable costs results in a receivable from or a payable to Medicare. The Medicare program's administrative procedures preclude final determination of amounts receivable from or payable to the Medicare program until after the Medical Center's annual cost reports have been audited or otherwise reviewed and settled by Medicare. The estimated amounts payable for unsettled cost reports are included in the accompanying financial statements as of December 31, 2010 and 2009 classified as payable to contractual agencies. The most recent year for which the fiscal intermediary has completed an audit of the Medical Center's Medicare cost report is 2006.

(g) ***Net Patient Service Revenues***

Net patient service revenues are reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including retroactive adjustments under agreements with third-party 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.

Inpatient acute care services and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Certain inpatient nonacute services and medical education costs related to Medicare beneficiaries are paid based on a cost-based methodology. The Medical Center is paid for cost-based items at a tentative rate with final settlement determined after submission of annual cost reports by the Medical Center and audits thereof by the Medicare fiscal intermediary as discussed previously.

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The Medical Center is paid for services provided to Medicaid inpatients under a patient classification system that is based on clinical, diagnostic, and other factors. Payments for Medicaid outpatient services are made on a fee schedule.

The Medical Center has also entered into payment arrangements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Medical Center under these agreements includes prospectively determined rates per discharge, prospectively determined daily rates, and discounts from established charges.

The Medical Center grants credit without collateral to its patients, most of whom are local residents and insured under third-party payor agreements. The mix of receivables from patients and third-party payors based upon gross accounts receivable at December 31, 2010 and 2009 was as follows:

	2010	2009
Medicare	21%	22%
Medicaid	17	12
Kaiser	7	8
Regence Blue Cross	11	11
Other third-party payors – government and commercial	27	29
Private pay	17	18
	100%	100%

(h) Provision for Uncollectible Accounts

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

(i) Unamortized Financing Costs

Unamortized financing costs incurred in connection with debt agreements are deferred and amortized over the lives of the respective debt issues using the effective-interest method.

(j) Self-Insurance Plans

The Medical Center has elected to self-insure for payment of employee medical claims, unemployment benefits, workers' compensation, and employee dental claims. Liabilities have been recorded to cover known claims and an estimate for those claims incurred but not reported.

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(k) Donor-Restricted Gifts

Unconditional promises to give cash and other assets to the Medical Center are reported at fair value at the date the promise is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the accompanying statements of operations and changes in net assets as net assets released from restrictions. Gifts received and expended for their intended purpose in the same year are recorded within the accompanying statements of operations and changes in net assets as other operating revenues.

(l) Income Taxes

The Medical Center is a not-for-profit organization and has been recognized as exempt from federal income taxes, except on unrelated business income, under Section 501(c)(3) of the Internal Revenue Code. Management believes that the Medical Center is being operated in accordance wlth its tax-exempt status. FASB ASC 740, *Income Taxes*, 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. FASB ASC 740 also provides related guidance on measurement, derecognition, classification, interest and penalties, and disclosure. As the Medical Center is exempt from taxation under Section 501(c)(3) of the Internal Revenue Code and is generally not subject to federal or state income taxes, the adoption of Topic 740 did not have a material impact on the Medical Center's financial statements.

(m) Use of Estimates

The preparation of financial statements in accordance 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. The significant estimates in the Medical Center's financial statements include accounts receivable allowances, valuation of alternative investments, fair value of interest rate swaps, payable to contractual agencies, and incurred but not reported amounts related to accrued healthcare costs and certain other self-insurance programs.

(n) Recently Adopted Accounting Standards

In June 2009, the FASB ASC to become the source of authoritative U.S. generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. The Codification did not change GAAP, except in limited circumstances, and the content of the Codification carries the same level of GAAP authority. The GAAP hierarchy was modified to included only two levels of GAAP: authoritative and nonauthoritative. The Medical Center adopted the Codification in December 2009 and, as a result, references to legacy GAAP accounting pronouncements in the Medical Center financial statement disclosures have been modified to reflect either Codification citations or plain English descriptions.

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FASB ASC 855, *Subsequent Events*, modifies the definition of what qualifies as a subsequent event – those events or transactions that occur following the balance sheet date, but before the consolidated financial statements are issued and requires entities to disclose the date through which it has evaluated subsequent events and the basis for determining that date. The Medical Center adopted FASB ASC 855 as of December 31, 2010. See note 13 for additional information.

FASB ASC 820-10-35, *Fair Value Measurement and Disclosure*, clarifies the application of ASC 820 in cases where the market for a financial instrument is not active and provides an example to illustrate key considerations in determining fair value in those circumstances. The Medical Center has considered the guidance provided by FASB ASC 820-10-35, which did not have a material impact on the financial statements.

FASB ASC 820-10-65, *Fair Value Measurement and Disclosure*, provides guidance for fair value measurements of nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis. FASB ASC 820-10-65 also provides additional guidance for estimating fair value when the volume and level of activity for the asset or liability have significantly decreased, guidance on identifying circumstances that indicate a transaction is not orderly, and provides additional clarification on disclosures related to fair value. The Medical Center has implemented the guidance provided by FASB ASC 820-10-65, which did not have a material impact on the financial statements.

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

(2) Charity Care

The Medical Center provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Medical Center does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenues.

The Medical Center maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges forgone for services and supplies furnished under its charity care policy. Charges forgone under the Medical Center's charity care policy were $42,372,000 and $39,956,000 in 2010 and 2009, respectively.

(3) Assets Whose Use Is Limited

The composition of assets whose use is limited at December 31, 2010 and 2009 is set forth in the following table. Investments are stated at estimated fair value:

	2010	2009
Investments:		
Money markets	$ 9,501,000	7,155,000
Mutual funds:		
Treasury Inflation-Protected Securities (TIPs)	7,020,000	—
Fixed income	58,558,000	—
Large cap	25,867,000	—
Small-mid cap blend	6,339,000	—
International	45,575,000	—
Real estate	2,751,000	—
Commodities	6,901,000	—
Corporate equity	—	35,125,000
Emerging markets	—	10,116,000
Short duration bond	—	10,702,000
Collective funds:		
International equity	—	15,121,000
Small cap	—	10,194,000
Corporate bonds		56,493,000
Limited partnerships:		
Private equity	7,898,000	6,487,000
Distressed debt	16,736,000	13,760,000
Real estate trusts	4,344,000	12,700,000
Hedge funds	297,000	601,000
	$ 191,787,000	178,454,000

At December 31, 2010, the Medical Center had approximately $29 million in investments that are not readily marketable. These investments represent 15% of total investments and 10% of net assets of the Medical Center at December 31, 2010. At December 31, 2009, the Medical Center had approximately $34 million in investments that are not readily marketable. These investments represent 19% of total investments and 13% of net assets of the Medical Center at December 31, 2009. These investment instruments may contain elements of both credit and market risk. Such risks may include, but are not limited to, limited liquidity, absence of regulatory oversight, dependence upon key individuals, emphasis on speculative investments (nonmarketable investments), and nondisclosure of portfolio composition. 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. Such difference could be material.

Investment income and gains, net of management fees, comprise the following for the years ended December 31, 2010 and 2009:

	2010	2009
Interest and dividend income	$ 2,434,000	1,176,000
Net realized gain (loss) on sales of securities	34,010,000	(7,600,000)
	$ 36,444,000	(6,424,000)
Change in net unrealized gain (loss) on investments	$ (14,213,000)	25,550,000

Investments with unrealized losses comprise the following as of December 31, 2010:

	Fair value	Cost basis	Unrealized losses
Less than 12 months:			
Bond fund	$ 33,548,000	33,872,000	324,000
	33,548,000	33,872,000	324,000
12 months or longer:			
Hedge fund	297,000	665,000	368,000
	297,000	665,000	368,000
Total	$ 33,845,000	34,537,000	692,000

During 2010, the Medical Center invested in a new fixed income strategy fund that incurred nominal unrealized losses during the year.

Investments with unrealized losses comprise the following as of December 31, 2009:

	Fair value	Cost basis	Unrealized losses
Less than 12 months:			
Hedge fund	$ 601,000	878,000	277,000
	601,000	878,000	277,000
12 months or longer:			
None	—	—	—
	—	—	—
Total	$ 601,000	878,000	277,000

Gross unrealized losses shown in the preceding tables are not considered to be other-than-temporary impairment losses based on the Medical Center's specific criteria for evaluating these losses. Impairment of other-than-trading debt and equity securities is evaluated considering numerous factors, including the length of time and extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer of the security, and the Medical Center's intent and ability to hold other-than-trading securities for a period of time sufficient to allow for the anticipated recovery to the cost basis. As of December 31, 2010 and 2009, gross unrealized losses in a loss position for more than 12 months were not significant.

(4) Fair Value of Financial Instruments

The Medical Center has adopted the provisions of FASB ASC 820, which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and establishes a framework for measuring fair value. This statement establishes a three-level hierarchy for fair value measurement based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. This statement expands disclosures about instruments measured at fair value. It applies to other accounting pronouncements that require or permit fair value measurements and, accordingly, does not require any new fair value measurements.

As noted above, FASB ASC 820 establishes a three-level hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

Level 1 – inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 – inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, and inputs that are observable for the asset or liability, whether directly or indirectly, for substantially the same term as the financial instrument.

Level 3 – inputs to the valuation methodology are unobservable and significant to the fair value measurement.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The Medical Center uses a practical expedient for the estimation of the fair value of investments in funds for which the investment does not have a readily determinable fair value. The practical expedient used by the Medical Center is the NAV per share, or its equivalent. In some instances, the NAV may not equal the fair value that would be calculated under fair value accounting standards. Valuations provided by fund administrators consider variables such as the financial performance of underlying investments, recent sales prices of underlying investments, and other pertinent information. In addition, actual market exchanges at year-end provide additional observable market inputs of the exit price. Management reviews the valuations and assumptions provided by fund administrators for reasonableness and believes that the carrying amounts of these financial instruments are reasonable estimates of fair value.

Private equity securities use a NAV equivalent as a practical expedient to estimate fair value. The transaction price is initially used as the best estimate of fair value. Accordingly, when a private equity fund administrator provides a valuation, it is adjusted so that the value at inception equals the transaction price.

The initial valuation is adjusted when changes to inputs and assumptions are corroborated by evidence, such as transactions of similar securities, completed or pending third-party transactions in the underlying security or comparable entities, offerings in the capital markets, and changes in financial results, data, or cash flows. For positions that are not traded in active markets or are subject to notice provisions, valuations are adjusted to reflect such provisions, and such adjustments are generally based on available market evidence.

Investment derivative instruments are recorded at fair value and are reported in assets limited as to use. Level 1 investment derivatives include futures contracts. Level 2 investment derivatives include forward currency and other contracts.

The Medical Center's financial instruments recorded at fair value have been categorized based upon the fair value hierarchy described previously. The following fair value hierarchy table presents information about the Medical Center's financial instruments measured at fair value as of December 31, 2010:

	Fair value	Level 1	Level 2	Level 3
Assets:				
Investments:				
Money markets	$ 9,501,000	9,501,000	—	—
Mutual funds:				
TIPS	7,020,000	7,020,000	—	—
Fixed income	58,558,000	58,558,000	—	—
Large cap	25,867,000	25,867,000	—	—
Small-mid cap blend	6,339,000	6,339,000	—	—
International	45,575,000	45,575,000	—	—
Real estate	2,751,000	2,751,000	—	—
Commodities	6,901,000	6,901,000	—	—
	$ 162,512,000	162,512,000	—	—
Liabilities:				
Interest rate swap	$ 12,428,000	—	12,428,000	—

The following table presents the balances of assets measured at fair value on a recurring basis at December 31, 2009:

		Fair value	Level 1	Level 2	Level 3
Assets:					
Investments:					
Money markets	$	7,155,000	7,155,000	—	—
Mutual funds:					
Corporate equity		35,125,000	35,125,000	—	—
Emerging markets		10,116,000	10,116,000	—	—
Short duration bond funds		10,702,000	10,702,000	—	—
Collective funds:					
International equity		15,121,000	—	15,121,000	—
Small cap equity		10,194,000	—	10,194,000	—
Corporate bonds		56,493,000	—	56,493,000	—
	$	144,906,000	63,098,000	81,808,000	—
Liabilities:					
Interest rate swap	$	8,468,000	—	8,468,000	—

The following table presents information for investments where the NAV was used as a practical expedient to measure fair value at December 31:

		2010 fair value	2009 fair value	Redemption frequency	Redemption notice period
Collective funds	$	—	81,808,000	Daily	1 day

(5) Property, Plant, and Equipment

Property, plant, and equipment comprise the following at December 31, 2010 and 2009:

	2010	2009
Land and land improvements	$ 12,401,000	12,384,000
Buildings	271,803,000	266,700,000
Equipment:		
Fixed	24,103,000	24,103,000
Major movable	248,123,000	228,951,000
Minor	1,554,000	1,346,000
Leasehold improvements	7,487,000	5,614,000
	565,471,000	539,098,000
Accumulated depreciation	(289,925,000)	(257,739,000)
	275,546,000	281,359,000
Construction in progress	6,973,000	14,818,000
	$ 282,519,000	296,177,000

(6) Line of Credit

The Medical Center has a line of credit agreement in place that allows it to borrow up to $5,000,000 for working capital and short-term expenditures. There was $0 and $5,000,000 outstanding on this line of credit at December 31, 2010 and 2009, respectively. The interest rate was 5.00% at both December 31, 2010 and 2009, and is based upon the bank's prime rate minus 0.50%.

(7) Long-Term Debt

Long-term debt consists of the following at December 31, 2010 and 2009:

	2010	2009
Washington Health Care Facilities Authority:		
Revenue Bonds, Series 1999, 3.0% to 5.0%, due through 2028	$ 49,665,000	51,365,000
Revenue Bonds, Series 2008, variable interest, due through 2034	109,475,000	111,300,000
Unamortized bond discount	(831,000)	(893,000)
Fair value of interest rate swap	12,428,000	8,468,000
	170,737,000	170,240,000
Less current portion	(3,755,000)	(3,525,000)
	$ 166,982,000	166,715,000

(Continued)

During fiscal year 1999, the Washington Health Care Facilities Authority (the Authority) issued $65,655,000 of tax-exempt revenue bonds (1999 Revenue Bonds) on behalf of the Medical Center. The agreement with the Authority for the 1999 Revenue Bonds required that the Medical Center establish a bond fund. The bond fund is used for the payment of bond principal and interest. Proceeds of the 1999 Revenue Bonds were used for acquiring, constructing, remodeling, and equipping certain Medical Center facilities.

During 2008, the Authority issued $113,025,000 of tax-exempt revenue bonds (2008A Revenue Bonds and 2008B Revenue Bonds) (collectively, the 2008 Revenue Bonds) on behalf of the Medical Center. The 2008 Revenue Bonds bear variable interest based on weekly remarketing, not to exceed 12% per annum. In conjunction with the issuance, the Medical Center entered into two three-year Letter of Credit and Reimbursement Agreements with two financial institutions. During July 2010, the Letters of Credit and Reimbursement agreements were modified, and in December 2010 one of the agreements was further modified to substitute a new financial institution. The terms of the letters of credit expire in December 2013 and May 2014. The 2008 Revenue Bonds, while subject to a long-term amortization period, may be put to the underlying letter of credit upon a failed remarketing. In an event of a draw under the agreements, and amounts remain outstanding after 30 days, such amounts are converted to a term loan due in either equal semiannual payments with the first principal installment not due less than one year after the draw and the balance paid in full on the third anniversary of the draw or paid in full upon the expiration date of the agreement. The agreement with the Authority for the 2008 Revenue Bonds requires that the Medical Center establish a bond fund and a project fund. These funds are used for the payment of bond principal and interest and costs of refunding the outstanding principal amount of the Washington Health Care Facilities Authority Revenue Bonds, Series 2004A and 2004B and paying certain of the initial fees associated with the Letters of Credit. As of December 31, 2010 and 2009, there was $135,000 on deposit in these funds, which is included in the current portion of funds held by trustee in the accompanying balance sheets.

The 1999 Revenue Bonds and the 2008 Revenue Bonds are secured by the Medical Center's gross revenues. The 1999 Revenue Bonds maturing on or after September 1, 2010 are redeemable at the option of the Medical Center at a redemption price of 101%, beginning September 1, 2009, declining to 100.5% on September 1, 2010 and 100% on September 1, 2011 and thereafter. The 2008 Revenue Bonds are redeemable in whole or in part at the option of the Medical Center at no premium. Principal payment requirements on the 1999 and 2008 Revenue Bonds are as follows:

		1999 Revenue Bonds	2008 Revenue Bonds	Total
Year ending December 31:				
2011	$	1,780,000	1,975,000	3,755,000
2012		1,860,000	1,925,000	3,785,000
2013		1,950,000	2,150,000	4,100,000
2014		2,045,000	2,200,000	4,245,000
2015		2,145,000	2,350,000	4,495,000
Thereafter		39,885,000	98,875,000	138,760,000
	$	49,665,000	109,475,000	159,140,000

The agreement with the Authority contains, among other things, provisions placing restrictions on additional borrowings and leases and requiring the maintenance of a minimum debt service coverage and other ratios.

The fair value of long-term debt, including current portion of long-term debt, is shown below. Fair value is estimated using interest rates as of December 31, 2010 and 2009 that the Medical Center could receive on essentially risk-free assets sufficient to extinguish the obligations.

	2010		2009	
	Carrying value	Fair value	Carrying value	Fair value
Long-term debt	$ 159,140,000	156,388,000	162,665,000	162,865,000

In 2010 and 2009, the interest cost on borrowed funds held by the trustee under the 1999 and 2008 Revenue Bonds was $8,632,000 and $6,889,000, respectively, which was charged to operations.

The Medical Center entered into an interest rate management transaction (swap) during fiscal year 2005 with a total notional amount of $57,500,000 to convert variable rates to a fixed rate of 3.51% for the 2004B Revenue Bonds. The 2004B Revenue Bonds were defeased with the issuance of the 2008 Revenue Bonds. This interest rate swap has now been associated with the 2008B Revenue Bonds. In measuring the interest rate swap at fair value, the Medical Center has recorded an estimated liability of $6,521,000 and $4,241,000 as of December 31, 2010 and 2009, respectively, which has been recorded in the accompanying balance sheets as the fair value of interest rate swaps. Change in the fair value of the interest rate swap, which was an increase of $2,280,000 and a decrease of $8,344,000 for the years ended December 31, 2010 and 2009, respectively, has been included in the change in fair value of interest rate swap in the statement of operations and changes in net assets.

During fiscal year 2007, the Medical Center entered into a forward-starting interest rate swap transaction with a total notional amount of $53,325,000 with the intent to defease the 1999 Revenue Bonds in fiscal year 2009 by issuing a new series of Revenue Bonds. The new bonds were planned to be issued at a variable rate; however, the forward-option contract effectively would have converted the variable rate to a fixed rate of 3.60% on a portion of the new bonds. The 1999 Revenue Bonds were not defeased; however, the swap transaction went into effect in August 2009 and was associated with the 2008A Revenue Bonds. In measuring the forward-starting interest rate swap at fair value, the Medical Center has recorded an estimated liability of $5,907,000 and $4,227,000 as of December 31, 2010 and 2009, respectively, which has been recorded in the accompanying balance sheets as the fair value of interest rate swaps. The change in the fair value of the interest rate swap, which was an increase of $1,680,000 and a decrease of $4,345,000 for the years ended December 31, 2010 and 2009, respectively, has been included in the change in fair value of interest rate swap in the statement of operations and changes in net assets.

The outstanding interest rate swap transactions allow the Medical Center to terminate the financial instruments by requiring full settlement of any interest or termination value upon 20 days' notice given on the first business day of each month. The counterparty can terminate the swaps, requiring full settlement of any interest or termination value, only if the Medical Center's credit rating falls to BBB- or equivalent.

As of December 31, 2010, the above transactions do not meet the criteria for hedge accounting; therefore, any change in fair value under the agreements is recorded as change in fair value of interest rate swaps in nonoperating income in the accompanying statements of operations and changes in net assets. The fair value of the swaps is determined by the spread in interest rates and adjusted for credit risk factors.

(8) Retirement Plan

The Medical Center sponsors a noncontributory defined benefit pension plan, the Southwest Washington Health System Retirement Plan (the Plan), covering all employees who meet requirements as specified in the Plan. The assets of the Plan are available to pay the benefits of all eligible employees of the Plan. The Plan has two benefit structures that include a cash balance and a final average pay structure. The cash balance structure provides an annual benefit payment based on years of service in addition to an interest credit; the cash balance benefit is available for those hired on or after January 1, 2009. The final average pay structure provides a lifetime monthly benefit based on the participant's average compensation over a specified period of employment; the final average pay benefit is available for those hired before January 1, 2009. Benefits for the Plan were frozen as of December 31, 2010.

The following table sets forth disclosures related to the Plan in accordance with FASB ASC 715-20-65, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans,* at December 31, 2010 and 2009.

	2010	2009
Change in projected benefit obligation:		
Projected benefit obligation (PBO) at beginning of period	$ 173,130,000	154,389,000
Service cost	10,535,000	9,358,000
Interest cost	10,284,000	9,170,000
Actuarial loss on PBO	18,016,000	3,097,000
Plan amendments/curtailments	(42,286,000)	—
Benefits paid	(3,411,000)	(2,884,000)
Projected benefit obligation at end of year	$ 166,268,000	173,130,000
Change in fair value of plan assets:		
Fair value of assets at beginning of year	$ 102,030,000	77,038,000
Actual return on plan assets	10,754,000	15,186,000
Employer contribution	7,570,000	12,690,000
Benefits paid	(3,411,000)	(2,884,000)
Fair value of assets at end of year	$ 116,943,000	102,030,000
Reconciliation of funded status:		
Funded status	$ 49,325,000	71,100,000
Net amount recognized	$ 49,325,000	71,100,000
Amounts recognized in the balance sheets consist of:		
Accrued pension liability	$ 49,325,000	71,100,000
Accumulated change in net assets	24,134,000	51,594,000

The accumulated benefit obligation for the Plan was $166,268,000 and $139,241,000 at December 31, 2010 and 2009, respectively.

Net periodic benefit cost for the years ended December 31 included the following components and is included in employee benefits in the accompanying statements of operations and changes in net assets:

		2010	2009
Service cost	$	10,535,000	9,358,000
Interest cost		10,284,000	9,170,000
Expected return on plan assets		(9,648,000)	(8,665,000)
Amortization of prior service costs		5,000	5,000
Amortization of gain/loss		2,058,000	1,700,000
Curtailment loss		22,000	—
Net periodic pension cost	$	13,256,000	11,568,000

(a) ***Assumptions***

The Medical Center used the following actuarial assumptions to determine its benefit obligations at December 31, 2010 and 2009, with measurement dates of December 31, 2010 and 2009:

	2010	2009
Discount rate	5.50%	6.00%
Rate of increase in future compensation levels	5.03	5.03

The Medical Center used the following actuarial assumptions to determine its net periodic benefit cost for the years ended December 31, 2010 and 2009:

	2010	2009
Discount rate	6.00%	6.00%
Rate of increase in future compensation levels	5.03	5.03
Expected long-term rate of return on plan assets	8.50	8.50

This discount rate is based on a proprietary yield curve tool used by the Plan's actuary, which uses a composite of high-yield, investment-grade corporate bonds and the projected payouts from the Plan to develop an equivalent yield rate to use in determining plan liabilities.

The expected long-term rate of return on plan assets was based on the asset allocation mix and the long-term historical return for each asset class, taking into account current and expected market conditions. The Medical Center utilizes an investment consultant to assist in the return assumptions used in determining the expected long-term rate of return. The actual return on pension plan assets was approximately 9.8% and 16.4% for 2010 and 2009, respectively. In the calculation of pension plan expense, the expected long-term rate of return on plan assets is applied to a calculated value of plan assets that recognizes changes in fair value over a four-year period. This practice is intended to reduce year-to-year volatility in pension expense, but it can have the effect of delaying the recognition of differences between actual returns and expected returns based on the long-term rate of return assumptions.

(b) Pension Plan Assets

The asset allocation of the Medical Center's pension plan at December 31, 2010 and 2009 is as follows:

	2010	2009
Equity securities	71%	78%
Debt securities	28	17
Other	1	5

Pension plan assets are managed according to an investment policy adopted by the Plan's trustees. Professional investment managers are retained to manage specific asset classes and professional consulting is utilized for investment performance reporting. The primary objective of the Plan's trustees is to achieve the highest possible total return commensurate with safety and preservation of capital in real, inflation-adjusted terms. The objective includes having funds invested in the long-term, which protect the principal and produce returns sufficient to meet future benefit obligations. The investment policy includes an asset allocation that includes equity securities, debt securities, and cash/other investments. The target allocations are 66% equity and 34% debt. Assets are rebalanced quarterly when balances fall outside of the approved range for each asset class.

In accordance with FASB ASC 820, financial assets and financial liabilities measured at fair value are grouped in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to estimate fair value. These levels and the adoption of FASB ASC 820 are further discussed in note 4.

Following is a description of the valuation methodologies used for plan assets measured at fair value.

- Mutual Funds: Valued at the NAV of shares held by the plan at year-end.
- Common and Collective Trusts: Valued at fair value of the underlying assets on close of the valuation date and expressed in units. The unit value is determined at the valuation date by dividing the value of the entire common and collective trust by the number of units.
- Real Estate Investment Fund and Hedge Fund: Valued based on the fair value of the underlying assets as supported by audited financial statements.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Plan's assets at fair value as of December 31, 2010:

Assets	Total fair value	Level 1	Level 2	Level 3
Cash	$ 852,000	852,000	—	—
Fixed income	12,891,000	12,891,000	—	—
Hedge capital appreciation	18,027,000	—	—	18,027,000
Large cap	35,327,000	35,327,000	—	—
Mid cap	5,695,000	5,695,000	—	—
Small cap	9,285,000	9,285,000	—	—
Emerging markets	13,889,000	—	—	13,889,000
Long-short hedge	14,736,000	—	—	14,736,000
Distressed debt	6,241,000	—	—	6,241,000
Total plan assets at fair value	$ 116,943,000	64,050,000	—	52,893,000

The following table sets forth by level, within the fair value hierarchy, the Plan's assets at fair value as of December 31, 2009:

Assets	Total fair value	Level 1	Level 2	Level 3
Cash	$ 7,042,000	7,042,000	—	—
Fixed income	7,637,000	7,637,000	—	—
Hedge capital appreciation	13,800,000	—	—	13,800,000
Large cap	30,828,000	30,828,000	—	—
Mid cap	4,876,000	4,876,000	—	—
Small cap	7,683,000	7,683,000	—	—
Emerging markets	9,612,000	—	—	9,612,000
Long-short hedge	15,054,000	—	—	15,054,000
Distressed debt	5,498,000	—	—	5,498,000
Total plan asssets at fair value	$ 102,030,000	58,066,000	—	43,964,000

(Continued)

The following table presents a reconciliation of the beginning and ending balances of those Level 3 assets:

	Fair value measurements Level 3
Fair value January 1, 2009	$ 40,536,000
Realized and unrealized (losses) gains, net	2,347,000
Purchases, issuances, and settlements, net	1,081,000
Fair value December 31, 2009	43,964,000
Realized and unrealized (losses) gains, net	5,442,000
Purchases, issuances, and settlements, net	3,487,000
Fair value December 31, 2010	$ 52,893,000

(c) ***Cash Flows***

The Medical Center's policy with respect to funding the Plan is to fund at least the minimum required by the Employee Retirement Income Security Act of 1974, as amended, plus such additional amounts deemed appropriate. In fiscal year 2011, the Medical Center expects to contribute approximately $10,256,000 to the Plan.

Benefit payments are expected to be paid as follows for the years ending December 31:

	Pension benefits
2011	$ 4,282,000
2012	4,862,000
2013	5,573,000
2014	6,373,000
2015	7,085,000
2016 – 2018	47,862,000

These estimates are based on assumptions about future events. Actual benefit payments may vary significantly from these estimates.

Management is not aware of any settlements or curtailments that would require additional recognition during 2010.

(d) Southwest Washington Medical Center Defined Contribution Retirement Plan

Employees who complete one hour of service are eligible to participate in the Southwest Washington Medical Center Defined Contribution Retirement Plan, a defined contribution retirement plan. The level of contribution depends on, among other things, the level of employee contributions to the plan with the Medical Center matching up to 3% of the employees' eligible annual compensation.

Employer contributions under this plan were \$3,652,000 and \$3,488,000 in 2010 and 2009, respectively, and are included in employee benefits expense in the statement of operations and changes in net assets.

(9) Commitments and Contingencies

(a) Operating Leases

The Medical Center has certain noncancelable operating leases for equipment and facilities, expiring at various dates through 2014 and thereafter. Future minimum lease commitments on these noncancelable operating leases are as follows:

Year ending December 31:		
2011	$	6,678,000
2012		6,184,000
2013		3,927,000
2014		3,952,000
2015		3,870,000
Thereafter		11,163,000
	$	35,774,000

Rent expense for all operating leases, including those related to the asset monetization discussed in note 9(b) below, was \$8,694,000 and \$8,627,000 in 2010 and 2009, respectively, and was included in other expenses in the accompanying statements of operations and changes in net assets.

(b) Asset Monetization

In November 2007, the Medical Center completed an asset monetization transaction, in which a group of buildings was sold to an independent third party. The total sales price for these buildings was approximately \$74,008,000, net of selling costs. The Medical Center generated a total gain of approximately \$40,444,000, net of selling costs. In related transactions, the Medical Center has signed leases for space in a portion of the buildings that were sold. The commitments under these leases resulted in approximately \$25,482,000 of the gain being deferred as of the date of the sale and amortized into income over the lives of the related leases, which range from five to fifteen years. Included in other net nonoperating income is approximately \$2,821,000 of the deferred gain that was amortized into earnings during each of the years ended December 31, 2010 and 2009. The remaining unrecognized gain as of December 31, 2010 was approximately \$16,549,000.

These leases have been classified as operating leases, with future amounts included in the schedule in note 9(a), and the future commitments under these leases are as follows:

Year ending December 31:		
2011	$	5,519,000
2012		5,219,000
2013		3,269,000
2014		3,334,000
2015		3,401,000
Thereafter		10,946,000
	$	31,688,000

(c) *Commitments*

In May 2004, the Medical Center entered into a seven-year agreement for the provision of information technology outsourcing services. The outsourcing agreement was subject to certain performance criteria as defined in the agreement. Included in the agreement was the development of certain software that was purchased and capitalized by the Medical Center. Expenditures related to this agreement were $9,846,000 in 2009. In 2009, $8,256,000 was included in purchased services expense and $1,590,000 of hardware and software related costs were capitalized. This agreement was terminated by the Medical Center effective September 30, 2009; therefore, there were no expenditures under this agreement during 2010. The Medical Center has accrued approximately $2,044,000 at December 31, 2010 for estimated costs to settle the agreement.

(d) *Litigation*

The Medical Center is involved in litigation arising in the normal course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the Medical Center's future financial position or results of operations.

The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, payment for patient services, and Medicare and Medicaid fraud and abuse. Government activity has continued with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs, together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the Medical Center is in compliance with the fraud and abuse regulations as well as other applicable government laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

(e) *Collective Bargaining Agreements*

Approximately 35% of the Medical Center's employees are covered under collective bargaining agreements, including nurses, professional employees, and service employees as of December 31, 2010. The contract with the nurses' union expires in May 2011.

(f) *Healthcare Reform*

As a result of recently enacted federal healthcare reform legislation, substantial changes are anticipated in the U.S. healthcare system. Such legislation includes numerous provisions affecting the delivery of healthcare services, the financing of healthcare costs, reimbursement of healthcare providers and the legal obligations of health insurers, providers, and employers. These provisions are currently slated to take effect at specified times over approximately the next decade. This federal healthcare reform legislation does not affect the 2010 consolidated financial statements.

(10) Transactions with Affiliates and Related Parties

The Foundation is a separate not-for-profit entity whose sole member is SWHS. The Foundation made transfers to the Medical Center of $1,394,000 for restricted operating purposes and $1,011,000 for purchase of property or equipment during the year ended December 31, 2010. At December 31, 2010 and 2009, the Medical Center had an interest in the net assets of the Foundation of $30,948,000 and $29,940,000, respectively, included in other assets in the accompanying balance sheets.

The Medical Center had entered into a healthcare provider agreement with CUP to provide medical services to the membership of CUP. The management of both CUP and the Medical Center intended for this agreement to reflect market rates. At December 31, 2010 and 2009, the Medical Center recognized $15,678,000 and $16,369,000, respectively, of fees for services provided to CUP members and included in patient service revenues.

Amounts due to the Medical Center from affiliates, net of amounts payable, consist of the following:

		December 31	
		2010	2009
Southwest Washington Health System	$	722,000	108,000
Southwest Washington Medical Center Foundation		271,000	872,000
Southwest Medical Group		272,000	1,532,000
Property and Buildings		49,000	174,000
Advanced Medical Imaging		250,000	516,000
Urgent Care of Southwest Washington		—	5,000
	$	1,564,000	3,207,000

The Medical Center leases certain buildings from Property and Building Company, LLC. Rental expense under these leases was $5,848,000 and $5,894,000 during the years ended December 31, 2010 and 2009, respectively.

(Continued)

During the years ended December 31, 2010 and 2009, the Medical Center transferred $22,430,000 and $46,237,000, respectively, of net assets to various affiliates for the acquisition of certain real estate assets and to fund ongoing operations of clinical enterprises of SWHS, both of which hold strategic importance in the Medical Center's growth plans.

(11) Restricted Net Assets

At December 31, 2010 and 2009, the Foundation had restricted net assets of $29,037,000 and $28,602,000, respectively, held on behalf of the Medical Center related to the following purposes:

		December 31	
		2010	2009
Charity care	$	7,661,000	7,375,000
Program support		8,147,000	7,944,000
Capital assets		13,166,000	13,227,000
Other		63,000	56,000
	$	29,037,000	28,602,000

(12) Professional Liability Insurance

The Medical Center has purchased professional liability insurance coverage on a claims-made basis. On May 1, 2004, the Medical Center purchased a tail liability policy from its previous insurance company, Physicians Insurance Company, with an $11,000,000 per claim limit and a $27,000,000 aggregate limit. Beginning on May 1, 2004, a new claims-made policy, which covers malpractice claims per claim of $11,000,000 with an aggregate limit of $25,000,000 and a self-insured retention per occurrence of $100,000, was purchased. In 2005, the self-insured retention per occurrence was increased to $250,000. In 2006, the Medical Center increased the limits of liability to $30,000,000 per claim and $30,000,000 in the aggregate with a $1,000,000 per claim self-insured retention. In 2008, the Medical Center increased the per claim self-insured retention to $1,500,000. In 2009, the Medical Center increased the per claim self-insured retention to $2,000,000. The Medical Center has recorded a liability for claims incurred but not reported during the new policy period based upon the estimate of losses from unreported incidents and claims on an expected undiscounted basis as determined by its third-party actuary. Additionally, a liability has been recorded for the Medical Center's retention on known claims.

(13) Functional Expenses

The Medical Center provides general healthcare services to residents within its geographic location. Expenses related to providing these services are as follows:

		December 31	
		2010	2009
Healthcare services	$	385,177,000	357,225,000
General and administrative		141,343,000	126,284,000
	$	526,520,000	483,509,000

(14) Subsequent Events

(a) Affiliation with PeaceHealth

On January 1, 2011, Southwest Washington Health Systems signed an affiliation agreement with PeaceHealth. PeaceHealth is a Bellevue, Washington-based not-for-profit healthcare system with medical centers, critical access hospitals, medical group clinics, and laboratories located in Alaska, Washington, and Oregon.

In connection with the preparation of the financial statements and in accordance with FASB ASC 855, the Medical Center has evaluated any subsequent events after the balance sheet date of December 31, 2010 through May 27, 2011, which was the date the financial statements were issued.

KPMG

SOUTHWEST WASHINGTON HEALTH SYSTEM AND AFFILIATES

Consolidated Financial Statements

December 31, 2009 and 2008

(With Independent Auditors' Report Thereon)

KPMG

KPMG LLP
Suite 3800
1300 South West Fifth Avenue
Portland, OR 97201

Independent Auditors' Report

The Board of Directors
Southwest Washington Health System and Affiliates:

We have audited the accompanying consolidated balance sheets of Southwest Washington Health System (a Washington not-for-profit corporation) and Affiliates (SWHS) as of December 31, 2009 and 2008 and the related consolidated statements of operations, changes in net assets, and cash flows for the year ended December 31, 2009. These consolidated financial statements are the responsibility of SWHS' 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 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 SWHS' 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 Southwest Washington Health System and Affiliates as of December 31, 2009 and 2008, and the results of their operations and their cash flows for the year ended December 31, 2009, in conformity with U.S. generally accepted accounting principles.

KPMG LLP

August 9, 2010

SOUTHWEST WASHINGTON HEALTH SYSTEM AND AFFILIATES

Consolidated Balance Sheets

December 31, 2009 and 2008

Assets		2009	2008
Current assets:			
Cash and cash equivalents	$	13,337,000	15,966,000
Short-term investments		2,700,000	3,400,000
Patient accounts receivable, less allowance for uncollectible accounts of $20,817,000 and $17,434,000 as of December 31, 2009 and 2008, respectively		65,347,000	65,685,000
Premiums receivable		2,598,000	2,833,000
Due from unconsolidated affiliates		516,000	384,000
Current portion of pledges receivable		615,000	417,000
Other accounts receivable		1,245,000	968,000
Supplies inventory		5,682,000	5,444,000
Prepaid expenses and other		6,651,000	4,910,000
Current portion of funds held by trustee		135,000	784,000
Total current assets		98,826,000	100,791,000
Assets whose use is limited and other investments:			
Designated by board for capital improvements and other		180,335,000	193,796,000
Designated by board for health plan		10,071,000	9,767,000
Designated by donor		6,925,000	6,553,000
Restricted pledges receivable, net of current portion		21,426,000	22,446,000
Total assets whose use is limited and other investments		218,757,000	232,562,000
Property, plant and equipment, net		353,538,000	316,257,000
Other assets:			
Unamortized financing costs		1,362,000	1,384,000
Investment in unconsolidated affiliates		2,450,000	2,275,000
Other		552,000	578,000
		4,364,000	4,237,000
Total assets	$	675,485,000	653,847,000

(Continued)

SOUTHWEST WASHINGTON HEALTH SYSTEM AND AFFILIATES

Consolidated Balance Sheets

December 31, 2009 and 2008

Liabilities and Net Assets		2009	2008
Current liabilities:			
Line of credit	$	5,000,000	—
Current portion of long-term debt		4,403,000	3,777,000
Accounts payable		18,733,000	22,777,000
Payable to contractual agencies		3,662,000	2,646,000
Accrued salaries and wages		24,215,000	20,573,000
Interest payable		935,000	994,000
Accrued healthcare costs		6,687,000	8,183,000
Other liabilities		7,946,000	7,278,000
Total current liabilities		71,581,000	66,228,000
Estimated professional liability claims		7,531,000	7,580,000
Deferred gain on building sale		19,370,000	22,191,000
Deferred lease revenue		10,153,000	10,293,000
Long-term debt, net of current portion		171,959,000	175,121,000
Fair value of interest rate swaps		8,468,000	21,157,000
Pension obligation		71,100,000	77,351,000
Total liabilities		360,162,000	379,921,000
Net assets:			
Unrestricted		284,877,000	241,777,000
Temporarily restricted		23,154,000	25,035,000
Permanently restricted		7,292,000	7,114,000
Total net assets		315,323,000	273,926,000
Total liabilities and net assets	$	675,485,000	653,847,000

See accompanying notes to consolidated financial statements.

SOUTHWEST WASHINGTON HEALTH SYSTEM AND AFFILIATES

Consolidated Statement of Operations

Year ended December 31, 2009

Revenues:	
Net patient service revenues	$ 482,414,000
Premium revenues	97,519,000
Other operating revenues	21,335,000
Net assets released from restrictions used for operations	293,000
Total revenues	601,561,000
Expenses:	
Salaries and wages	215,689,000
Employee benefits	65,128,000
Supplies, purchased services and other	227,579,000
Professional fees	19,455,000
Depreciation	32,448,000
Provision for bad debts	35,391,000
Interest and amortization	7,928,000
Total expenses	603,618,000
Deficit of revenues over expenses from operations	(2,057,000)
Net nonoperating income:	
Net investment loss	(6,363,000)
Equity in earnings of unconsolidated joint ventures	2,160,000
Net medical office building loss	(2,000)
Change in fair market value of interest rate swap	12,689,000
Other net nonoperating income	2,759,000
Total net nonoperating income	11,243,000
Excess of revenues over expenses	9,186,000
Change in net unrealized gains on investments	26,148,000
Decrease in pension liability	5,128,000
Net assets released from restrictions used for purchase of property and equipment and other	2,638,000
Increase in unrestricted net assets	$ 43,100,000

See accompanying notes to consolidated financial statements.

SOUTHWEST WASHINGTON HEALTH SYSTEM AND AFFILIATES

Consolidated Statement of Changes in Net Assets

Year ended December 31, 2009

Unrestricted net assets:		
Excess of revenue over expenses	$	9,186,000
Change in net unrealized gains on investments		26,148,000
Decrease in pension liability		5,128,000
Net assets released from restrictions used for purchase of property and equipment		2,638,000
Increase in unrestricted net assets		43,100,000
Temporarily restricted net assets:		
Restricted contributions, investment income and other		1,050,000
Net assets released from restrictions		(2,931,000)
Decrease in temporarily restricted net assets		(1,881,000)
Permanently restricted net assets:		
Restricted contributions and other		178,000
Increase in permanently restricted net assets		178,000
Increase in net assets		41,397,000
Net assets, beginning of year		273,926,000
Net assets, end of year	$	315,323,000

See accompanying notes to consolidated financial statements.

SOUTHWEST WASHINGTON HEALTH SYSTEM AND AFFILIATES

Consolidated Statement of Cash Flows

Year ended December 31, 2009

Cash flows from operating activities:	
Increase in net assets	$ 41,397,000
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Depreciation and amortization	32,462,000
Provision for bad debts	35,391,000
Loss on sale of property, plant, and equipment	64,000
Equity in earnings of unconsolidated joint ventures	(2,160,000)
Net realized and unrealized losses (gains) on investments	(18,590,000)
Restricted contributions received	(2,159,000)
Change in fair market value of interest rate swap	(12,689,000)
Changes in assets and liabilities:	
Patient accounts receivable	(35,053,000)
Premiums receivable	235,000
Pledges receivable	822,000
Due from unconsolidated affiliates	(131,000)
Other accounts receivable	(277,000)
Supplies inventories	(239,000)
Prepaid expenses and other	(1,741,000)
Other assets	26,000
Accounts payable	(3,323,000)
Payable to contractual agencies	1,016,000
Accrued salaries and wages	3,642,000
Interest payable	(59,000)
Accrued healthcare costs	(1,496,000)
Other liabilities	668,000
Estimated professional liability claims	(49,000)
Pension obligation	(6,251,000)
Deferred revenue	(2,961,000)
Net cash provided by operating activities	28,545,000
Cash flows from investing activities:	
Additions to property, plant, and equipment, net	(70,565,000)
Proceeds from the sale of property or equipment	60,000
Proceeds from the sale of short-term investments	700,000
Purchases of assets whose use is limited	(24,248,000)
Proceeds from sales of assets whose use is limited	56,271,000
Distributions from joint ventures	1,985,000
Net cash used in investing activities	(35,797,000)
Cash flows from financing activities:	
Proceeds from line of credit, net	5,000,000
Proceeds from note payable	1,350,000
Restricted contributions received	2,159,000
Repayment of long-term debt	(3,886,000)
Net cash provided by financing activities	4,623,000
Decrease in cash and cash equivalents	(2,629,000)
Cash and cash equivalents, beginning of year	15,966,000
Cash and cash equivalents, end of year	$ 13,337,000
Supplemental disclosures:	
Cash paid for interest	$ 9,785,000
Change in accounts payable related to the acquisition of property, plant and equipment	(720,000)

See accompanying notes to consolidated financial statements.

(1) Summary of Significant Accounting Policies

(a) Organization

Southwest Washington Health System (SWHS), a Washington not-for-profit corporation, is the parent and sole member of Southwest Washington Medical Center (the Medical Center), a Washington not-for-profit corporation, Southwest Washington Medical Center Foundation (the Foundation), a Washington not-for-profit corporation, Family Physicians Group (FPG), a Washington taxable not-for-profit corporation, Southwest Washington Management Services Organization, a Washington taxable not-for-profit corporation, Southwest Washington Medical Group, a Washington taxable not-for-profit corporation, Southwest Washington Thoracic and Vascular Surgery (SWTVS), a Washington taxable not-for-profit professional services company, Urgent Care Southwest, a Washington for-profit corporation, Primary Plus, a Washington for-profit corporation, and Property and Building Company, LLC (PBC), a Washington limited liability company.

The Medical Center transferred to SWHS its approximate 90% interest in Columbia United Providers (CUP) effective October 1, 1998. The fund balance assumed by SWHS related to CUP was $4,752,000. The related minority interest in CUP's net income was $375,000 in 2009, and is recorded as an offset to supplies, purchased services and other expenses in the consolidated statements of operations. The related minority interest in CUP's net assets was a liability of $1,540,000 and $1,165,000 in 2009 and 2008, respectively, and is recorded as other liabilities in the consolidated balance sheets. CUP is a Washington for-profit corporation.

(b) Principles of Consolidation

The consolidated financial statements include the accounts of SWHS and all of its affiliates as described above. Interaffiliate accounts and transactions have been eliminated upon consolidation.

(c) Cash and Cash Equivalents

Cash and cash equivalents include certain investments in highly liquid debt instruments with original maturities of three months or less. Cash equivalents totaled $2,148,000 and $3,286,000 in 2009 and 2008, respectively.

(d) Short-Term Investments

Short-term investments consist of certificates of deposit with maturities of one-year or less and total $2,700,000 and $3,400,000 at December 31, 2009 and 2008, respectively.

(e) Supplies Inventory

Supplies inventory is recorded at the lower of average cost or fair value.

(f) *Assets Whose Use is Limited*

Assets whose use is limited include assets held by trustees under indenture agreements, donor-restricted assets and designated assets set aside by the board of directors for future capital improvements over which the board retains control and may, at its discretion, subsequently use for other purposes.

Investments in marketable equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the balance sheets. The fair value of all debt and equity securities with a readily determinable fair value is based on quotations obtained from national security exchanges. Alternative investments include investments in collective funds, real estate investment trusts, private equity trusts and distressed debt funds. Investments in collective funds are valued at the fund's net asset value (NAV) of underlying investments, which are readily marketable. FASB ASC 820 allows for the use of NAV as a practical expedient for the estimation of the fair value of investments in investment companies for which the investment does not have a readily determinable fair value. The estimated fair value of the fund may differ from the value that would have been used had a ready market existed for the fund. Investments in limited partnerships, real estate trusts and hedge funds are recorded at fair value of the underlying assets using the equity method of accounting.

Investment income (including realized gains and losses, interest and dividends) is included in the excess of revenues over expenses unless the income is restricted by donor or law. Unrealized gains and losses on investments are excluded from the excess of revenues over expenses unless the investments are trading securities or if an unrealized loss is determined to be other than temporary for any security that is other than trading. Certain other investments that meet specific criteria are accounted for under the equity method.

(g) *Premiums Receivable*

Premiums receivable consist of amounts due from a department of the State of Washington for maternity case rates and newborn premiums due under the Healthy Options contract.

(h) *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 as incurred. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

When property, plant and equipment are sold or retired, the cost and the related accumulated depreciation are removed from the accounts and the resulting gain or loss is recognized.

Potential impairment to long-lived assets is assessed when there is evidence that events or changes in circumstances have made recovery of the assets' carrying value unlikely. An impairment loss is indicated when the sum of expected undiscounted future net cash flows is less than the carrying amount. The loss recognized is the difference between the fair value and the carrying amount.

The depreciation provision is computed using the straight-line method, which allocates the cost of assets ratably over their estimated useful lives, ranging from 5 to 70 years for buildings and building improvements, 3 to 20 years for equipment and 5 to 25 years for land improvements.

(i) Unamortized Financing Costs

Unamortized financing costs incurred in connection with debt agreements are deferred and amortized over the life of the respective debt using the effective-interest method.

(j) Accounting for Contributions

Contributions are recognized as revenue upon receipt of the donor's pledge to contribute. Contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts pledged that are restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support. Unconditional promises to give that are silent as to the due date are presumed to be time restricted by the donor until received and are reported as temporarily restricted net assets.

A donor restriction expires when an unconditional promise with an implied time restriction is collected or when the purpose for the restriction is accomplished. Upon expiration, temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the consolidated statements of operations as net assets released from restrictions. Restricted contributions received in the same year in which the restrictions are met are recorded as an increase in restricted support at the time of receipt and as net assets released from restrictions at the time restrictions are met.

Permanently restricted net assets include the principal amount of contributions with the stipulation from the donor that the principal be maintained in perpetuity and only the income is available to be expended for purposes specified by the donor, if any.

(k) Net Patient Service Revenues

Net patient service revenues are reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered, including retroactive adjustments under agreements with third-party 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.

Inpatient acute care services and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Certain inpatient nonacute services and medical education costs related to Medicare beneficiaries are paid on a cost-based methodology. The Medical Center is paid for cost-based items at a tentative rate with final settlement determined after submission of annual cost reports by the Medical Center and audits thereof by the Medicare fiscal intermediary.

The Medical Center is paid for services provided to Medicaid inpatients under a patient classification system that is based on clinical, diagnostic and other factors. Payments for Medicaid outpatient services are made on a fee schedule.

(Continued)

The Medical Center has also entered into payment arrangements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Medical Center under these agreements includes prospectively determined rates per discharge, prospectively determined daily rates and discounts from established charges.

The differences between third-party payment arrangements and the Medical Center's actual charges are recorded as adjustments to patient service charges. Payment based on contractual arrangements was $685,949,000 less than the Medical Center's established rates in 2009. The Medical Center grants credit without collateral to its patients, most of whom are local residents and insured under third-party payor agreements. The mix of receivables from patients and third-party payors based upon gross accounts receivable at December 31, 2009 and 2008 was as follows:

	2009	2008
Medicare	22%	21%
Medicaid	12	12
Kaiser	8	10
Regence Blue Cross	11	12
Other third-party payors	29	28
Private pay	18	17
	100%	100%

(l) Premium Revenue and Accrued Healthcare Costs

SWHS' majority-owned subsidiary, CUP, receives premium revenues that consist of premiums paid by the State of Washington for healthcare services. Premium revenues are received on a prepaid basis and are recognized as revenue during the month with which the premiums are associated. All of CUP's premium revenues were received under two primary contract sources at the State of Washington, the Basic Health Plan and Healthy Options. SWHS recognized premium revenues of approximately $97,519,000 for the fiscal year ended December 31, 2009. The related medical expense recognized by CUP was $84,121,000 for the fiscal year ended December 31, 2009 and is included in supplies, purchased services and other expense on the consolidated statement of operations.

CUP has stop-loss reinsurance indemnifying it against the cost of providing services to individual enrolled participants at 90% in excess of $125,000 for hospital charges up to a maximum of $1,000,000 per year for each enrolled member.

(m) Provision for Uncollectible Accounts

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

(n) ***Payable to Contractual Agencies***

For services that are paid under cost-reimbursed contractual arrangements with Medicare, the Medical Center is paid at an interim rate during the year based on a percentage of actual charges. The difference between the interim rate and the actual payment based on defined allowable costs results in a receivable from or a payable to Medicare. The Medicare program's administrative procedures preclude final determination of amounts receivable from or payable to the Medicare program until after the Medical Center's annual cost reports have been audited or otherwise reviewed and settled by Medicare. The estimated amounts payable for unsettled cost reports are included in the accompanying consolidated financial statements as of December 31, 2009 classified as payable to contractual agencies. The most recent year that the fiscal intermediary has completed an audit of the Medical Center's Medicare cost report is 2006.

(o) ***Self-Insurance Plans***

SWHS and affiliates have elected to self-insure for payment of employee medical claims, unemployment benefits, workers' compensation and employee dental claims. Liabilities have been recorded to cover known claims and an estimate for those claims incurred but not reported.

(p) ***Income Taxes***

SWHS, the Medical Center and the Foundation are not-for-profit organizations and have been recognized as tax-exempt from federal income taxes, except on unrelated business income, under Section 501(c)(3) of the Internal Revenue Code. CUP, Primary Plus, Urgent Care Southwest, Southwest Washington Management Services Organization, Southwest Washington Medical Group, SWTVS and FPG are subject to federal income taxes. The provision for income taxes is based on amounts estimated to be currently payable and those deferred because of temporary differences between the financial statement and tax bases of assets and liabilities. The provision for income taxes and uncertainty in income taxes recognized in the consolidated financial statements are accounted for under FASB ASC 740, *Income Taxes*, which provides guidance on the measurement, derecognition, classification, interest, penalties and disclosures and also prescribes a threshold of more likely than not for recognition of tax benefits of uncertain tax positions. PBC is a limited liability company.

(q) ***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. The significant estimates in SWHS' consolidated financial statements include accounts receivable allowances, payable to governmental agencies, valuation of alternative investments, pension obligations and incurred but not reported amounts related to accrued healthcare costs and certain self-insurance programs.

(Continued)

(r) ***Recently Adopted Accounting Standards***

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

FASB ASC 855 modifies the definition of what qualifies as a subsequent event – those events or transactions that occur following the balance sheet date, but before the consolidated financial statements are issued and requires entities to disclose the date through which it has evaluated subsequent events and the basis for determining that date. SWHS adopted FASB ASC 855 as of December 31, 2009. See note 15 for additional information.

FASB ASC 715 provides guidance on an employer's disclosures about plan assets of a defined benefit pension or other postretirement plan. SWHS adopted the provisions of FASB ASC 715 as of October 1, 2008. See note 8 for the disclosures about plan assets.

FASB ASC 820-10-35 clarifies the application of ASC 820 in cases where the market for a financial instrument is not active and provides an example to illustrate key considerations in determining fair value in those circumstances. SWHS has considered the guidance provided by FASB ASC 820-10-35, which did not have a material impact on the financial statements.

FASB ASC 820-10-65 provides guidance for fair value measurements of nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis. FASB ASC 820-10-65 also provides additional guidance for estimating fair value when the volume and level of activity for the asset or liability have significantly decreased, guidance on identifying circumstances that indicate a transaction is not orderly and provides additional clarification on disclosures related to fair value. SWHS has implemented the guidance provided by FASB ASC 820-10-65, which did not have a material impact on the financial statements.

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

In August 2008, the FASB issued FASB Staff Position FSP 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classifications of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for all Endowment Funds*, as subsequently incorporated into the Accounting Standards Codification Section 958-205-45

(Topic 958). Topic 958 provides guidance on the net asset classification of donor-restricted endowment funds and requires additional disclosures about an organization's endowment funds. SWHS adopted the provisions of Topic 958 as of October 1, 2008, which did not have a significant impact on its financial position or changes in net assets.

(s) New Accounting Pronouncements

In April 2009, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 164, *Not-for-Profit Entities: Mergers and Acquisitions*, as subsequently incorporated into ASC 958-805. This statement revises the information that a not-for-profit entity provides in its financial reports about a combination with one or more other not-for-profit entities, businesses or nonprofit activities. The statement also makes each of the following previously issued statements applicable to not-for-profit entities: SFAS No. 142, Goodwill and Other Intangible Assets, SFAS No. 141 (Revised 2007), *Business Combinations*, and SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements*. SFAS No. 164 is effective for fiscal years beginning after December 15, 2009. SWHS is currently evaluating the impact that the adoption of SFAS No. 164 will have on its financial statements.

(2) Charity Care

The Medical Center provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Medical Center does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenues.

The Medical Center maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges forgone for services and supplies furnished under its charity care policy. Charges forgone under the Medical Center's charity policy were $39,956,000 in 2009.

(3) Assets Whose Use is Limited and Other Investments

The board of directors of the Medical Center and SWHS has designated certain assets for use in future capital improvements, other activities and for the health plan. These assets have been classified as designated by the board for capital improvements and other and designated by the board for health plan, respectively, in the accompanying consolidated financial statements. The composition of assets whose use is limited and other investments at December 31, 2009 and 2008 is set forth in the following table. Investments are stated at fair value. The fair value of investments is estimated based primarily on quoted market prices.

		2009	2008
Investments:			
Money markets	$	7,155,000	73,508,000
Mutual funds:			
Corporate equity		37,785,000	704,000
Emerging markets		10,645,000	5,184,000
Short duration bond		10,702,000	9,631,000
Bonds:			
U.S. government-sponsored agencies		5,697,000	6,628,000
Political subdivision of states, territories and possessions		2,954,000	2,435,000
Unaffiliated industrial and other		527,000	—
Collective funds:			
International equity		15,912,000	20,200,000
Small cap		10,727,000	5,375,000
Large Caop		—	25,229,000
Corporate bonds		59,448,000	21,180,000
Limited partnerships:			
Private equity		6,827,000	7,126,000
Distressed debt		14,480,000	10,478,000
Real estate trusts		13,365,000	20,373,000
Hedge funds		633,000	1,493,000
Pledges receivable		22,041,000	22,863,000
Gift annuities		403,000	466,000
Investment income receivable		71,000	106,000
	$	219,372,000	232,979,000

At December 31, 2009, SWHS has approximately $57.3 million in investments that are not readily marketable. These investments represent 26.1% of total investments and 16.6% of total net assets of SWHS at December 31, 2009. At December 31, 2008, SWHS has approximately $62.3 million in investments that are not readily marketable. These investments represent 26.8% of total investments and 20.4% of total net assets of SWHS at December 31, 2008. These investment instruments may contain elements of both credit and market risk. SWHS is a participant with these particular investments along with several other market participants and enters such investments in accordance with the SWHS investment policies. These investments carry such risks that may include, limited liquidity, absence of regulatory oversight, nondisclosure of portfolio composition among other risk factors. 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. Such difference could be significant.

Investment income and gains, included in net investment income in the consolidated statements of operations, comprise the following for the year ended December 31, 2009:

		2009
Interest and dividend income	$	1,195,000
Net realized gains on sales of securities		(7,558,000)
	$	(6,363,000)
Change in net unrealized gains on investments	$	26,148,000

Investments with unrealized losses comprise the following as of December 31, 2009:

		Fair value	Cost basis	Unrealized losses
Less than 12 months:				
Hedge fund	$	633,000	924,000	291,000
		633,000	924,000	291,000
12 months or longer:				
Bonds:				
U.S. government-sponsored agencies		30,800,000	31,499,000	689,000
Political subdivision of states, territories, and possessions		646,000	647,000	1,000
		31,446,000	32,146,000	690,000
Total	$	32,079,000	33,070,000	981,000

Investments with unrealized losses comprise the following as of December 31, 2008:

		Fair value	Cost basis	Unrealized losses
Less than 12 months:				
None	$	—	—	—
		—	—	—
12 months or longer:				
Collective funds		30,810,000	31,499,000	689,000
Bonds:				
Political subdivision of states, territories, and possessions		1,159,000	1,161,000	2,000
		31,969,000	32,660,000	691,000
Total	$	31,969,000	32,660,000	691,000

The individual securities that have unrealized losses have been deemed not to require an adjustment for impairment as the unrealized losses have resulted from instability in the financial markets, rather than underlying weakness in the investment funds. As a result of these factors, as well as SWHS' intent and ability to hold the shares until a market price recovery, the investments are not considered other-than-temporarily impaired.

(4) Fair Value of Financial Instruments

SWHS adopted the provisions of FASB ASC 820-10-50, which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and establishes a framework for measuring fair value. FASB ASC 820-10-50 establishes a three-level hierarchy for fair value measurement based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. FASB ASC 820-10-50 expands disclosures about instruments measured at fair value. FASB ASC 820-10-50 applies to other accounting pronouncements that require or permit fair value measurements and, accordingly, FASB ASC 820-10-50 does not require any new fair value measurements. Adopting FASB ASC 820-10-50 did not have a material impact on SWHS and affiliates' financial position or results of operations.

As noted above, FASB ASC 820-10-50 establishes a three-level hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

Level 1 – inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 – inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets and inputs that are observable for the asset or liability, whether directly or indirectly, for substantially the same term as the financial instrument.

Level 3 – inputs to the valuation methodology are unobservable and significant to the fair value measurement.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The estimated fair value of certain financial instruments is reflected in the accompanying balance sheets in the following manner. The carrying amount of cash and cash equivalents, patient accounts receivable, accounts payable, accrued salaries and wages and payable to contractual agencies approximates fair value of these instruments. Fair values of assets whose use is limited are based on quoted market prices, if available, or estimated using quoted market prices for similar securities. The fair value of alternative investments is estimated based on information provided by investment managers.

The following table presents the balances of assets measured at fair value on a recurring basis at December 31, 2009:

	Fair value	Level 1	Level 2	Level 3
Assets:				
Investments:				
Money markets	$ 7,155,000	7,155,000	—	—
Mutual funds:				
Corporate Equity	37,785,000	37,785,000	—	—
Emerging markets	10,645,000	10,645,000	—	—
Short duration bond funds	10,702,000	10,702,000	—	—
Bonds:				
U.S. governemnt-sponsored agencies	5,697,000	5,697,000	—	—
Political subdivision of states, territories, and possessions	2,954,000	2,954,000	—	—
Unaffiliated industrial and other	527,000	527,000	—	—
Collective funds:				
International equity	15,912,000	—	15,912,000	—
Small cap equity	10,727,000	—	10,727,000	—
Corporate bonds	59,448,000	—	59,448,000	—
	$ 161,552,000	75,465,000	86,087,000	—
Liabilities:				
Interest rate swap	$ 8,468,000	—	8,468,000	—

The following table presents information for investments where the NAV was used as a practical expedient to measure fair value at December 31, 2009:

	Fair value	Redemption frequency	Redemption notice period
Collective funds	$ 86,087,000	Daily	1 day

The following table presents the balances of assets measured at fair value on a recurring basis at December 31, 2008:

	Fair value	Level 1	Level 2	Level 3
Assets:				
Investments:				
Money markets	$ 73,508,000	73,508,000	—	—
Bonds:				
U.S. government-sponsored agencies	6,628,000	6,628,000	—	—
Political subdivision of states, territories, and possessions	2,435,000	2,435,000	—	—
Mutual funds:				
Corporate equity	704,000	704,000		
Emerging markets	5,184,000	5,184,000	—	—
Short duration bond funds	9,631,000	9,631,000	—	—
Collective funds:				
International equity	20,200,000	—	20,200,000	—
Small cap equity	5,375,000	—	5,375,000	—
Large cap equity	25,229,000	—	25,229,000	—
Corporate bonds	21,180,000	—	21,180,000	—
	$ 170,074,000	98,090,000	71,984,000	—
Liabilities:				
Interest rate swap	$ 21,157,000	—	21,157,000	—

(5) Property, Plant and Equipment

Property, plant and equipment are composed of the following at December 31, 2009 and 2008:

	2009	2008
Land and land improvements	$ 54,039,000	43,572,000
Buildings	285,759,000	243,845,000
Equipment:		
Fixed	24,103,000	24,099,000
Major movable	226,591,000	206,751,000
Minor	1,346,000	1,372,000
Leasehold improvements	5,614,000	1,976,000
	597,452,000	521,615,000
Accumulated depreciation	(260,629,000)	(230,551,000)
	336,823,000	291,064,000
Construction in progress	16,715,000	25,193,000
	$ 353,538,000	316,257,000

(6) Joint Ventures

SWHS' investment in a joint venture consisted of a 45.8% ownership interest in Southwest Washington Regional Surgery Center, LLC. The carrying value of SWHS' investment in this joint venture was approximately $1,852,000 and $1,978,000 as of December 31, 2009 and 2008, respectively. This investment is accounted for using the equity method and is included in other assets in the accompanying consolidated balance sheets. The equity in earnings of Southwest Washington Regional Surgery Center, LLC was $2,457,000 in 2009 and is included in nonoperating income in the consolidated statements of operations. Distributions totaling $2,583,000 were received in fiscal 2009.

SWHS' investment in a joint venture consisted of a 50% ownership interest in Southwest Washington Imaging Center. The carrying value of SWHS' investment in this joint venture was approximately $275,000 and $297,000 as of December 31, 2009 and 2008, respectively. This investment is accounted for using the equity method and is included in other assets in the accompanying consolidated balance sheets. The equity in earnings of Southwest Washington Imaging Center was a loss of $297,000 in fiscal 2009 and is included in nonoperating income in the consolidated statements of operations. SWHS made capital contributions of $275,000 in 2009. No distributions were received in fiscal 2009.

(7) Line of Credit

SWHS signed a line-of-credit agreement in 2008 and may borrow up to $5,000,000 for working capital and short-term expenditures under the agreement. The line of credit has a two-year initial term and annual renewals thereafter. There was $5,000,000 and $0 outstanding on the line of credit at December 31, 2009 and 2008, respectively. The interest rate was 5.00% and 2.75% at December 31, 2009 and 2008, respectively, and is based upon the bank's prime rate minus 0.50%.

(Continued)

(8) Long-Term Debt

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

		2009	2008
Washington Health Care Facilities Authority:			
Revenue Bonds, Series 1999, 3.0% to 5.0%, due through 2028	$	51,365,000	52,995,000
Revenue Bonds, Series 2008, variable interest, due through 2034		111,300,000	113,025,000
Note payable, 0.0%, due through 2014		1,350,000	—
Note payable, 6.0%, due through 2027		12,606,000	13,027,000
Other debt		634,000	807,000
Unamortized bond discount		(893,000)	(956,000)
		176,362,000	178,898,000
Less current portion		(4,403,000)	(3,777,000)
	$	171,959,000	175,121,000

During fiscal 1999, the Washington Health Care Facilities Authority (the Authority) issued $65,655,000 of tax exempt revenue bonds (1999 Revenue Bonds) on behalf of the Medical Center. The agreement with the Authority for the 1999 Revenue Bonds requires that the Medical Center establish a bond fund. This fund is used for the payment of bond principal and interest. Proceeds from the 1999 Revenue Bonds were used for acquiring, constructing, remodeling and equipping certain Medical Center facilities.

During 2008, the Authority issued $113,025,000 of tax-exempt revenue bonds (2008A Revenue Bonds and 2008B Revenue Bonds) (collectively, the 2008 Revenue Bonds) on behalf of the Medical Center. The 2008 Revenue Bonds bear variable interest based on weekly remarketing, not to exceed 12% per annum. In conjunction with the issuance, the Medical Center entered into two three-year letter of Credit and Reimbursement Agreements with two financial institutions. The 2008 Revenue Bonds, while subject to a long-term amortization period, may be put to the underlying letter of credit upon a failed remarketing. In an event of a draw under agreements, and amounts remain outstanding after 30 days, such amounts are converted to a term loan due in either equal semi-annual payments with the first principal installment not due less than one year after the draw and the balance paid in full on the third anniversary of the draw or paid in full upon expiration of the agreement. The agreement with the Authority for the 2008 Revenue Bonds requires that the Medical Center establish a bond fund and a project fund. These funds are used for the payment of bond principal and interest and costs of refunding the outstanding principal amount of the Washington Health Care Facilities Authority Revenue Bonds, Series 2004A and 2004B and paying certain of the initial fees associated with the Letters of Credit. As of December 31, 2009 and 2008, there was $135,000 and $784,000, respectively, on deposit in these funds, which is included in the current portion of funds held by trustee in the accompanying balance sheets.

The 1999 Revenue Bonds and the 2008 Revenue Bonds are secured by the Medical Center's gross revenues. The 1999 Revenue Bonds maturing on or after September 1, 2010 are redeemable at the option of the Medical Center at a redemption price of 101%, beginning September 1, 2009, declining to 100.5% on September 1, 2010 and 100% on September 1, 2011 and thereafter. The 2008 Revenue Bonds are redeemable in whole or in part at the option of the Medical Center at no premium. Principal payment requirements on the 1999 and 2008 Revenue Bonds and other long-term debt are as follows:

	Revenue bonds	Notes payable	Other debt	Total
Year ending December 31:				
2010	$ 3,525,000	717,000	161,000	4,403,000
2011	3,755,000	744,000	188,000	4,687,000
2012	3,785,000	772,000	196,000	4,753,000
2013	4,100,000	802,000	85,000	4,987,000
2014	4,245,000	834,000	4,000	5,083,000
Thereafter	143,255,000	10,087,000	—	153,342,000
	$ 162,665,000	13,956,000	634,000	177,255,000

The agreements with the Authority contain, among other things, provisions placing restrictions on additional borrowings and leases and requiring the maintenance of debt service coverage and other ratios.

The fair value of long-term debt, including current portion of long-term debt, is shown below. Fair value is estimated using interest rates as of December 31, 2009 and 2008 that the Medical Center could receive on essentially risk-free assets sufficient to extinguish the obligations.

	2009		2008	
	Carrying value	Fair value	Carrying value	Fair value
Long-term debt	$ 177,255,000	177,455,000	179,854,000	171,135,000

In 2009, the interest cost on borrowed funds held by the trustee under the 1999 and 2008 Revenue Bonds was $7,700,000, which was charged to operations.

The Medical Center entered into an interest rate management transaction (swap) during fiscal year 2005 with a total notional amount of $57,500,000 to convert variable rates to a fixed rate of 3.51% for the 2004B Revenue Bonds. The 2004B Revenue Bonds were defeased with the issuance of the 2008 Revenue Bonds. This interest rate swap has now been associated with the 2008B Revenue Bonds. In measuring the interest rate swap at fair value, the Medical Center has recorded an estimated liability of $4,241,000 and $12,585,000 as of December 31, 2009 and 2008, respectively, which has been recorded in the accompanying balance sheets as the fair value of interest rate swaps. Change in the fair value of the interest rate swap, which was $8,344,000 for the year ended December 31, 2009, has been included in the change in fair value of interest rate swap in the consolidated statement of operations.

During fiscal year 2007, the Medical Center entered into a forward-starting interest rate swap transaction with a total notional amount of $53,325,000 with the intent to defease the 1999 Revenue Bonds in fiscal year 2009 by issuing a new series of Revenue Bonds. The new bonds were planned to be issued at a

(Continued)

variable rate; however, the forward-option contract effectively would have converted the variable rate to a fixed rate of 3.60% on a portion of the new bonds. The 1999 Revenue Bonds were not defeased; the swap transaction went into effect in August 2009 and was associated with the 2008A Revenue Bonds. In measuring the forward-starting interest rate swap at fair value, the Medical Center has recorded an estimated liability of $4,227,000 and $8,572,000 as of December 31, 2009 and 2008, respectively, which has been recorded in the accompanying balance sheets as the fair value of interest rate swaps. Change in the fair value of the interest rate swap, which was $4,345,000 for the year ended December 31, 2009, has been included in the change in fair value of interest rate swap in the consolidated statement of operations.

The outstanding interest rate swap transactions allow the Medical Center to terminate the financial instruments by requiring full settlement of any interest or termination value upon 20 days notice given on the first business day of each month. The counterparty can terminate the swaps, requiring full settlement of any interest or termination value, only if the Medical Center's credit rating falls to BBB- or equivalent.

As of December 31, 2009, the above transactions do not meet the criteria for hedge accounting; therefore, any change in fair value under the agreements is recorded as change in fair value of interest rate swaps in nonoperating income in the accompanying statements of operations and changes in net assets. The fair value of the swaps is determined by the spread in interest rates and adjusted for credit risk factors.

(9) Benefit Plans

Defined Benefit Pension Plan

SWHS sponsors a noncontributory defined benefit pension plan, the Southwest Washington Health System Retirement Plan (the Plan), covering all employees who meet requirements as specified in the Plan. The assets of the Plan are available to pay the benefits of all eligible employees of the Plan. The Plan has two benefit structures that include a cash balance and a final average pay structure. The cash balance structure provides an annual benefit payment based on years of service in addition to an interest credit; the cash balance benefit is available for those hired on or after January 1, 2009. The final average pay structure provides a lifetime monthly benefit based on the participant's average compensation over a specified period of employment; the final average pay benefit is available for those hired before January 1, 2009.

The following table sets forth disclosures related to the Plan in accordance with FASB ASC 715-20-65, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* at December 31, 2009 and 2008. The roll forward period for the change in projected benefit obligation and change in fair value of plan assets in the 2008 column is for the three month period ending December 31, 2008.

		2009	2008
Change in projected benefit obligation:			
Projected benefit obligation (PBO) at beginning of period	$	154,389,000	119,036,000
Service cost		9,358,000	1,730,000
Interest cost		9,170,000	2,204,000
Actuarial loss on PBO		3,097,000	32,087,000
Benefits paid		(2,884,000)	(668,000)
Projected benefit obligation at end of year		173,130,000	154,389,000
Change in fair value of plan assets:			
Fair value of assets at beginning of year		77,038,000	87,368,000
Actual return on plan assets		15,186,000	(11,442,000)
Employer contribution		12,690,000	1,780,000
Benefits paid		(2,884,000)	(668,000)
Fair value of assets at end of year		102,030,000	77,038,000
Reconciliation of funded status:			
Funded status		71,100,000	77,351,000
Net amount recognized	$	71,100,000	77,351,000
Amounts recognized in the balance sheets consist of:			
Accrued pension liability	$	71,100,000	77,351,000
Accumulated change in net assets		51,594,000	56,722,000

The accumulated benefit obligation for the Plan was $139,241,000 and $124,695,000 at December 31, 2009 and 2008, respectively.

Net periodic benefit cost for the year ended December 31, 2009, included the following components and is included in employee benefits in the accompanying statements of operations and changes in net assets:

		2009
Service cost	$	9,358,000
Interest cost		9,170,000
Expected return on plan assets		(8,665,000)
Amortization of prior service costs		5,000
Amortization of gain/loss		1,700,000
Net periodic pension cost	$	11,568,000

(a) Assumptions

SWHS used the following actuarial assumptions to determine its benefit obligations at December 31, 2009 and 2008, with measurement dates of December 31, 2009 and 2008:

	2009	2008
Discount rate	6.00%	6.00%
Rate of increase in future compensation levels	5.03	5.03

SWHS used the following actuarial assumptions to determine its net periodic benefit cost for the year ended December 31, 2009:

	2009
Discount rate	6.00%
Rate of increase in future compensation levels	5.03
Expected long-term rate of return on plan assets	8.50

This discount rate is based on a proprietary yield curve tool used by the Plan's actuary, which uses a composite of high-yield, investment-grade corporate bonds and the projected payouts from the Plan to develop an equivalent yield rate to use in determining Plan liabilities.

The expected long-term rate of return on plan assets was based on the asset allocation mix and the long-term historical return for each asset class, taking into account current and expected market conditions. SWHS utilizes an investment consultant to assist in the return assumptions used in determining the expected long-term rate of return. The actual return on pension plan assets was approximately 16.4% and (13.3%) for 2009 and 2008, respectively. In the calculation of pension plan expense, the expected long-term rate of return on plan assets is applied to a calculated value of plan assets that recognizes changes in fair value over a four-year period. This practice is intended to reduce year-to-year volatility in pension expense, but it can have the effect of delaying the recognition of differences between actual returns and expected returns based on the long-term rate of return assumptions.

(b) Pension Plan Assets

The asset allocation of the SWHS's pension plan at December 31, 2009 and 2008 is as follows:

	2009	2008
Equity securities	78%	60%
Debt securities	17	40
Other	5	—

Pension plan assets are managed according to an investment policy adopted by the Plan's trustees. Professional investment managers are retained to manage specific asset classes and professional consulting is utilized for investment performance reporting. The primary objective of the Plan's trustees is to achieve the highest possible total return commensurate with safety and preservation of capital in real, inflation-adjusted terms. The objective includes having funds invested in the long-term, which protect the principal and produce returns sufficient to meet future benefit obligations. The investment policy includes an asset allocation that includes equity securities, debt securities and cash/other investments. The target allocations are 60% equity and 40% debt. Assets are rebalanced quarterly when balances fall outside of the approved range for each asset class.

In accordance with FASB ASC 820-10-50, financial assets and financial liabilities measured at fair value are grouped in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to estimate fair value. These levels and the adoption of FASB ASC 820-10-50 are further discussed in note 4.

Following is a description of the valuation methodologies used for plan assets measured at fair value.

- Money Market Funds: Valued at fair value with a unit value of one dollar and includes interest earned on the investment.
- Mutual Funds: Valued at the NAV of shares held by the plan at year end.
- Common and Collective Trusts: Valued at fair value of the underlying assets on close of the valuation date and is expressed in units. The unit value is determined at the valuation date by dividing the value of the entire common and collective trust by the number of units.
- Real Estate Investment Fund and Hedge Fund: Valued based on the fair value of the underlying assets as supported by audited financial statements.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Plan believes it valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Plan's assets at fair value as of December 31, 2009:

Assets	Total fair value	Level 1	Level 2	Level 3
Cash	$ 7,041,730	7,041,730	—	—
Fixed income	7,637,270	7,637,270	—	—
Hedge capital appreciation	13,800,000	—	—	13,800,000
Large cap	30,828,000	30,828,000	—	—
Mid cap	4,876,000	4,876,000	—	—
Small cap	7,683,000	7,683,000	—	—
Emerging markets	9,612,000	—	—	9,612,000
Long-short hedge	15,054,000	—	—	15,054,000
Distressed debt	5,498,000	—	—	5,498,000
Total plan assets at fair value	$ 102,030,000	58,066,000	—	43,964,000

The following table presents a reconciliation of the beginning and ending balances of those Level 3 assets:

	Fair value measurements Level 3
Fair value January 1, 2009	$ 40,536,000
Realized and unrealized (losses) gains, net	2,347,000
Purchases, issuances and settlements, net	1,081,000
Fair Value December 31, 2009	$ 43,964,000

(c) *Cash Flows*

SWHS' policy with respect to funding the Plan is to fund at least the minimum required by the Employee Retirement Income Security Act of 1974, as amended, plus such additional amounts deemed appropriate. In fiscal year 2010, the Medical Center expects to contribute approximately $7,570,000 to the Plan.

Benefit payments, which reflect expected future service, as appropriate, are expected to be paid as follows for the years ending December 31:

	Pension benefits
2010	$ 3,513,000
2011	4,137,000
2012	4,719,000
2013	5,605,000
2014	6,692,000
2015 – 2018	52,719,000

These estimates are based on assumptions about future events. Actual benefit payments may vary significantly from these estimates.

Management is not aware of any settlements or curtailments that would require additional recognition during 2009.

Southwest Washington Medical Center Defined Contribution Retirement Plan

Employees who complete one hour of service are eligible to participate in the Southwest Washington Medical Center Defined Contribution Retirement Plan, a defined contribution retirement plan. The level of contribution depends on, among other things, the level of employee contributions to the plan with the Medical Center matching up to 3% of the employees' eligible annual compensation.

Employer contributions under this plan were $3,488,000 in 2009 and are included in employee benefits in the consolidated statement of operations.

(10) Commitments and Contingencies

(a) Operating Leases

SWHS has certain noncancelable operating leases for equipment and facilities, expiring at various dates through 2014 and thereafter. Future minimum lease commitments on these noncancelable operating leases are as follows:

Year ending December 31:	
2010	$ 9,372,000
2011	8,953,000
2012	7,505,000
2013	5,118,000
2014	5,178,000
Thereafter	31,443,000
	$ 67,569,000

(d) Litigation

SWHS and affiliates are involved in litigation arising in the normal course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on SWHS and affiliates' future financial position or results of operations.

The healthcare industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, payment for patient services and Medicare and Medicaid fraud and abuse. Government activity has continued with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs, together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that SWHS and affiliates are in compliance with the fraud and abuse regulations as well as other applicable government laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

(e) Collective Bargaining Agreements

Approximately 32% of the Medical Center's employees are covered under collective bargaining agreements, including nurses, professional employees and service employees as of December 31, 2009. No contracts expire within the next year.

(11) Contributions Receivable

At December 31, 2009, the Foundation had received unconditional promises to give of approximately $22,092,000, which are shown net of unamortized discounts of $51,000. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions.

Pledges of financial support are recorded as assets of the Foundation at the time unconditional pledges are made. Pledges receivable due in excess of one year are discounted between 1.62%–4.98% depending upon the year the contribution was recorded.

Pledges that are silent as to the date upon which the Foundation is to receive the funds have been included in amounts due in less than one year or unspecified and are not discounted. Contributions receivable at December 31, 2009 and 2008 consist of the following:

		2009	2008
Unconditional promises to give before unamortized discount	$	22,092,000	23,018,000
Less unamortized discount		(51,000)	(155,000)
Net unconditional promises to give	$	22,041,000	22,863,000
Amounts due in:			
Less than one year	$	612,000	417,000
One to five years		2,738,000	2,916,000
More than five years		—	—
Unspecified		18,742,000	19,685,000
	$	22,092,000	23,018,000

(12) Temporarily and Permanently Restricted Net Assets

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

		2009	2008
Charity care	$	3,874,000	3,334,000
Program support		5,759,000	6,507,000
Capital assets		13,227,000	14,701,000
Other		294,000	493,000
	$	23,154,000	25,035,000

Income from permanently restricted net assets at December 31, 2009 and 2008 is restricted to:

		2009	2008
Charity care	$	4,691,000	4,644,000
Program support and other		2,434,000	2,430,000
Other		167,000	40,000
	$	7,292,000	7,114,000

SWHS has adopted the provisions of FASB Staff Position FSP 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classifications of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for all Endowment Funds* (the FSP), as subsequently incorporated into the Accounting Standards Codification Section 958-205-45. The FSP provides guidance on classifying net assets associated with donor-restricted endowment funds held by organizations that are subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA). A key component of the FSP is a requirement to classify the portion of a donor-restricted endowment fund that is not classified as permanently restricted net assets as temporarily restricted net assets until appropriated for expenditure. Another key component of the FSP is a requirement for expanded disclosures about all endowment funds. As a result of adopting UPMIFA, SWHS reclassified $804,000 of cumulative losses related to permanent endowments out of temporarily restricted net assets into unrestricted net assets as of December 31, 2008.

The Foundation's endowment consists of eleven individual funds established for a variety of purposes. Its endowment includes donor-restricted endowment funds. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Foundation's management has initially interpreted UPMIFA enacted in the State of Washington as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of the gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the Foundation and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Foundation
- The investment policies of the Foundation

Beginning on May 1, 2004, a new claims-made policy, which covers malpractice claims per claim of $11,000,000 with an aggregate limit of $25,000,000 and a self-insured retention per occurrence of $100,000, was purchased. In 2005, the self-insured retention per occurrence was increased to $250,000. In 2006 the Medical Center increased the limits of liability to $30,000,000 per claim and $30,000,000 in the aggregate with a $1,000,000 per claim self-insured retention. In 2008, the Medical Center increased the per claim self-insured retention to $1,500,000. In 2009, the Medical Center increased the per claim self-insured retention to $2,000,000. The Medical Center has recorded a liability for claims incurred but not reported during the new policy period based upon the estimate of losses from unreported incidents and claims as determined by its third-party actuary. Additionally, a liability has been recorded for the Medical Center's retention on known claims.

(14) Functional Expenses

SWHS provides general healthcare services to residents within its geographic location. Expenses related to providing these services are as follows:

	December 31, 2009
Healthcare services	$ 448,664,000
General and administrative	154,954,000
	$ 603,618,000

(15) Subsequent Events

(a) *Proposed Affiliation with PeaceHealth*

On March 19, 2010 the Southwest Washington Health Systems' Board of Trustees announced that the Boards of SWHS and PeaceHealth have agreed to enter a process of formal discussions between the two health care organizations. The formal discussions began immediately, with the process continuing through 2010. PeaceHealth is a Bellevue, Washington based not-for-profit health care system with medical centers, critical access hospitals, medical group clinics and laboratories located in Alaska, Washington and Oregon.

(b) *Healthcare Reform*

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

In connection with the preparation of the financial statements and in accordance with FASB ASC 855, SWHS has evaluated any subsequent events after the Balance Sheet date of December 31, 2009 through August 9, 2010, which was the date the financial statements were issued.