

November 12, 2012



Chuck Burns
US Bank
Global Corporate Trust Services
1420 Fifth Avenue, 7th Floor
PD-WA-T7CT
Seattle, Washington 98101

Dear Mr. Burns:

Enclosed is a copy of our financial statements for the quarter ended September 30, 2012. The operating margin for the third quarter is \$4.7 million which was \$300,000 below budget. Other operating revenue was significantly over budget for the quarter. The over budget for other operating revenue is primarily related to group purchasing revenue. The Medical Center engages in group purchasing activities in a number of industries (including healthcare) through a joint venture and through a controlled affiliate.

Overall patient volumes as measured by gross patient revenues were slightly above budget for the quarter but patient volumes were below budget. Patient admissions were 3% below budget and clinic visits were 4.2% below budget. However, our patient visits in 2012 are above prior year levels. Below budget patient net revenue was not fully offset by lower operating expenses. We continue to closely monitor our hospital admissions and clinic visit volumes to align our variable expenses with expected revenues generated to meet our budgeted margin for the year.

The third quarter total margin is \$5.6 million as compared to \$6.8 million in third quarter of 2011.

Our cash and investments, excluding trustee funds, totaled \$224,317,000 at September 30, 2012, representing an increase from the same period in 2011 of \$6,427,000 due in part to the Medical Center's operating income and changes in the investment values. Ongoing capital expenditures were \$11.0 million for the third quarter compared to \$7.8 million in third quarter of 2011 primarily due to the timing of budgeted capital expenditures in 2012. Capital expenditures for further build-out of the Jones Pavilion were \$8.3 million for the third quarter of 2012 compared to \$9.4 million for the third quarter of 2011.

Sincerely,

A handwritten signature in black ink, appearing to read "Suzanne T. Anderson".

Suzanne T. Anderson
Senior Vice President
Chief Information Officer / Chief Financial Officer

Virginia Mason Medical Center
1100 Ninth Avenue, MS: M6-AC
Seattle, Washington 98101

Enclosures

VIRGINIA MASON MEDICAL CENTER
CONSOLIDATED BALANCE SHEETS (Unaudited)
As of September 30, 2012 and 2011 (in \$,000s)

	09-30-12 Actual	09-30-11 Actual
Assets:		
Current assets:		
Cash and cash equivalents	\$ 53,482	\$ 77,289
Patient accounts receivable, net of provision for uncollectible accounts of \$4,144 and \$4,088 in 2012 and 2011, respectively	96,984	78,910
Other receivables	10,386	7,576
Due from affiliates, net	2,796	2,868
Supplies inventory	14,092	12,925
Prepayments and other	4,593	5,736
Current portion of funds held by trustee	3,069	3,005
Current portion of board-designated investments	5,000	6,000
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Total current assets	190,402	194,309
Assets whose use is limited:		
Funds held by trustee, net of current portion	28,509	28,507
Board designated assets for:		
Capital improvements	131,460	103,519
Retirement plans	12,686	14,480
Professional liability	12,378	9,057
Other	12,435	10,669
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Assets whose use is limited, net of current portion	197,468	166,232
Land, buildings, and equipment, net of accumulated depreciation	489,986	468,832
Property Held For Future Use	27,895	29,132
Deferred financing costs, net of accumulated amortization	8,520	9,012
Beneficial interest and other assets	5,340	7,525
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Total Assets	\$ 919,611	\$ 875,042
Liabilities and Net Assets		
Current liabilities:		
Current portion of long-term debt	\$ 4,763	\$ 4,580
Accounts payable	21,371	21,157
Accrued liabilities:		
Salaries, wages, and benefits	55,967	51,327
Interest	2,416	2,440
Other payables	15,186	11,274
Current portion of reserve for professional liability claims and other	5,000	6,000
Current portion of accrued retirement expense	2,518	2,427
Current portion of estimated third-party payor settlements, net	500	500
Line of credit	10,000	10,000
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Total current liabilities	117,721	109,705
Other liabilities:		
Reserve for professional liability claims and other, net of current portion	16,394	18,591
Accrued retirement expense, net of current portion	80,639	66,037
Estimated third-party payor settlements, net of current portion	9,456	9,433
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Total other liabilities	106,489	94,061
Long-term debt, net of current portion	350,644	355,158
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Total liabilities	574,854	558,924
Net assets:		
Unrestricted	328,506	302,256
Temporarily restricted	12,145	9,926
Permanently restricted	4,106	3,936
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Total net assets	344,757	316,118
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Total liabilities and net assets	\$ 919,611	\$ 875,042

VIRGINIA MASON MEDICAL CENTER
CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)
Period ending September 30, 2012 and 2011 (in \$,000's)

	2012		2011	
	Third Quarter	YTD September 2012	Third Quarter	YTD September 2011
Changes in unrestricted net assets:				
Revenues, gains, and other support:				
Patient Service Revenue, net of contractual allowance	\$ 215,603	\$ 653,546	\$ 208,352	\$ 622,878
Provision for bad debt	(2,649)	(8,425)	(2,149)	(6,789)
Net Patient Service Revenue	<u>212,954</u>	<u>645,121</u>	<u>206,203</u>	<u>616,089</u>
Other operating revenues	17,208	39,028	9,657	27,233
Net assets released from restriction used for operating purposes	<u>213</u>	<u>959</u>	<u>185</u>	<u>832</u>
Total revenues, gains, and other support	<u>230,375</u>	<u>685,108</u>	<u>216,045</u>	<u>644,154</u>
Expenses:				
Salaries, wages & benefits	133,250	403,291	127,646	380,798
Supplies	45,624	129,663	41,711	118,152
Purchased services and other expenses	28,427	83,886	27,434	82,577
Interest and amortization	2,600	8,554	714	2,323
Depreciation	<u>10,076</u>	<u>28,542</u>	<u>7,863</u>	<u>22,972</u>
Total Operating Expenses	<u>219,977</u>	<u>653,936</u>	<u>205,368</u>	<u>606,822</u>
Federal, state, and local revenue and income taxes	<u>5,684</u>	<u>16,830</u>	<u>5,055</u>	<u>14,639</u>
Excess of revenues over expenses from operations	<u>4,714</u>	<u>14,342</u>	<u>5,622</u>	<u>22,693</u>
Nonoperating gains (losses):				
Investment income, net	1,223	4,117	1,654	3,897
Other-than-temporary impairment	-	(234)	(235)	(380)
Other, net	<u>(368)</u>	<u>(1,518)</u>	<u>(238)</u>	<u>(1,505)</u>
Nonoperating gains, net	<u>855</u>	<u>2,365</u>	<u>1,181</u>	<u>2,012</u>
Excess of revenues over expenses	<u>5,569</u>	<u>16,707</u>	<u>6,803</u>	<u>24,705</u>
Change in net unrealized gains and losses on investments	<u>6,198</u>	<u>11,074</u>	<u>(15,286)</u>	<u>(11,571)</u>
Net assets released from restriction used for land, buildings, and equipment	<u>-</u>	<u>3,300</u>	<u>-</u>	<u>5,393</u>
Transfer to Benaroya Research Institute at Virginia Mason	<u>-</u>	<u>(1,132)</u>	<u>(1,950)</u>	<u>(3,450)</u>
Transfer to Virginia Mason Foundation	<u>(789)</u>	<u>(2,709)</u>	<u>(865)</u>	<u>(3,025)</u>
Increase/(Decrease) in unrestricted net assets	<u>\$ 10,978</u>	<u>\$ 27,240</u>	<u>\$ (11,298)</u>	<u>\$ 12,052</u>

VIRGINIA MASON MEDICAL CENTER
Consolidated Statements of Changes in Net Assets (Unaudited)
Year to date September 30, 2012 and year ended December 31, 2011
(In thousands)

	Unrestricted net assets	Temporarily restricted net assets	Permanently restricted net assets	Total
Balance, December 31, 2010	\$ 290,204	14,155	3,936	308,295
Excess of revenues over expenses:	33,533	—	—	33,533
Change in net unrealized gains and losses on investment:	(3,970)	(433)	—	(4,403)
Change in funded status of pension plans	(12,538)	—	—	(12,538)
Net assets released from restriction used for land, buildings and equipment	1,882	(1,882)	—	—
Donated land and building	2	—	—	2
Transfer to Benaroya Research Institute at Virginia Masor	(3,450)	—	—	(3,450)
Transfer to Virginia Mason Foundation	(4,397)	—	—	(4,397)
Restricted donations	—	5,367	—	5,367
Change in beneficial interest in Virginia Mason Foundatior	—	(1,374)	139	(1,235)
Net assets released from restriction used for operating purpose	—	(1,715)	—	(1,715)
Change in net assets	11,062	(37)	139	11,164
Balance, December 31, 2011	301,266	14,118	4,075	319,459
Excess of revenues over expenses:	16,707	—	—	16,707
Change in net unrealized gains and losses on investment:	11,074	389	—	11,463
Net assets released from restriction used for land, buildings, and equipment	3,300	(3,300)	—	—
Transfer to Benaroya Research Institute at Virginia Masor	(1,132)	—	—	(1,132)
Transfer to Virginia Mason Foundation	(2,709)	—	—	(2,709)
Restricted donations	—	1,897	—	1,897
Change in beneficial interest in Virginia Mason Foundatior	—	—	31	31
Net assets released from restriction used for operating purpose	—	(959)	—	(959)
Change in net assets	27,240	(1,973)	31	25,298
Balance, September 30, 2012	\$ 328,506	12,145	4,106	344,757

VIRGINIA MASON MEDICAL CENTER
CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
For the period ending September 30, 2012 and 2011 (in \$,000s)

	09-30-12 Actual	09-30-11 Actual
Cash flows from operating activities:		
Change in net assets	\$ 25,298	7,823
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Restricted donations provided for property and other	(310)	(1,050)
Depreciation	29,041	23,476
Noncash interest expense	329	334
(Gain)/Loss on disposal of property	(44)	38
Realized (gains) on investments	(1,581)	(998)
Change in net unrealized (gains) on investments	(9,113)	3,002
Transfer to Benaroya Research Institute at Virginia Mason	1,132	3,450
Transfer to Virginia Mason Foundation	2,709	3,025
Equity income of joint venture	1,094	(1,174)
Provision for bad debts	8,425	6,789
Change in operating assets and liabilities:		
Patient accounts receivable, net	(22,228)	(14,909)
Other receivables, supplies inventory and prepayments, and other	882	(2,088)
Accounts payable, accrued salaries, wages and benefits, and other payables	(9,960)	(8,047)
Accrued interest	(4,845)	(4,876)
Accrued retirement expense	1,758	1,623
Estimated third-party payor settlements, net	(595)	2,241
Reserve for professional liability claims and other	(598)	(191)
Net cash provided by operating activities	<u>21,394</u>	<u>18,468</u>
Cash flows from investing activities:		
Proceeds from sale of land, buildings, and equipment	62	182
Expenditures for land, buildings, and equipment	(45,701)	(51,718)
Proceeds from sale of board-designated investments	112,242	113,073
Purchases of board-designated investments	(119,844)	(103,288)
Proceeds from sale of trustee held funds investments	22,305	23,626
Purchases of trustee held investments	(16,766)	(18,132)
Change in other assets	202	202
Net cash used in investing activities	<u>(47,500)</u>	<u>(36,055)</u>
Cash flows from financing activities:		
Repayment of long-term debt	(4,197)	(3,756)
Borrowings under line of credit	30,000	30,000
Repayment under line of credit	(30,000)	(30,000)
Transfer to Benaroya Research Institute at Virginia Mason	(1,132)	(3,450)
Transfer to Virginia Mason Foundation	(2,709)	(3,025)
Change in due to/due from affiliates, net	(7,727)	(8,130)
Restricted donations provided for property and other	310	1,050
Net cash used in financing activities	<u>(15,455)</u>	<u>(17,311)</u>
Net (decrease) in cash and cash equivalents	(41,561)	(34,898)
Cash and cash equivalents, beginning of year	<u>95,043</u>	<u>112,187</u>
Cash and cash equivalents, end of the month	<u>\$ 53,482</u>	<u>77,289</u>

VIRGINIA MASON MEDICAL CENTER
PERFORMANCE RATIOS (Unaudited)
For nine months period ending September 30, 2012 and 2011

	09-30-12	09-30-11
	<u>Actual</u>	<u>Actual</u>
OPERATING RATIOS:		
EBIDA margin	8.04%	7.99%
Operating margin	2.09%	3.52%
Excess margin	2.43%	3.82%
Liquidity		
- Working capital (Current) ratio	1.62	1.77
Coverage of debt service		
- Current	2.93	2.94
Return on equity	7.5%	11.4%
CAPITAL RATIOS:		
Days in receivables (net)	41.3	35.1
Days cash on hand - Available funds	79.7	82.5
Days cash on hand - All funds	94.4	97.7
Cushion ratio	8.11	11.39
Debt/net plant	68.6%	72.2%

**VIRGINIA MASON MEDICAL CENTER
OPERATING STATISTICS
2Qrt12, 1Qrt12, Y2011, Y2010, and Y2009**

				<u>Year-End</u>			
	<u>3rd Quarter</u> <u>2012</u>	<u>2nd Quarter</u> <u>2012</u>	<u>1st Quarter</u> <u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
<u>Full-time Equivalent (FTE) Employees</u>							
Physician	400	402	400	387	375	364	352
Other	4,392	4,380	4,354	4,195	4,048	3,975	3,807
Total	4,791	4,782	4,754	4,582	4,424	4,340	4,159
<u>Provider Visits</u>							
Downtown	91,876	97,895	94,089	391,299	400,720	411,532	391,019
Satellites	109,070	114,687	111,797	440,728	433,686	431,762	418,363
Total	200,946	212,582	205,886	832,027	834,406	843,294	809,382
<u>Patient Days</u>							
	21,533	21,040	21,862	74,925	69,547	71,853	71,887
<u>Admissions at Virginia Mason Hospital</u>							
Acute	3,896	3,955	4,072	15,873	14,946	16,316	16,440
Rehabilitation	123	110	113	462	397	443	471
Total	4,019	4,065	4,185	16,335	15,343	16,759	16,911
<u>Average Daily Census</u>							
Critical Care	18.73	18.31	17.78	18.21	17.39	16.46	17.06
Medical/Surgical	172.85	170.63	179.89	174.09	160.43	166.63	165.86
Rehabilitation	11.65	10.12	11.87	12.98	12.72	13.77	13.45
Total	203.23	199.05	209.54	205.27	190.54	196.86	196.47
<u>Length of Stay</u>							
Acute	4.52	4.35	4.42	4.42	4.34	4.10	4.06
Rehabilitation	8.72	8.37	9.56	10.25	11.69	11.35	10.46
<u>Average Beds in Service</u>							
	254	254	254	254	239	247	243
<u>Observation Days</u>							
	1,005	905	928	3,204	4,326	3,599	5,302
<u>Percentage Occupancy</u>							
	92.15%	91.03%	94.58%	80.82%	79.72%	79.70%	80.83%
<u>Case Mix Index (Medicare Grouper)</u>							
	1.8671	1.8626	1.7963	1.8162	1.8348	1.8083	1.7947
<u>Surgical Cases (Downtown)</u>							
Inpatient	1,836	1,887	1,847	7,507	7,235	7,711	7,750
Outpatient	2,546	2,669	2,473	10,489	10,006	9,911	8,632
Total	4,382	4,556	4,320	17,996	17,241	17,622	16,382
<u>Hospital Emergency Visits</u>							
	6,030	5,694	5,634	22,126	22,722	24,543	27,158