



LIFESPAN CORPORATION AND AFFILIATES

Auditors' Reports as Required by OMB Circular A-133
and *Government Auditing Standards* and Related Information

Year ended September 30, 2010

LIFESPAN CORPORATION AND AFFILIATES

Auditors' Reports as Required by OMB Circular A-133
and *Government Auditing Standards* and Related Information

Year ended September 30, 2010

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Exhibit I

**Report on Compliance with Requirements That Could Have a
Direct and Material Effect on Each Major Program and on Internal Control
over Compliance in Accordance with OMB Circular A-133**

The Board of Directors
Lifespan Corporation:

Compliance

We have audited the compliance of Lifespan Corporation and Affiliates (Lifespan) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on Lifespan's major federal program for the year ended September 30, 2010. Lifespan's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs (Exhibit III). Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of Lifespan's management. Our responsibility is to express an opinion on Lifespan's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Lifespan's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Lifespan's compliance with those requirements.

In our opinion, Lifespan complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended September 30, 2010.

Internal Control over Compliance

Management of Lifespan is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Lifespan's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purposes of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Lifespan's internal control over compliance.



Exhibit I

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Directors, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

June 14, 2011



KPMG LLP
6th Floor, Suite A
100 Westminster Street
Providence, RI 02903-2321

Exhibit II

**Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

The Board of Directors
Lifespan Corporation:

We have audited the consolidated financial statements of Lifespan Corporation and Affiliates (Lifespan), as of and for the year ended September 30, 2010, and have issued our report thereon dated February 9, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Lifespan's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing an opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Lifespan's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Lifespan's internal control over financial reporting.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lifespan's consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.



Exhibit II

We noted certain matters that we reported to management of Lifespan in a separate letter dated April 12, 2011.

This report is intended solely for the information and use of the Board of Directors, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

February 9, 2011

LIFESPAN CORPORATION AND AFFILIATES

Schedule of Findings and Questioned Costs

Year ended September 30, 2010

(1) Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? _____ yes x no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? _____ yes x none reported

Noncompliance material to the financial statements noted? _____ yes x no

Federal Awards

Internal control over major program:

- Material weakness(es) identified? _____ yes x no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? _____ yes x none reported

Type of auditors' report issued on compliance for major program: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? _____ yes x no

Identification of Major Program

Name of federal program or cluster	CFDA #
Research and Development Cluster	Various

Dollar threshold used to distinguish between Type A and Type B programs: \$1,940,112

Auditee qualified as low-risk auditee? x yes _____ no

(2) Findings Relating to Financial Statement Findings Reported in Accordance with *Government Auditing Standards*

No matters are reported.

(3) Findings and Questioned Costs Relating to Federal Awards

None.

LIFESPAN CORPORATION AND AFFILIATES

Consolidated Financial Statements and Supplementary Information –
Schedule of Expenditures of Federal Awards

September 30, 2010 and 2009

(With Independent Auditors' Report Thereon)

LIFESPAN CORPORATION AND AFFILIATES

Consolidated Financial Statements and Supplementary Information –
Schedule of Expenditures of Federal Awards

September 30, 2010 and 2009

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KPMG LLP
6th Floor, Suite A
100 Westminster Street
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Independent Auditors' Report

The Board of Directors
Lifespan Corporation:

We have audited the accompanying consolidated statements of financial position of Lifespan Corporation and Affiliates (Lifespan) as of September 30, 2010 and 2009, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended. These consolidated financial statements are the responsibility of Lifespan's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 Lifespan's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Lifespan as of September 30, 2010 and 2009, and the results of their operations and changes in their net assets, and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

As described in note 3 to the consolidated financial statements, in 2009 Lifespan adopted the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Subtopic 958-250, *Classification of Donor-Restricted Endowment Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act*.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 9, 2011 on our consideration of Lifespan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our 2010 audit.

Our audits were performed for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards (Schedule 1) is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organization* and is not a required part of the 2010 basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the 2010 basic consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the 2010 basic consolidated financial statements taken as a whole.

KPMG LLP

February 9, 2011

LIFESPAN CORPORATION AND AFFILIATES

Consolidated Statements of Financial Position

September 30, 2010 and 2009

(In thousands)

Assets	2010	2009	Liabilities and Net Assets	2010	2009
Current assets:			Current liabilities:		
Cash and cash equivalents	\$ 84,544	\$ 125,487	Accounts payable	\$ 55,813	\$ 54,097
Patient accounts receivable	253,554	218,011	Accrued employee benefits and compensation	66,504	76,931
Less allowance for doubtful accounts	<u>(61,597)</u>	<u>(45,363)</u>	Other accrued expenses	29,582	17,519
Net patient accounts receivable	191,957	172,648	Current portion of long-term debt	9,785	9,370
Other receivables	27,810	13,939	Current portion of estimated third-party payor settlements	31,648	31,437
Current portion of contributions receivable, net	3,908	4,506	Current portion of estimated malpractice and other self-insurance costs	<u>29,215</u>	<u>27,651</u>
Total receivables	223,675	191,093	Total current liabilities	222,547	217,005
Assets limited as to use	22,297	20,310	Long-term debt, net of current portion	375,429	385,877
Inventories	17,881	17,087	Estimated third-party payor settlements, net of current portion	58,695	60,534
Prepaid expenses and other current assets	<u>8,706</u>	<u>8,214</u>	Estimated malpractice self-insurance costs, net of current portion	82,121	79,809
Total current assets	357,103	362,191	Accrued pension liability	190,293	145,201
Assets limited as to use	1,143,816	1,014,916	Other liabilities	<u>38,357</u>	<u>36,333</u>
Less amount required to meet current obligations	<u>(22,297)</u>	<u>(20,310)</u>	Total liabilities	967,442	924,759
Noncurrent assets limited as to use	1,121,519	994,606	Net assets:		
Property and equipment, net	760,500	758,859	Unrestricted	864,832	823,063
Other assets:			Temporarily restricted	303,016	283,301
Contributions receivable, net	4,827	6,697	Permanently restricted	<u>136,585</u>	<u>118,351</u>
Deferred charges and financing costs, net	9,604	10,354	Total net assets	1,304,433	1,224,715
Other noncurrent assets	<u>18,322</u>	<u>16,767</u>			
Total other assets	32,753	33,818	Total liabilities and net assets	\$ 2,271,875	\$ 2,149,474
Total assets	<u>\$ 2,271,875</u>	<u>\$ 2,149,474</u>			

See accompanying notes to consolidated financial statements.

Exhibit IV**LIFESPAN CORPORATION AND AFFILIATES**

Consolidated Statements of Operations and Changes in Net Assets

Years ended September 30, 2010 and 2009

(In thousands)

	<u>2010</u>	<u>2009</u>
Unrestricted revenues and other support:		
Net patient service revenue	\$ 1,439,677	\$ 1,376,405
Other revenue	69,569	68,029
Endowment earnings contributed toward community benefit	13,429	11,270
Net assets released from restrictions used for operations	17,673	18,554
Net assets released from restrictions used for research	78,450	67,916
Total unrestricted revenues and other support	<u>1,618,798</u>	<u>1,542,174</u>
Operating expenses:		
Compensation and benefits	924,403	875,280
Supplies and other expenses	359,926	347,733
Purchased services	86,698	82,940
Provision for bad debts	81,114	74,315
Depreciation and amortization	53,271	52,187
Interest	20,879	17,260
License fees	61,571	60,095
Total operating expenses	<u>1,587,862</u>	<u>1,509,810</u>
Income from operations	<u>30,936</u>	<u>32,364</u>
Nonoperating gains and losses:		
Unrestricted gifts and bequests	1,530	1,441
Unrestricted income from board-designated investments	2,074	2,064
Net realized gains (losses) on board-designated investments	6,885	(20,858)
Grants to outside agencies	(829)	(234)
Fundraising expenses	(3,973)	(4,763)
Other nonoperating gains (losses), net	337	(54)
Total nonoperating gains (losses), net	<u>6,024</u>	<u>(22,404)</u>
Excess of revenues over expenses	<u>\$ 36,960</u>	<u>\$ 9,960</u>

LIFESPAN CORPORATION AND AFFILIATES

Consolidated Statements of Operations and Changes in Net Assets (Continued)

Years ended September 30, 2010 and 2009

(In thousands)

	<u>2010</u>	<u>2009</u>
Unrestricted net assets:		
Excess of revenues over expenses	\$ 36,960	\$ 9,960
Other changes in unrestricted net assets:		
Change in funded status of pension and other postretirement plans, other than net periodic pension and postretirement benefit costs	(31,164)	(100,225)
Effect of changing pension and other postretirement plans' measurement date pursuant to ASC Topic 715	—	(5,957)
Net change in unrealized gains on investments available for sale	27,367	1,511
Net assets released from restrictions used for purchase of property and equipment	8,730	15,433
Other (decreases) increases	(124)	2,044
	<u>41,769</u>	<u>(77,234)</u>
Increase (decrease) in unrestricted net assets		
Temporarily restricted net assets:		
Gifts, grants, and bequests	92,099	87,850
Income from restricted endowment and other restricted investments	4,648	3,793
Net assets released from restrictions	(104,853)	(101,903)
Net realized and unrealized gains (losses) on investments	28,187	(8,102)
Reclassification from adoption of UPMIFA (note 3(h))	—	128,677
Other (decreases) increases	(366)	213
	<u>19,715</u>	<u>110,528</u>
Increase in temporarily restricted net assets		
Permanently restricted net assets:		
Gifts and bequests (note 13)	16,664	1,243
Net change in unrealized gains on investments	1,087	(3,798)
Reclassification from adoption of UPMIFA (note 3(h))	—	(128,677)
Other increases	483	253
	<u>18,234</u>	<u>(130,979)</u>
Increase (decrease) in permanently restricted net assets		
Increase (decrease) in net assets	79,718	(97,685)
Net assets, beginning of year	<u>1,224,715</u>	<u>1,322,400</u>
Net assets, end of year	<u>\$ 1,304,433</u>	<u>\$ 1,224,715</u>

See accompanying notes to consolidated financial statements.

Exhibit IV**LIFESPAN CORPORATION AND AFFILIATES**

Consolidated Statements of Cash Flows
 Years ended September 30, 2010 and 2009
 (In thousands)

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ 79,718	\$ (97,685)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Change in funded status of pension and other postretirement plans, other than net periodic pension and postretirement benefit costs	31,164	100,225
Effect of changing pension and other postretirement plans' measurement date pursuant to ASC Topic 715	—	5,957
Net realized and unrealized (gains) losses on investments	(63,526)	31,247
Permanently restricted gifts and bequests	(16,664)	(1,243)
Depreciation and amortization	53,271	52,187
Provision for estimated self-insurance costs	122,632	127,243
Decrease in liabilities for estimated self-insurance costs resulting from claims paid	(118,756)	(124,930)
Net increase in patient accounts receivable	(19,309)	(10,905)
Increase (decrease) in accounts payable	1,716	(5,800)
(Decrease) increase in accrued employee benefits and compensation	(10,427)	16,373
(Decrease) increase in estimated third-party payor settlements	(1,628)	8,388
Increase in all other current and noncurrent assets and liabilities, net	13,858	3,494
Net cash provided by operating activities	<u>72,049</u>	<u>104,551</u>
Cash flows from investing activities:		
Purchase of property and equipment	(54,912)	(70,100)
Net decrease (increase) in trustee-held bond funds	16,706	(66,800)
Other net increases in assets limited as to use	(82,080)	(7,701)
Net cash used in investing activities	<u>(120,286)</u>	<u>(144,601)</u>
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	—	114,985
Payments on long-term debt	(9,370)	(10,975)
Permanently restricted gifts and bequests	16,664	1,243
Net cash provided by financing activities	<u>7,294</u>	<u>105,253</u>
Net (decrease) increase in cash and cash equivalents	(40,943)	65,203
Cash and cash equivalents at:		
Beginning of year	<u>125,487</u>	<u>60,284</u>
End of year	<u>\$ 84,544</u>	<u>\$ 125,487</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	<u>\$ 21,754</u>	<u>\$ 15,248</u>

See accompanying notes to consolidated financial statements.

LIFESPAN CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2010 and 2009

(In thousands)

(1) Description of Organization

Lifespan Corporation and Affiliates (Lifespan) is an integrated regional health care delivery system of teaching hospitals and other care givers established in August 1994, with hospitals located throughout Rhode Island. Lifespan Corporation (Lifespan Corp.) is governed by a 17-member board of directors that includes the chairs of the boards of trustees of its four hospital affiliates. As a complement to its role in service and education, Lifespan actively supports research.

Lifespan Corp. is a nonprofit holding company located in Providence, Rhode Island, which operates for the benefit of and to support each of its nonprofit charitable hospitals and other affiliated corporations. The affiliates of Lifespan Corp. are governed by boards of trustees, which are elected annually by Lifespan Corp.'s directors.

Affiliated corporations of Lifespan Corp. are as follows:

<u>Sole corporate member</u>	<u>Affiliate</u>
Lifespan Corp.	Rhode Island Hospital (RIH) The Miriam Hospital (TMH) Emma Pendleton Bradley Hospital (Bradley) Newport Health Care Corporation (NHCC) RIH Ventures (RIHV) Hospital Properties, Inc. (HPI) R.I. Sound Enterprises Insurance Co. Ltd. (RISE) Lifespan Risk Services, Inc. (LRS) Lifespan Diversified Services, Inc. (LDS) Rhode Island Hospital Foundation (RIHF) The Miriam Hospital Foundation (TMHF) Bradley Hospital Foundation (BHF) Lifespan Foundation (LF) Lifespan Management Services Organization, Inc. (MSO) Lifespan of Massachusetts, Inc. (Lifespan MA)
Newport Health Care Corporation (NHCC)	Newport Hospital (NH) Newport Hospital Foundation, Inc. (NHF) NHCC Medical Associates, Inc. Newport Health Property Management, Inc.
Lifespan Diversified Services, Inc. (LDS)	VNA Technicare, Inc., d/b/a Lifespan Home Medical

LIFESPAN CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2010 and 2009

(In thousands)

(2) Charity Care and Other Community Benefits

The total net cost of charity care and other community benefits provided by Lifespan for the years ended September 30, 2010 and 2009 is summarized in the following table:

	<u>2010</u>	<u>2009</u>
Charity care	\$ 53,874	\$ 40,922
Medical education, net	54,040	49,978
Research	13,684	13,468
Subsidized health services	13,431	13,559
Community health improvement services and community benefit operations	1,541	1,253
Unreimbursed Medicaid costs	<u>2,886</u>	<u>1,531</u>
Total	<u>\$ 139,456</u>	<u>\$ 120,711</u>

Charity Care

Lifespan provides full charity care for individuals at or below twice the federal poverty level, with a sliding scale for individuals up to four times the poverty level. In addition, a substantial charity allowance is offered to all other uninsured patients. Lifespan determines the costs associated with providing charity care by aggregating the applicable direct and indirect costs, including compensation and benefits, supplies, and other operating expenses, based on data from its costing system. The total cost, excluding medical education and research, incurred by Lifespan to provide charity care amounted to \$53,874 and \$40,922 in 2010 and 2009, respectively. Charges forgone, based on established rates, amounted to \$210,292 and \$157,582 in 2010 and 2009, respectively.

Medical Education

Lifespan provides the setting for and substantially supports medical education in various clinical training and nursing programs. The total cost of medical education provided by Lifespan exceeds the reimbursement received from third-party payors by \$54,040 and \$49,978 in 2010 and 2009, respectively.

In 1969, RIH, TMH, Bradley, and certain other Rhode Island hospitals entered into an affiliation agreement to participate jointly in various clinical training programs and research activities with Brown Medical School, renamed The Warren Alpert Medical School of Brown University (Brown). In 2010, Brown named RIH its Principal Teaching Hospital. TMH and Bradley continue to be designated as major teaching affiliates. The goals of the partnership are to facilitate the expansion of joint educational and research programs in order to compete both clinically and academically. RIH sponsors 44 graduate medical education programs accredited by or under the auspices of the Accreditation Council for Graduate Medical Education (ACGME), while also sponsoring another 26 hospital-approved residency and fellowship programs. RIH serves as the principal setting for these clinical training programs, which encompass the following disciplines: internal medicine and medicine subspecialties, including hematology and oncology; orthopedics and orthopedic subspecialties; clinical neurosciences; general surgery and surgical specialties; pediatrics and pediatric specialties, including hematology and oncology; dermatology; radiology;

LIFESPAN CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2010 and 2009

(In thousands)

pathology; child psychiatry; emergency medicine and emergency medicine specialties; dentistry; and medical physics. TMH participates in Brown programs in internal medicine and medicine subspecialties, general surgery and surgical subspecialties, psychiatry, emergency medicine, orthopedics and dermatology. RIH and TMH provide stipends to residents and physician fellows while in training. Bradley participates in the Brown residency program in psychiatry and in the Child and Adolescent Psychiatry Fellowship.

RIH and TMH are also participating clinical training sites for residents from other programs in anesthesiology, pediatric dentistry, family medicine, infectious disease, obstetrics/gynecology (OB/Gyn) and OB/Gyn subspecialties, otolaryngology, podiatry, psychiatry, geriatric psychiatry, orthopedics, pulmonary medicine, rheumatology, general surgery, colorectal surgery, cardiothoracic surgery and radiation oncology programs. In addition, TMH Behavioral Medicine, in collaboration with Brown, sponsors research and clinical psychology training programs for interns, postdoctoral fellows, and faculty trainees.

With respect to nursing education, RIH, TMH, and NH have developed formal and informal educational affiliations with the University of Rhode Island College of Nursing; Rhode Island College; the Community College of Rhode Island; Salve Regina University; Boston College; Yale University; Regis College; Simmons College; St. Joseph's Health Services' School of Nursing; the University of Massachusetts campuses at Dartmouth, Boston, Amherst and Worcester; the University of Connecticut; New England Technical Institute; and the University of Pennsylvania, pursuant to which their nursing students obtain clinical training and experience at RIH, TMH, and NH. RIH, TMH, and NH do not receive any compensation from the various schools for providing a clinical setting for the student nurse training.

RIH sponsors training programs in the following medical fields: medical technology; diagnostic medical sonography; nuclear medical technology; radiologic technology; mammography; computed tomography; and magnetic resonance imaging. At RIH, clinical affiliations/student clinical training programs are provided through contracts with a number of colleges and universities in the professional areas of speech-language pathology and audiology, physical therapy, and occupational therapy. In addition, RIH serves as the clinical setting for training programs in histology, phlebotomy, child development and social work.

TMH sponsors training programs for a variety of allied health care professionals including electives in physical, speech, respiratory and occupational therapy, diagnostic radiology, nuclear medicine technology and educational programs in pathology, laboratory medicine and phlebotomy for high school students. In addition, training programs are provided for students in medical technology and social work.

Both RIH and TMH have clinical affiliations/student clinical training programs for pharmacy students provided through contracts with a number of colleges and universities.

Research

Lifespan conducts extensive medical research, with RIH and TMH in the forefront of biomedical health care delivery research and among the leaders nationally in National Institutes of Health programs. Lifespan also sponsors a significant level of these research activities, as indicated in the table on the previous page.

LIFESPAN CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2010 and 2009

(In thousands)

Federal support accounts for approximately 76% of all externally funded research at Lifespan. Researchers focus on clinical trials, which investigate prevention and treatment of HIV/AIDS, obesity, cancer, diabetes, cardiac disease, neurological problems, and mental health concerns. Researchers may work in the laboratory or with patients, or both.

Subsidized Health Services

Lifespan substantially subsidizes various health services including the following clinics: surgical, diabetes, resident/fellowships specialty training, dental, tuberculosis, adolescent, and Alzheimer's, as well as the Center for Special Children, Vanderbilt Rehab, early intervention, and occupational health. Lifespan also supports comprehensive mental health evaluation and treatment of children, adolescents, and families under several programs, including outpatient, day treatment, home based, school, and residential.

Community Health Improvement Services and Community Benefit Operations

Lifespan also provides numerous other services to the community for which charges are not generated. These services include certain emergency services, community health screenings for cardiac health, prostate cancer and other diseases, smoking cessation and weight loss programs, diabetes education, patient advocacy, foreign language translation, physician referral services, and charitable contributions.

Unreimbursed Medicaid Costs

Lifespan subsidizes the cost of treating patients who receive government assistance where reimbursement is below cost. Medicaid is a means-tested health insurance program, jointly funded by state and federal governments. States administer the program and set rules for eligibility, benefits, and provider payments within broad federal guidelines. The program provides health care coverage to low-income children and families, pregnant women, long-term unemployed adults, seniors, and persons with disabilities. Eligibility is determined by a variety of factors, which include income relative to the federal poverty line, age and immigration status, and assets. The unreimbursed Medicaid costs do not include any allocation of medical education or research costs.

(3) Summary of Significant Accounting Policies***(a) Basis of Presentation***

The consolidated financial statements include the accounts of Lifespan Corp. and its affiliates after elimination of significant intercompany accounts and transactions.

Lifespan considers events and transactions that occur after the consolidated statement of financial position date, but before the consolidated financial statements are issued, to provide additional evidence relative to certain estimates or to identify matters that require additional disclosure. These consolidated financial statements were issued on February 9, 2011 and subsequent events have been evaluated through that date.

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(b) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

(c) Cash and Cash Equivalents

Cash and cash equivalents include all highly liquid debt instruments with maturities of three months or less when purchased, excluding amounts limited as to use by board-designation or other arrangements under trust agreements.

(d) Investments and Investment Income

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Subtopic 820-10, *Fair Value Measurements and Disclosures* (ASC 820-10), defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. Fair value represents the price that would be received upon the sale of an asset or paid upon the transfer of a liability in an orderly transaction between market participants as of the measurement date. ASC 820-10 establishes a fair value hierarchy that prioritizes inputs used to measure fair value into three levels:

- Level 1 – quoted prices (unadjusted) in active markets that are accessible at the measurement date;
- Level 2 – observable prices that are based on inputs not quoted in active markets, but which are corroborated by market data; and
- Level 3 – unobservable inputs that are used when little or no market data is available.

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. In determining fair value, Lifespan utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible.

Following is a description of the valuation methodologies used for investments measured at fair value:

Cash and short-term investments: Valued at the net asset value (NAV) reported by the financial institution.

U.S. government/agency and corporate obligations: Valued using market quotations or prices obtained from independent pricing sources, which may employ various pricing methods to value the investments.

Corporate equity securities: Valued at the closing price reported by an active market in which the individual securities are traded.

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Collective investment funds: Valued using NAV as reported by the investment manager, which approximates the market values of the underlying investments within the fund or realizable value as estimated by the investment manager.

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the consolidated statements of financial position. Investments in collective investment funds with monthly pricing and liquidity are measured based on the fair value of the underlying investments; otherwise, such investments are recorded at historical cost. Investments of less than 5% in limited partnerships are also recorded at historical cost. Investments of 5% or more in limited partnerships, limited liability corporations, or similar investments are accounted for using the equity method. Investments in derivative financial instruments are not material. Investments in real estate included in assets held in trust as permanently restricted funds are measured at fair market value based on independent appraisals conducted by the trustee from time to time.

Lifespan has applied the accounting guidance in Accounting Standards Update No. 2009-12, *Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)* (ASU 2009-12), which permits the use of NAV or its equivalent reported by each underlying alternative investment fund as a practical expedient to estimate the fair value of the investment. These investments are generally redeemable or may be liquidated at NAV under the original terms of the subscription agreements or operations of the underlying funds. However, it is possible that these redemption rights may be restricted by the funds in the future in accordance with the underlying fund agreements, as applicable. Changes in market conditions, the economic environment, or the funds' liquidity provisions may significantly impact the NAV of the funds and, consequently, the fair value of Lifespan's interests in the funds. Although certain investments may be sold in a secondary market, the secondary market is not active and individual transactions are not necessarily observable. It is therefore reasonably possible that if Lifespan were to sell a fund in the secondary market, the sale could occur at an amount materially different than the reported value.

Investments designated by Lifespan as trading assets are reported at fair value, with gains or losses resulting from changes in fair value recognized in the consolidated statement of operations and changes in net assets as realized gains or losses on investments.

Investment income or loss (including realized gains and losses on investments, interest, and dividends) is included in the excess of revenues over expenses unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments other than those designated as trading assets or those accounted for using the equity method are excluded from the excess of revenues over expenses.

Realized gains or losses on sales of investments are determined by the average cost method. Realized gains or losses on unrestricted investments are recorded as nonoperating gains or losses; realized gains or losses on restricted investments are recorded as an addition to or deduction from the appropriate restricted net assets. For investment securities other than trading, a decline in the market value of the security below its cost that is designated to be other than temporary is recognized through an impairment charge classified as a realized loss, and a new cost basis is established.

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Investment income from funds available for self-insurance liabilities and funds held by trustees under bond indenture agreements is recorded as other revenue. Lifespan maintains a spending policy for certain board-designated funds of its patient care affiliates, which provides that investment income from such funds is recorded within unrestricted revenues as endowment earnings contributed toward community benefit.

Income from permanently restricted investments is recorded within nonoperating gains when unrestricted by donor and as an addition to the net assets of the appropriate temporarily restricted fund when restricted by donor.

(e) *Assets Limited as to Use*

Assets limited as to use primarily include designated assets set aside by Lifespan's Board for future capital improvements, over which the Board retains control and may at its discretion subsequently use for other purposes, and assets whose use by Lifespan has been permanently restricted by donors or limited by grantors or donors to a specific purpose, as well as assets held by trustees under bond indenture agreements, self-insurance arrangements, and irrevocable split-interest trusts. Amounts required to meet current liabilities of Lifespan are reported in current assets in the consolidated statements of financial position.

(f) *Property and Equipment*

Property and equipment acquisitions are recorded at cost. Depreciation is computed over the estimated useful life of each class of depreciable asset using the straight-line method. Buildings and improvements lives range from 5 to 40 years and equipment from 3 to 20 years. Certain software development costs are amortized using the straight-line method over a period of five years. Net 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.

(g) *Deferred Financing Costs*

Deferred financing costs, which relate to the issuance of long-term bonds payable to the Rhode Island Health and Educational Building Corporation (RIHEBC), are being amortized ratably over the periods the bonds are outstanding.

(h) *Classification of Net Assets*

FASB ASC Subtopic 958-250 (ASC 958-250) provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and also requires disclosures about endowment funds, including donor-restricted endowment funds and board-designated endowment funds.

Lifespan is incorporated in and subject to the laws of Rhode Island, which adopted UPMIFA effective as of June 30, 2009. Under UPMIFA, the assets of a donor-restricted endowment fund may be appropriated for expenditure by Lifespan in accordance with the standard of prudence prescribed

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by UPMIFA. As a result of this new law and the adoption of ASC 958-250, Lifespan has classified its net assets as follows:

- *Permanently restricted net assets* contain donor-imposed stipulations that neither expire with the passage of time nor can be fulfilled or otherwise removed by actions of Lifespan and primarily consist of the historic dollar value of contributions to establish or add to donor-restricted endowment funds.
- *Temporarily restricted net assets* contain grantor or donor-imposed stipulations as to the timing of their availability or use for a particular purpose, including research activities. These net assets are released from restrictions when the specified time elapses or when actions have been taken to meet the restrictions. Net assets of donor-restricted endowment funds in excess of their historic dollar value are classified as temporarily restricted net assets until appropriated by Lifespan and spent in accordance with the standard of prudence imposed by UPMIFA.
- *Unrestricted net assets* contain no donor-imposed restrictions and are available for the general operations of Lifespan. Such net assets may be designated by Lifespan for specific purposes, including to function as endowment funds.

Prior to 2009, Lifespan was subject to the Rhode Island Uniform Management of Institutional Funds Act (UMIFA), as amended. Rhode Island's enacted version of UMIFA required Lifespan to maintain the purchasing power of the historic dollar value of its donor-restricted endowment funds and, as a result, Lifespan annually added a portion of the funds' return to permanently restricted net assets to account for inflation. This requirement was eliminated by the enactment of UPMIFA, and accordingly, in 2009, Lifespan reclassified the \$128,677 cumulative amount of such additions from permanently restricted net assets to temporarily restricted net assets. See note 5 for more information about Lifespan's endowment.

(i) ***Excess of Revenues over Expenses***

The consolidated statements of operations and changes in net assets include excess of revenues over expenses. Changes in unrestricted net assets which are excluded from excess of revenues over expenses, consistent with industry practice, include the change in the funded status of pension and other postretirement plans, the effect of changing pension and other postretirement plans' measurement date pursuant to ASC Topic 715, the net change in unrealized gains on investments available for sale, and net assets released from restrictions used for purchase of property and equipment.

(j) ***Net Patient Service Revenue***

The Lifespan hospitals provide care to patients under Medicare, Medicaid, managed care, and commercial insurance contractual arrangements. The hospitals have agreements with many third-party payors that provide for payments to the hospitals at amounts less than their established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients,

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third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with some third-party payors.

Medicare and Medicaid utilize prospective payment systems for most inpatient hospital services rendered to program beneficiaries based on the classification of each case into a diagnostic-related group (DRG). Outpatient hospital services are primarily paid using an ambulatory payment classification system.

The majority of payments from managed care and commercial insurance companies are based upon negotiated fixed fee arrangements, whereby a combination of per diem rates and specific case rates are utilized for inpatient services, along with fixed fees applicable to outpatient services.

Settlements and adjustments arising under reimbursement arrangements with some third-party payors, primarily Medicare, Medicaid, and Blue Cross, are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Lifespan has classified a portion of accrued estimated third-party payor settlements as long-term because such amounts, by their nature or by virtue of regulation or legislation, will not be paid within one year. Changes in the Medicare and Medicaid programs, such as the reduction of reimbursement, could have an adverse impact on certain Lifespan affiliates.

(k) Provision for Bad Debts

The Lifespan hospitals grant credit without collateral to their patients, most of whom are local residents and are insured under third-party payor arrangements. Additions to the allowance for doubtful accounts are made by means of the provision for bad debts. Accounts deemed uncollectible are deducted from the allowance and subsequent recoveries are added. The amount of the provision for bad debts is based upon management's assessment of historical and expected net collections, business and economic conditions, trends in federal and state governmental health care coverage, and other collection indicators.

(l) Charity Care

The Lifespan hospitals provide care to patients who meet certain criteria under their charity care policies without charge or at amounts less than their established rates. Because the Lifespan hospitals do not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient service revenue.

(m) Donor-Restricted Gifts

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using interest rates applicable to the years in which the promises are received. Amounts received that are restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a donor or grantor restriction expires, that is, when a stipulated purpose restriction is accomplished, temporarily

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restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations and changes in net assets as net assets released from restrictions.

(n) Inventories

Inventories, consisting primarily of medical/surgical supplies and pharmaceuticals, are stated at the lower of cost or market.

(o) Estimated Self-Insurance Costs (note 9)

Lifespan is self-insured for losses arising from professional liability/medical malpractice, general liability, and workers' compensation claims. The provision for these self-insured losses includes estimates of the ultimate costs for both reported claims and claims incurred but not reported. RISE, Lifespan's affiliated captive insurance company, pays professional liability/medical malpractice and general liability claims. Lifespan has established a revocable trust fund for payment of workers' compensation claims. Independent actuaries have been retained to assist Lifespan with determining both the provision for self-insured losses and amounts to be deposited in funds available for self-insurance liabilities.

Lifespan provides self-insured health benefit options to the employees of all affiliates. Lifespan has recorded a provision for estimated claims, which is based on Lifespan's own experience. The provision for these self-insured losses includes estimates of the ultimate costs for both reported claims and claims incurred but not reported.

(p) Fair Value of Financial Instruments

The carrying amounts recorded in the consolidated statements of financial position for cash and cash equivalents, patient accounts receivable, contributions receivable, assets limited as to use, accounts payable, accrued expenses, estimated third-party payor settlements, and estimated self-insurance costs approximate their respective fair values. The estimated fair values of Lifespan's assets limited as to use and long-term debt are disclosed in notes 5, 8 and 12, respectively.

(q) Reclassifications

Certain 2009 amounts have been reclassified to conform with the 2010 reporting format.

(4) Disproportionate Share

RIH, TMH, Bradley, and NH (the Hospitals) are participants in the State of Rhode Island's Disproportionate Share Program, established in 1995 to assist hospitals which provide a disproportionate amount of uncompensated care. Under the program, Rhode Island hospitals, including the Hospitals, receive federal and state Medicaid funds as additional reimbursement for treating a disproportionate share of low income patients. Total payments to the Hospitals under the Disproportionate Share Program aggregated \$61,895 and \$57,016 in 2010 and 2009, respectively, and are reflected as part of net patient service revenue in the accompanying consolidated statements of operations and changes in net assets.

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In 2010 and 2009, the State of Rhode Island has assessed a license fee to all Rhode Island hospitals, based on each hospital's 2008 and 2007 net patient service revenue, respectively, as defined. The Hospitals' license fee expense was \$61,571 in 2010 and \$60,095 in 2009. The hospitals in the State of Rhode Island accepted the fee as part of an agreement with the State's Department of Health and Human Services in return for an equitable distribution of funds to those hospitals meeting certain criteria in providing services to the Medicaid population.

For periods beyond 2010, the federal government could change the level of federal matching funds for the Disproportionate Share Program. Accordingly, it may be necessary for the State of Rhode Island to modify the program and the reimbursement to Rhode Island hospitals under the program. At this time, the scope of such modifications or their effect on the Hospitals cannot be reasonably determined.

(5) Investments

The composition of assets limited as to use at September 30, 2010 and 2009 is set forth in the following table.

	<u>2010</u>	<u>2009</u>
Funds available for self-insurance liabilities	\$ 150,457	\$ 136,860
Unrestricted board-designated funds	515,452	426,047
Held by trustee under bond indenture agreements	52,151	68,857
Temporarily restricted funds	292,002	267,533
Permanently restricted funds	133,754	115,619
Total	<u>\$ 1,143,816</u>	<u>\$ 1,014,916</u>

Assets limited as to use at September 30 are classified as follows:

	<u>2010</u>	<u>2009</u>
Available-for-sale	\$ 864,299	\$ 635,810
Trading	279,517	379,106
Total	<u>\$ 1,143,816</u>	<u>\$ 1,014,916</u>

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Fair Value

The following table summarizes Lifespan's investments and assets held in trust by major category within the ASC 820-10 fair value hierarchy as of September 30, 2010 and 2009, as well as related strategy and liquidity/notice requirements:

	2010			Total	Redemption or liquidation	Days' notice
	Level 1	Level 2	Level 3			
U.S. equities:						
Large cap value	\$ 28,456	\$ —	\$ —	\$ 28,456	Daily	One
Mid-cap value	29,231	—	—	29,231	Daily	One
Large cap growth	35,796	—	—	35,796	Daily	One
Marketable alternatives:						
Multiple strategies	—	98,744	4,142	102,886	Quarterly-Annually	Sixty-Sixty-five
Absolute return strategies	—	42,392	—	42,392	Monthly	Five
International equities:						
Developed markets	—	114,838	—	114,838	Daily - Monthly	One - Seven
Emerging markets	—	30,306	—	30,306	Monthly	Ten
Commodities:						
Energy	19,557	—	—	19,557	Daily	One
Various	—	14,163	—	14,163	Monthly	Eight
Real estate	16,830	—	—	16,830	Daily	Five
Fixed income:						
U.S. Treasuries	32,623	—	—	32,623	Daily	One - Five
U.S. Treasury inflation-protected	—	66,058	—	66,058	Daily	Two
U.S. Government and agency	—	12,109	—	12,109	Daily	One
Domestic bonds	68,423	166,883	—	235,306	Daily	One
Global bonds	29,950	62,426	443	92,819	Daily - Illiquid	One - N/A
Cash and short-term investments	54,694	—	—	54,694	Daily	One
	315,560	607,919	4,585	928,064		
Assets held in trust (note 6)	—	—	60,954	60,954		
Held by trustee under bond indenture agreements (note 12)	52,151	—	—	52,151		
Total	\$ 367,711	\$ 607,919	\$ 65,539	\$ 1,041,169		

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	2009			Total	Redemption or liquidation	Days' notice
	Level 1	Level 2	Level 3			
U.S. equities:						
Large cap value	\$ 23,948	\$ —	\$ —	\$ 23,948	Daily	One
Mid-cap value	9,813	—	—	9,813	Daily	One
Large cap growth	32,840	—	—	32,840	Daily	One
Marketable alternatives:						
Multiple strategies	—	90,812	3,975	94,787	Quarterly-Annually	Forty-five-Sixty
Absolute return strategies	—	31,719	—	31,719	Monthly	Five
International equities:						
Developed markets	—	79,171	—	79,171	Daily - Monthly	One - Seven
Emerging markets	18,034	—	—	18,034	Daily	One
Commodities:						
Energy	3,530	—	—	3,530	Daily	One
Various	27,972	10,934	—	38,906	Daily - Monthly	One - Eight
Real estate	14,058	—	—	14,058	Daily	Five
Fixed income:						
U.S. Treasuries	54,233	—	—	54,233	Daily	One - Five
U.S. Treasury inflation-protected	—	93,485	—	93,485	Daily	Two
U.S. Government and agency	—	20,957	—	20,957	Daily	One - Three
Domestic bonds	—	145,509	—	145,509	Daily	One - Three
Global bonds	53,772	50,056	—	103,828	Daily - Monthly	One - Thirty
Cash and short-term investments	23,380	—	—	23,380	Daily	One
	261,580	522,643	3,975	788,198		
Assets held in trust (note 6)	—	—	59,371	59,371		
Held by trustee under bond indenture agreements (note 12)	58,553	10,304	—	68,857		
Total	\$ 320,133	\$ 532,947	\$ 63,346	\$ 916,426		

Trustee-held investments under bond indenture agreements consist of cash equivalents as well as U.S. Treasury and agency securities.

Investments in collective investment funds which do not have monthly pricing or liquidity are recorded at historical cost. Investments of less than 5% in limited partnerships are also recorded at historical cost. The aggregate historical cost of these investments, which approximates market value as reported by investment managers, amounted to \$102,647 at September 30, 2010 and \$98,490 at September 30, 2009.

Most investments classified in Levels 2 and 3 consist of shares or units in investment funds as opposed to direct interests in the funds' underlying holdings, which may be marketable. Because the NAV reported by each fund is used as a practical expedient to estimate the fair value of Lifespan's interest therein, its classification in Level 2 or 3 is based on Lifespan's ability to redeem its interest at or near the date of the consolidated statement of financial position. If the interest can be redeemed in the near term, the investment is generally classified in Level 2. The classification of investments in the fair value hierarchy is not necessarily an indication of the risks, liquidity, or degree of difficulty in estimating the fair value of each investment's underlying assets and liabilities.

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(In thousands)

The following table presents Lifespan's activity for the years ended September 30, 2010 and 2009 for investments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) as defined in ASC 820-10:

	<u>Global bonds</u>	<u>Marketable alternatives</u>	<u>Assets held in trust</u>	<u>2010 Total</u>
Fair value at October 1, 2009	\$ —	\$ 3,975	\$ 59,371	\$ 63,346
Transfers in	443	—	—	443
Net unrealized gains	—	167	1,583	1,750
Fair value at September 30, 2010	<u>\$ 443</u>	<u>\$ 4,142</u>	<u>\$ 60,954</u>	<u>\$ 65,539</u>

	<u>Marketable alternatives</u>	<u>Assets held in trust</u>	<u>2009 Total</u>
Fair value at October 1, 2008	\$ 4,164	\$ 62,818	\$ 66,982
Net unrealized losses	(189)	(3,447)	(3,636)
Fair value at September 30, 2009	<u>\$ 3,975</u>	<u>\$ 59,371</u>	<u>\$ 63,346</u>

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Investment Income, Gains and Losses

Investment income, gains and losses for cash equivalents and assets limited as to use are comprised of the following for the years ended September 30:

	<u>2010</u>	<u>2009</u>
Other revenue:		
Investment income	\$ <u>7,810</u>	\$ <u>12,125</u>
Endowment earnings contributed toward community benefit:		
Dividend and interest income	\$ <u>13,429</u>	\$ <u>11,270</u>
Nonoperating gains and losses:		
Unrestricted income from board-designated investments	\$ 2,074	\$ 2,064
Net realized gains (losses) on board-designated investments	<u>6,885</u>	<u>(20,858)</u>
	<u>\$ 8,959</u>	<u>\$ (18,794)</u>
Other changes in unrestricted net assets:		
Net change in unrealized gains on investments available for sale	\$ <u>27,367</u>	\$ <u>1,511</u>
Changes in temporarily restricted net assets:		
Income from restricted endowment and other restricted investments	\$ 4,648	\$ 3,793
Net realized and unrealized gains (losses) on investments	<u>28,187</u>	<u>(8,102)</u>
	<u>\$ 32,835</u>	<u>\$ (4,309)</u>
Changes in permanently restricted net assets:		
Net change in unrealized gains on investments	\$ <u>1,087</u>	\$ <u>(3,798)</u>

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Liquidity

Investments as of September 30, 2010 and 2009 are summarized below based on when they may be redeemed or sold:

	<u>2010</u>		<u>2009</u>
Investment redemption or sale period:			
Daily	\$ 682,004	\$	615,046
Monthly	181,401		134,908
Quarterly	98,804		90,472
One-to-five years	6,048		4,995
Locked-up until liquidation	72,912		71,005
	<u>1,041,169</u>	<u>\$</u>	<u>916,426</u>
Total			

Locked-up until liquidation includes assets held in trust (note 6) and trustee-held debt service reserve funds under bond indenture agreements (note 12).

Commitments

Venture capital, private equity, and certain energy and real estate investments are made through limited partnerships. Under the terms of these agreements, Lifespan is obligated to remit additional funding periodically as capital or liquidity calls are exercised by the manager. These partnerships have a limited existence, generally ten years, and such agreements may provide for annual extensions for the purpose of disposing portfolio positions and returning capital to investors. However, depending on market conditions, the inability to execute the fund's strategy, and other factors, a manager may extend the terms of a fund beyond its originally anticipated existence or may wind the fund down prematurely. Lifespan cannot anticipate such changes because they are based on unforeseen events, but should they occur they may result in less liquidity or return from the investment than originally anticipated. As a result, the timing and amount of future capital or liquidity calls expected to be exercised in any particular future year is uncertain. The aggregate amount of unfunded commitments associated with the above noted investment categories as of September 30, 2010 was \$7,122.

Investments With Unrealized Losses

Information regarding investments with unrealized losses at September 30, 2010 and 2009 is presented below, segregated between those that have been in a continuous unrealized loss position for less than twelve months and those that have been in a continuous unrealized loss position for twelve or more months:

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	Less than 12 months		12 months or longer		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
September 30, 2010:						
Unrestricted board-designated and temporarily restricted funds:						
Collective investment funds	\$ —	\$ —	\$ 65,887	\$ 2,683	\$ 65,887	\$ 2,683
Total temporarily impaired securities	\$ —	\$ —	\$ 65,887	\$ 2,683	\$ 65,887	\$ 2,683
September 30, 2009:						
Unrestricted board-designated and temporarily restricted funds:						
Collective investment funds	\$ —	\$ —	\$ 72,617	\$ 12,817	\$ 72,617	\$ 12,817
Total temporarily impaired securities	\$ —	\$ —	\$ 72,617	\$ 12,817	\$ 72,617	\$ 12,817

In the evaluation of whether an impairment is other than temporary, Lifespan considers the reasons for the impairment, its ability and intent to hold the investment until the market price recovers, the severity and duration of the impairment, and expected future performance. Based on this evaluation, no impairment was considered to be other than temporary.

Securities Lending

Lifespan participates in a securities lending program in which it lends a portion of its investments to pre-approved third party borrowers that meet certain criteria through a lending agent. All securities on loan are fully collateralized by cash or debt instruments in amounts greater than the market value of the securities on loan. The lending agent is responsible for ensuring the creditworthiness of the borrowers and investing collateral assets in high quality securities. These investments consist primarily of U.S. dollar-denominated fixed income adjustable rate securities and U.S. government securities with short maturities.

Endowments

Lifespan's endowment consists of approximately 464 individual funds established for a variety of purposes, including both donor-restricted endowment funds and funds designated by Lifespan to function as endowments. Investments associated with endowment funds, including funds designated by Lifespan to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

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(In thousands)

Endowments (continued)

Endowment funds consist of the following at September 30, 2010:

	<u>Unrestricted board-designated</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ —	\$ 292,002	\$ 133,754	\$ 425,756
Internally board-designated endowment funds	<u>515,452</u>	<u>—</u>	<u>—</u>	<u>515,452</u>
Total endowment funds	<u>\$ 515,452</u>	<u>\$ 292,002</u>	<u>\$ 133,754</u>	<u>\$ 941,208</u>

Endowment funds consist of the following at September 30, 2009:

	<u>Unrestricted board-designated</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ —	\$ 267,533	\$ 115,619	\$ 383,152
Internally board-designated endowment funds	<u>426,047</u>	<u>—</u>	<u>—</u>	<u>426,047</u>
Total endowment funds	<u>\$ 426,047</u>	<u>\$ 267,533</u>	<u>\$ 115,619</u>	<u>\$ 809,199</u>

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(In thousands)

Endowments (continued)

Changes in endowment funds for the year ended September 30, 2010 are as follows:

	<u>Unrestricted board-designated</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment funds, October 1, 2009	\$ 426,047	\$ 267,533	\$ 115,619	\$ 809,199
Interest and dividend income	12,978	4,648	—	17,626
Net realized and unrealized gains	30,583	28,187	1,087	59,857
Cash gifts, grants and bequests	1,530	96,853	16,565	114,948
Net assets released from restrictions	—	(104,853)	—	(104,853)
Deposits	56,924	—	—	56,924
Withdrawals	(12,610)	—	—	(12,610)
Other (decreases) increases	—	(366)	483	117
Endowment funds, September 30, 2010	<u>\$ 515,452</u>	<u>\$ 292,002</u>	<u>\$ 133,754</u>	<u>\$ 941,208</u>

Changes in endowment funds for the year ended September 30, 2009 are as follows:

	<u>Unrestricted board-designated</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Endowment funds, October 1, 2008	\$ 441,650	\$ 154,360	\$ 246,398	\$ 842,408
Reclassification from adoption of UPMIFA	—	128,677	(128,677)	—
Interest and dividend income	10,132	3,793	—	13,925
Net realized and unrealized losses	(18,223)	(8,102)	(3,798)	(30,123)
Cash gifts, grants and bequests	1,441	90,495	1,243	93,179
Net assets released from restrictions	—	(101,903)	—	(101,903)
Deposits	4,957	—	—	4,957
Withdrawals	(13,910)	—	—	(13,910)
Other increases	—	213	453	666
Endowment funds, September 30, 2009	<u>\$ 426,047</u>	<u>\$ 267,533</u>	<u>\$ 115,619</u>	<u>\$ 809,199</u>

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Endowments (continued)**(a) Interpretation of Relevant Law**

The portion of donor-restricted endowment funds 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 applicable Lifespan affiliates in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, these Lifespan affiliates consider 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 applicable Lifespan affiliate and donor-restricted endowment funds
- 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 applicable Lifespan affiliate
- The investment policies of Lifespan

(b) Return Objectives and Risk Parameters

Lifespan has adopted investment policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets, including both donor-restricted funds and unrestricted board-designated funds. Under this policy, as approved by Lifespan, the endowment assets are invested in a manner that is intended to produce results that exceed the total benchmark return while assuming a moderate level of investment risk. Lifespan expects its endowment funds, over a full market cycle, to provide an average annual real rate of return of approximately 5.0% plus inflation annually. Actual returns in any given year or period of years may vary from this amount.

(c) Strategies Employed for Achieving Objectives

To satisfy its long-term rate of return objectives, Lifespan relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). Lifespan targets a diversified asset allocation that places emphasis on investments in public equity, marketable alternatives, real assets and fixed income to achieve its long-term return objectives within prudent risk constraints.

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*Endowments (continued)***(d) Spending Policy**

Lifespan invests its endowment funds in accordance with the total return concept. Applicable endowments include unrestricted board-designated endowment funds and donor-restricted endowment funds. The governing boards of certain Lifespan affiliates have approved an endowment spending rate of 4% based on all of the above factors. This spending rate is applied to the average fair value of the applicable endowments for the immediately preceding three years.

(6) Assets Held in Trust

Certain Lifespan affiliates (Bradley, RIH, and NH) are beneficiaries of various irrevocable charitable and split-interest trusts. The fair market value of these investments at September 30, 2010 and 2009 was approximately \$60,954 and \$59,371, respectively, and is reported as permanently restricted funds within assets limited as to use in the consolidated statements of financial position.

(7) Property and Equipment

Property and equipment, by major category, is as follows at September 30:

	<u>2010</u>	<u>2009</u>
Land and improvements	\$ 31,909	\$ 31,948
Buildings and improvements	976,742	953,301
Equipment	<u>494,865</u>	<u>486,181</u>
	1,503,516	1,471,430
Less accumulated depreciation and amortization	<u>777,881</u>	<u>743,323</u>
	725,635	728,107
Construction in progress	<u>34,865</u>	<u>30,752</u>
Property and equipment, net	<u>\$ 760,500</u>	<u>\$ 758,859</u>

Depreciation and amortization expense for the years ended September 30, 2010 and 2009 amounted to \$53,271 and \$52,187, respectively.

The estimated cost of completion of construction in progress approximated \$7,600 at September 30, 2010, comprised principally of NHCC (\$3,100) and RIH (\$3,000) projects. In addition, RIH and TMH have several building renovation projects pending contractual commitments with estimated costs of completion of approximately \$13,000 and \$7,000, respectively.

It is Lifespan's policy to capitalize the net amount of interest cost associated with significant capital additions as a component of the cost of such assets, which is amortized over the asset's estimated useful life. Capitalized interest amounted to \$26 and \$161 in the years ended September 30, 2010 and 2009, respectively.

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(8) Pension and Other Postretirement Benefits

Change in Measurement Date of Pension and Other Postretirement Benefit Plans

Beginning in fiscal 2009, FASB ASC Topic 715, *Compensation – Retirement Benefits: Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* (ASC 715), requires Lifespan to measure the funded status of its benefit plans as of September 30. Lifespan formerly used a measurement date of June 30 for its benefit plans. Implementation of this change reduced Lifespan's unrestricted net assets by \$5,957, comprised of the following effects from July 1, 2008 through September 30, 2008:

	Lifespan Corporation Retirement Plan	Lifespan Corporation Postretirement Benefit Plan	Total
Service cost	\$ 5,559	\$ 122	\$ 5,681
Interest cost	5,442	397	5,839
Expected return on plan assets	(5,706)	—	(5,706)
Amortization of net actuarial loss	77	106	183
Amortization of prior service cost (benefit)	224	(264)	(40)
Total	<u>\$ 5,596</u>	<u>\$ 361</u>	<u>\$ 5,957</u>

Pension Benefits – Lifespan Corporation Retirement Plan

Lifespan Corp. sponsors the Lifespan Corporation Retirement Plan (the Plan), which was established effective January 1, 1996 when the Rhode Island Hospital Retirement Plan (the RIH Plan) merged into The Miriam Hospital Retirement Plan (the TMH Plan). Upon completion of the merger, the new plan was renamed and is governed by provisions of the Lifespan Corporation Retirement Plan. Each employee who was a participant in the RIH Plan or the TMH Plan and was an eligible employee on January 1, 1996 continues to be a participant on and after January 1, 1996, subject to the provisions of the Plan. Employees are included in the Plan on the first of the month which is the later of their first anniversary of employment or the attainment of age 18. Effective January 1, 1997, the Bradley Hospital Retirement Plan (the Bradley Plan) merged into the Plan. Each employee who was a participant in the Bradley Plan and was an eligible employee on January 1, 1997 continues to be a participant on and after January 1, 1997, subject to the provisions of the Plan.

Effective December 31, 1997, the Pension Plan for Employees of Newport Health Care Corporation and Subsidiaries (the NHCC Plan), merged into the Plan. Each employee who was a participant in the NHCC Plan and was an eligible employee on December 31, 1997 continues to be a participant in the Plan on and after December 31, 1997, subject to the provisions of the Plan.

The Plan is intended to constitute a plan described in Section 414(k) of the Internal Revenue Code, under which benefits are derived from employer contributions based on the separate account balances of participants in addition to the defined benefits provided under the Plan, which are based on an employee's years of credited service and annual compensation. Lifespan's funding policy is to contribute amounts to

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the Plan sufficient to meet minimum funding requirements set forth in the Employee Retirement Income Security Act of 1974 (ERISA) and the Internal Revenue Code as amended, plus such additional amounts as may be determined to be appropriate by Lifespan.

Substantially all employees of RIH, TMH, Bradley, NHCC and Lifespan Corp. who meet the above requirements are eligible to participate in the Plan.

The provisions of ASC 715 require an employer to recognize in its statement of financial position an asset for a benefit plan's overfunded status or a liability for a plan's underfunded status, and to recognize changes in that funded status in the year in which the changes occur through changes in unrestricted net assets. The funded-status amount is measured as the difference between the fair value of plan assets and the projected benefit obligation including all actuarial gains and losses and prior service cost. Based on September 30, 2010 funded-status amounts for the Plan, Lifespan recorded a decrease in unrestricted net assets of \$30,295.

The estimated amounts that will be amortized from unrestricted net assets into net periodic pension cost in 2011 are as follows:

Net actuarial loss	\$	10,344
Prior service cost		288
	\$	<u>10,632</u>

The following tables set forth the Plan's projected benefit obligation and the fair value of plan assets.

	<u>2010</u>	<u>2009</u>
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	\$ 452,976	\$ 389,966
Service cost	26,012	22,237
Interest cost	27,178	21,769
Plan amendments	157	—
Actuarial loss	39,808	26,505
Benefits paid	(16,715)	(13,858)
Administrative expenses	(1,097)	(928)
Effects of changing the Plan's measurement date:		
Service cost and interest cost for July 1 – September 30, 2008	—	11,001
Benefits paid for July 1 – September 30, 2008	—	(3,716)
Projected benefit obligation at end of year	<u>\$ 528,319</u>	<u>\$ 452,976</u>

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The accumulated benefit obligation at the end of 2010 and 2009 was \$455,687 and \$387,586, respectively.

	<u>2010</u>	<u>2009</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	\$ 307,775	\$ 351,770
Actual return on plan assets	24,260	(47,725)
Employer contributions	23,803	22,554
Benefits paid	(16,715)	(13,858)
Administrative expenses	(1,097)	(928)
Effects of changing the Plan's measurement date:		
Benefits paid for July 1 – September 30, 2008	—	(3,716)
Administrative expenses paid for July 1 – September 30, 2008	—	(322)
Fair value of plan assets at end of year	<u>\$ 338,026</u>	<u>\$ 307,775</u>

The funded status of the Plan and amounts recognized in the consolidated statements of financial position at September 30, pursuant to ASC Topic 715 (as opposed to ERISA), are as follows:

	<u>2010</u>	<u>2009</u>
Funded status, end of year:		
Fair value of plan assets	\$ 338,026	\$ 307,775
Projected benefit obligation	<u>528,319</u>	<u>452,976</u>
	<u>\$ (190,293)</u>	<u>\$ (145,201)</u>

Amounts recognized in the consolidated statements of financial position at September 30, 2010 and 2009 are as follows:

	<u>2010</u>	<u>2009</u>
Accrued pension liability	<u>\$ 190,293</u>	<u>\$ 145,201</u>

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	<u>2010</u>	<u>2009</u>
Amounts not yet reflected in net periodic pension cost and included in unrestricted net assets:		
Prior service cost	\$ (1,834)	\$ (2,477)
Accumulated net actuarial loss	<u>(136,545)</u>	<u>(105,607)</u>
Amounts not yet recognized as a component of net periodic pension cost	(138,379)	(108,084)
Accumulated net periodic pension cost in excess of employer contributions	<u>(51,914)</u>	<u>(37,117)</u>
Net amount recognized	<u>\$ (190,293)</u>	<u>\$ (145,201)</u>
	<u>2010</u>	<u>2009</u>
Sources of change in unrestricted net assets:		
Net loss arising during the year	\$ (38,879)	\$ (103,127)
New prior service cost	(157)	—
Amortizations:		
Net actuarial loss	801	285
Prior service cost	<u>7,940</u>	<u>1,221</u>
Total unrestricted net asset loss recognized during the year	<u>\$ (30,295)</u>	<u>\$ (101,621)</u>

Net Periodic Pension Cost

Components of net periodic pension cost are as follows for the years ended September 30:

	<u>2010</u>	<u>2009</u>
Service cost	\$ 26,012	\$ 22,237
Interest cost	27,178	21,769
Expected return on plan assets	(23,331)	(22,861)
Amortization of net actuarial loss	7,940	208
Amortization of prior service cost	<u>801</u>	<u>997</u>
Net periodic pension cost	<u>\$ 38,600</u>	<u>\$ 22,350</u>

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The following weighted average assumptions were used by the Plan's actuary to determine net periodic pension cost and benefit obligations:

	<u>2010</u>	<u>2009</u>
Discount rate for benefit obligations	4.98%	5.74%
Discount rate for net periodic pension cost	5.74	6.92
Rate of compensation increase	4.50	4.50
Expected long-term rate of return on Plan assets	7.75	8.00

The asset allocation for the Plan at September 30, 2010 and 2009, and the target allocation for 2011, by asset category, are as follows:

<u>Asset category</u>	<u>Target allocation 2011</u>	<u>Percentage of plan assets September 30</u>	
		<u>2010</u>	<u>2009</u>
U.S. equity	15 - 35%	11.8%	13.6%
Absolute return	0 - 25%	14.3	18.4
International equity	10 - 35%	15.0	19.0
Venture capital	0 - 10%	1.5	1.7
Commodities	0 - 20%	8.2	6.9
Real estate	0 - 15%	2.7	4.8
Fixed income	10 - 50%	45.4	33.5
Cash and cash equivalents	0 - 10%	1.1	2.1
Total		<u>100.0%</u>	<u>100.0%</u>

The above table does not include \$75,626 and \$63,508 of Plan assets at September 30, 2010 and 2009, respectively, attributable to the separate savings account balances of participants which are managed in various mutual funds by Fidelity Investments (Fidelity).

The overall financial objective of the Plan is to meet present and future obligations to beneficiaries, while minimizing long-term contributions to the Plan (by earning an adequate, risk adjusted return on Plan assets), with moderate volatility in year-to-year contribution levels.

The primary investment objective of the Plan is to attain the expected long-term rate of return on Plan assets in support of the above objective. The Plan's specific investment objective is to attain an average annual real total return (net of investment management fees) of at least 4.75% over the long term (rolling five-year periods). Real total return is the sum of capital appreciation (or loss) and current income (dividends and interest) adjusted for inflation by the Consumer Price Index.

Lifespan employs a rigorous process to annually determine the expected long-term rate of return on Plan assets which is only changed based on significant shifts in economic and financial market conditions. These estimates are primarily driven by actual historical asset-class returns along with our long-term

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outlook for a globally diversified portfolio. Asset allocations are regularly updated based on evaluations of future market returns for each asset class.

Fair Value

The following table summarizes the Plan's investments by major category within the ASC 820-10 fair value hierarchy as of September 30, 2010 and 2009:

	2010			Total	Redemption or liquidation	Days' notice
	Level 1	Level 2	Level 3			
U.S. equities:						
Large cap value	\$ 10,897	\$ —	\$ —	\$ 10,897	Daily	One
Mid-cap value	7,874	—	—	7,874	Daily	One
Large cap growth	11,163	—	—	11,163	Daily	One
Marketable alternatives:						
Multiple strategies	—	26,408	4,062	30,470	Quarterly - Illiquid	Sixty - Ninety
Absolute return strategies	—	7,063	—	7,063	Monthly	Five
International equities:						
Developed markets	—	27,619	—	27,619	Daily - Monthly	One - Seven
Emerging markets	—	11,700	—	11,700	Monthly	Ten
Venture capital	—	—	11,480	11,480	Illiquid	N/A
Commodities:						
Energy	—	6,617	—	6,617	Daily	One
Various	—	10,906	—	10,906	Monthly	Eight
Real estate	3,432	—	—	3,432	Daily	Five
Fixed income:						
U.S. Treasuries	10,259	—	—	10,259	Daily	One
U.S. Treasury inflation-protected	—	14,000	—	14,000	Daily	Two
U.S. Government and agency	—	9,554	—	9,554	Daily	One
Domestic bonds	20,833	36,099	—	56,932	Daily	One
Global bonds	—	27,048	—	27,048	Daily	Fifteen
Cash and cash equivalents	5,386	—	—	5,386	Daily	One
Fidelity mutual funds	75,626	—	—	75,626	Daily	One
Total	\$ 145,470	\$ 177,014	\$ 15,542	\$ 338,026		

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	2009				Redemption or liquidation	Days' notice
	Level 1	Level 2	Level 3	Total		
U.S. equities:						
Large cap value	\$ 11,051	\$ —	\$ —	\$ 11,051	Daily	One
Mid-cap value	7,124	—	—	7,124	Daily	One
Large cap growth	14,415	—	—	14,415	Daily	One
Marketable alternatives:						
Multiple strategies	—	31,452	7,846	39,298	Quarterly - Illiquid	Sixty - Ninety
Absolute return strategies	—	5,650	—	5,650	Monthly	Five
International equities:						
Developed markets	—	34,637	—	34,637	Daily - Monthly	One - Seven
Emerging markets	9,787	2,145	—	11,932	Daily	One - Five
Venture capital	—	—	12,509	12,509	Illiquid	N/A
Commodities:						
Energy	—	3,074	—	3,074	Daily	One
Various	—	9,108	—	9,108	Monthly	Eight
Real estate	7,671	—	—	7,671	Daily	Five
Fixed income:						
U.S. Treasuries	3,383	—	—	3,383	Daily	One
U.S. Treasury inflation-protected	—	30,168	—	30,168	Daily	Two
U.S. Government and agency	—	7,025	—	7,025	Daily	One
Domestic bonds	—	13,321	—	13,321	Daily	One - Three
Global bonds	—	25,457	—	25,457	Daily	Fifteen
Cash and cash equivalents	8,444	—	—	8,444	Daily	One
Fidelity mutual funds	63,508	—	—	63,508	Daily	One
Total	\$ 125,383	\$ 162,037	\$ 20,355	\$ 307,775		

The following table sets forth a summary of changes in the fair value of the Plan's Level 3 investments for the years ended September 30, 2010 and 2009:

	Venture capital	Marketable alternatives	2010 Total
Fair value at October 1, 2009	\$ 12,509	\$ 7,846	\$ 20,355
Net purchases (sales)	(1,583)	4,050	2,467
Transfers out	—	(7,846)	(7,846)
Realized gains, net	1,148	—	1,148
Unrealized (losses) gains, net	(594)	12	(582)
Fair value at September 30, 2010	\$ 11,480	\$ 4,062	\$ 15,542

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	<u>Venture capital</u>	<u>Marketable alternatives</u>	<u>2009 Total</u>
Fair value at October 1, 2008	\$ 14,486	\$ 8,381	\$ 22,867
Net sales	(160)	—	(160)
Transfers out	—	(939)	(939)
Realized gains, net	454	—	454
Unrealized (losses) gains, net	(2,271)	404	(1,867)
Fair value at September 30, 2009	<u>\$ 12,509</u>	<u>\$ 7,846</u>	<u>\$ 20,355</u>

Expected Cash Flows

Information about the expected cash flows for the Plan follows:

Employer contributions:	
2011 (expected)	\$ 43,939
Expected benefit payments:	
2011	27,407
2012	25,151
2013	28,085
2014	28,660
2015	30,834
2016 through 2020	180,959

Management evaluates its Plan assumptions annually and the expected contributions in 2011 could increase.

Other Postretirement Benefits

In addition to providing pension benefits, RIH and TMH provide certain health care and life insurance benefits to retired employees. As of December 31, 2003, health care and life insurance postretirement benefits were eliminated for all active RIH employees with fewer than fifteen years of consecutive service. As of December 31, 2004, health care postretirement benefits were eliminated for all active TMH employees who had not attained age 55 and completed five years of consecutive service. Lifespan's postretirement plan is not expected to be materially affected by health care reform legislation.

Lifespan recognizes in its consolidated statements of financial position an asset for a benefit plan's overfunded status or a liability for a plan's underfunded status, and recognizes changes in that funded status in the year in which the changes occur through changes in unrestricted net assets. The funded-status amount is measured as the difference between the fair value of plan assets and the benefit obligation including all actuarial gains and losses and prior service cost. Based on September 30, 2010 funded-status amounts for the postretirement benefit plan, Lifespan recorded a decrease in unrestricted net assets of \$869.

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The estimated amounts that will be amortized from unrestricted net assets into net periodic postretirement benefit cost in 2011 are as follows:

Net actuarial loss	\$	130
Prior service benefit		(844)
	\$	<u>(714)</u>

Benefit Obligations

	<u>2010</u>	<u>2009</u>
Change in accumulated postretirement benefit obligation:		
Accumulated postretirement benefit obligation at beginning of year	\$ 22,469	\$ 23,285
Service cost	413	486
Interest cost	1,249	1,587
Benefits paid	(1,354)	(1,421)
Actuarial gain	(65)	(1,987)
Service cost and interest cost for July 1 - September 30, 2008	—	519
Accumulated postretirement benefit obligation at end of year	<u>\$ 22,712</u>	<u>\$ 22,469</u>

Funded Status

Lifespan has never funded its other postretirement benefit obligations. The funded status of the postretirement benefit plan, reconciled to the amount reported in the consolidated statements of financial position, follows:

	<u>2010</u>	<u>2009</u>
Benefit obligations	\$ <u>22,712</u>	\$ <u>22,469</u>
Funded status	<u>(22,712)</u>	<u>(22,469)</u>
Accrued postretirement benefit cost recognized in the consolidated statements of financial position	<u>\$ (22,712)</u>	<u>\$ (22,469)</u>

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Amounts recognized in the consolidated statements of financial position at September 30, 2010 and 2009 consist of:

	<u>2010</u>	<u>2009</u>
Accrued postretirement benefit cost:		
Current (included in accrued employee benefits and compensation)	\$ 1,470	\$ 1,400
Noncurrent (included in other liabilities)	<u>21,242</u>	<u>21,069</u>
Total accrued postretirement benefit cost	<u>\$ 22,712</u>	<u>\$ 22,469</u>
	<u>2010</u>	<u>2009</u>
Amounts not yet reflected in net periodic postretirement benefit cost and included in unrestricted net assets:		
Prior service benefit	\$ 1,411	\$ 2,467
Accumulated net actuarial loss	<u>(3,666)</u>	<u>(3,853)</u>
Amounts not yet recognized as a component of net periodic postretirement benefit cost	(2,255)	(1,386)
Accumulated net periodic postretirement benefit cost	<u>(20,457)</u>	<u>(21,083)</u>
Net amount recognized	<u>\$ (22,712)</u>	<u>\$ (22,469)</u>
	<u>2010</u>	<u>2009</u>
Sources of change in unrestricted net assets:		
Net gain arising during the year	\$ 19	\$ 2,030
Amortizations:		
Net actuarial loss	168	422
Prior service benefit	<u>(1,056)</u>	<u>(1,056)</u>
Total unrestricted net asset (loss) gain recognized during the year	<u>\$ (869)</u>	<u>\$ 1,396</u>

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Net Periodic Postretirement Benefit Cost

Components of net periodic postretirement benefit cost are as follows for the years ended September 30:

	<u>2010</u>	<u>2009</u>
Service cost	\$ 413	\$ 486
Interest cost	1,249	1,587
Amortization of prior service benefit	(1,056)	(1,056)
Amortization of net actuarial loss	168	422
Net periodic postretirement benefit cost	<u>\$ 774</u>	<u>\$ 1,439</u>

The following weighted average assumptions were used by the plan's actuary to determine net periodic postretirement benefit cost and benefit obligations:

	<u>2010</u>	<u>2009</u>
Discount rate for benefit obligations	4.98%	5.74%
Discount rate for net periodic postretirement benefit cost	5.74	6.92

Assumed Health Care Cost Trend Rates at September 30:

	<u>2010</u>	<u>2009</u>
Health care cost trend rate assumed for next year	8.03%	8.00%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	4%	5%
Year that the rate reaches the ultimate trend rate	2029	2015

Assumed health care cost trend rates have a significant effect on the amounts reported. A one-percentage-point change in assumed health care cost trend rates would have the following effects as of September 30, 2010:

	<u>One-Percentage- Point Increase</u>	<u>One-Percentage- Point Decrease</u>
Effect on total of service cost and interest cost	\$ 141	\$ (126)
Effect on accumulated postretirement benefit obligation	1,650	(1,495)

LIFESPAN CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2010 and 2009

(In thousands)

Expected Cash Flows

Information about the expected cash flows for the postretirement benefit plan follows:

Expected benefit payments:		
2011	\$	1,470
2012		1,631
2013		1,755
2014		1,838
2015		1,965
2016 through 2020		10,596

Supplemental Executive Retirement Plans

Lifespan Corporation maintains three nonqualified supplemental executive retirement plans for executive management, under which the accrued benefits earned are being funded annually.

(9) Estimated Self-Insurance Costs

Professional Liability/Medical Malpractice and General Liability

Professional liability/medical malpractice coverage for RIH, TMH, Bradley, NHCC, and all other Lifespan affiliates is supplied on a claims-made basis by RISE, Lifespan's affiliated captive insurance company, which underwrites the medical malpractice risk of Lifespan (including a contractual commitment to indemnify certain eligible nonemployed physicians). The adequacy of the coverage provided and the funding levels are reviewed annually by independent actuaries and consultants. The professional liability/medical malpractice insurance provided by RISE has liability limits of \$4,000 per claim with no annual aggregate. RISE provides a second layer of coverage which has limits of an additional \$2,000 per claim with a \$2,000 annual aggregate. In addition, commercial umbrella excess insurance has been obtained to increase the professional liability limits to \$26,000 per claim. Also covered under the Lifespan professional liability/medical malpractice policy are 538 nonemployed physicians. Each of these physicians is provided with a \$2,000 indemnification per claim and a \$6,000 annual indemnification aggregate.

General liability coverage is provided to RIH, TMH, Bradley, NHCC and all other Lifespan affiliates by RISE amounting to \$4,000 per claim and \$4,000 in the annual aggregate. Commercial excess liability insurance has been obtained by Lifespan which provides aggregate general liability coverage of \$80,000.

Lifespan has recorded a provision for estimated losses on professional liability/medical malpractice and general liability incidents, based on actuarial studies and its own experience. The actuarial studies include an assumed inflation rate of 4%. The amounts accrued for estimated professional liability/medical malpractice and general liability self-insurance costs at September 30, 2010 and 2009 have been discounted at 4%. Had Lifespan provided for losses at undiscounted levels, estimated self-insurance liabilities would have been increased by approximately \$7,250 and \$7,300 at September 30, 2010 and 2009, respectively.

LIFESPAN CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2010 and 2009

(In thousands)

Workers' Compensation

Lifespan has recorded a provision for workers' compensation losses, based on actuarial studies and its own experience. The actuarial studies include an assumed inflation rate of 4%. The amounts accrued for estimated workers' compensation self-insurance costs at September 30, 2010 and 2009 have been discounted at 4%. Had such losses been provided for at undiscounted levels, estimated self-insurance liabilities would have been increased by approximately \$608 and \$655 at September 30, 2010 and 2009, respectively. Lifespan has a standby letter of credit at September 30, 2010 in the amount of \$3,500 supporting the estimated unpaid liability.

(10) Patient Service Revenue and Related Reimbursement

A major portion of Lifespan's revenue is received from third-party payors. The following is an approximate percentage breakdown of gross patient service revenue by payor type for the years ended September 30:

	<u>2010</u>	<u>2009</u>
Medicare and Senior Care	39%	39%
Blue Cross	20	20
Medicaid and RItE Care	16	15
Managed care	12	13
Commercial, self-pay, and other	13	13
	<u>100%</u>	<u>100%</u>

Lifespan grants credit to patients, most of whom are local residents. Lifespan generally does not require collateral or other security in extending credit to patients; however, it routinely obtains assignment of (or is otherwise entitled to receive) patients' benefits payable under their health insurance programs, plans or policies (e.g., Medicare, Medicaid, Blue Cross, managed care, and commercial insurance policies).

Cost reports filed annually with third-party payors are subject to audit prior to final settlement. The 2010 Medicare and Medicaid cost reports have not been filed and therefore are not settled. In addition, the following cost reports have not been settled:

	<u>RIH</u>	<u>TMH</u>	<u>Bradley</u>	<u>NH</u>
Medicare 2009	X	X		X
Medicare 2008	X	X		X
Medicare 2007	X	X		X
Medicaid 2009	X	X	X	X
Medicaid 2008	X	X	X	X
Medicaid 2007	X	X	X	X
Medicaid 2006	X	X	X	X
Medicaid 2005	X	X	X	X
Medicaid 2004		X	X	X

LIFESPAN CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2010 and 2009

(In thousands)

Regulations in effect require annual settlements based upon cost reports filed by the Lifespan hospitals. These settlements are estimated and recorded in the accompanying consolidated financial statements. Changes in these estimates are reflected in the consolidated financial statements in the year in which they occur. Net patient service revenue in the accompanying consolidated statements of operations and changes in net assets was increased by \$10,286 and \$2,283 in 2010 and 2009, respectively, to reflect changes in the estimated settlements for certain prior years.

Revenues from Medicare and Medicaid programs accounted for approximately 39% and 16%, respectively, of Lifespan's gross patient service revenue for the year ended September 30, 2010. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Lifespan believes that they are in compliance with all applicable laws and regulations. Lifespan is responding to a recent investigation by the United States Department of Justice and the United States Department of Health and Human Services, Office of the Inspector General, dealing with the medical necessity of a limited number of Medicare inpatient claims. It is not possible to state at this time whether and to what extent liability will be imposed or a settlement will be reached. While Lifespan intends to continue to defend the matter vigorously, the Civil False Claims Act (the Act) contains provisions for the imposition of double and treble damages and civil penalties upon finding that the Act was violated, which could result in material liability. Compliance with laws and regulations can be subject to future government review and interpretation as well as significant regulatory action; failure to comply with such laws and regulations can result in fines, penalties, and exclusion from Medicare and Medicaid programs.

(11) Income Tax Status

Lifespan Corp. and substantially all of its affiliates are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and are exempt from Federal income taxes pursuant to Section 501(a) of the Code. RISE is a Bermuda corporation not subject to taxes. MSO, LRS, and VNA Technicare, Inc. are taxable corporations.

LIFESPAN CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2010 and 2009

(In thousands)

(12) Long-Term Debt

Long-term debt consists of the following at September 30:

	<u>2010</u>	<u>2009</u>
Hospital Financing Revenue fixed rate serial and term bonds due May 15, 2011 through 2032 in annual amounts ranging from \$6,875 to \$15,020 at rates ranging from 4% to 5% (2006A Series – Lifespan Obligated Group)	\$ 183,175	\$ 189,780
Hospital Financing Revenue fixed rate serial and term bonds due May 15, 2027 through 2039 in annual amounts ranging from \$1,870 to \$7,900 at rates ranging from 6.125% to 7% (2009A Series – Lifespan Obligated Group)	114,985	114,985
Hospital Financing Revenue fixed rate serial and term bonds due May 15, 2011 through 2026 in annual amounts ranging from \$655 to \$14,705 at rates ranging from 5.4% to 5.75% (1996 Series – Lifespan Obligated Group)	53,960	54,585
Hospital Financing Revenue fixed rate serial and term bonds due July 1, 2011 through 2029 in annual amounts ranging from \$755 to \$1,890 at rates ranging from 5.0% to 5.3% (1999 Series – NH)	23,535	24,255
Hospital Financing Revenue fixed rate serial and term bonds due August 15, 2011 through 2012 in annual amounts ranging from \$1,500 to \$1,595 at 6.375% (2002 Series – Lifespan Obligated Group)	3,095	4,515
Unamortized premium – 2006A Series	6,290	6,965
Unamortized premium – 2009A Series	194	202
Unamortized discount – 1996 and 2002 Series	(20)	(40)
	<u>385,214</u>	<u>395,247</u>
Less current portion	<u>9,785</u>	<u>9,370</u>
Long-term debt, excluding current portion	<u>\$ 375,429</u>	<u>\$ 385,877</u>

The estimated fair value of Lifespan's long-term debt at September 30, 2010 approximates \$390,360 and is estimated using discounted cash flow analyses, based on Lifespan's current incremental borrowing rates for similar types of borrowing arrangements.

On July 8, 2008, the Board of Directors of Lifespan Corporation, acting as the sole corporate member of Emma Pendleton Bradley Hospital (Bradley), adopted a resolution authorizing Bradley to become a member of the Lifespan Obligated Group. The Bradley Board of Trustees, as well as the Boards of RIH and TMH, also authorized related resolutions.

LIFESPAN CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2010 and 2009

(In thousands)

On March 30, 2009, Rhode Island Health and Educational Building Corporation (RIHEBC) issued, on behalf of the Lifespan Obligated Group, which consists of RIH, TMH, Bradley, RIHF and TMHF, \$114,985 of tax-exempt bonds (the 2009A Bonds) for the purposes of financing the acquisition, construction, renovation, expansion and equipping of certain hospital and related health care facilities owned and operated by RIH, TMH and Bradley (the Obligated Group Hospitals), including the expansion, construction, renovation, equipping and furnishing of a two-story addition to Bradley's existing building and the renovation of vacated space in the existing building.

The above outstanding 2009 Hospital Financing Revenue Bonds (Lifespan Obligated Group – RIH, TMH, Bradley, RIHF and TMHF) are secured by a pledge of the gross receipts of the Obligated Group Hospitals and by mortgage liens on RIH's and TMH's real property and all buildings, structures and improvements thereon. The Obligated Group Hospitals, RIHF and TMHF are jointly and severally liable for repayment of the 2009A Bonds. Payment of the principal amount of and interest on \$64,825 of the 2009A Bonds when due is guaranteed by a financial guaranty insurance policy issued by Assured Guaranty Corp.

On February 14, 2006, RIHEBC issued, on behalf of the Lifespan Obligated Group, which consisted of RIH and TMH, \$192,135 of tax-exempt bonds (the 2006A Bonds) for the purpose of refunding \$123,405 and \$65,315 of the Lifespan Obligated Group's 1996 Bonds and 2002 Bonds, respectively. On September 12, 2006, the Board of Directors of Lifespan Corporation, acting as the sole corporate member of each of The Miriam Hospital Foundation and Rhode Island Hospital Foundation (the Foundations), adopted resolutions authorizing the Foundations to become members of the Lifespan Obligated Group. The Boards of Trustees of each of the Foundations, as well as the then existing members of the Lifespan Obligated Group, RIH and TMH, previously authorized related resolutions. The effective date for such change was October 1, 2006.

The above outstanding 2006 Hospital Financing Revenue Bonds (Lifespan Obligated Group – RIH, TMH, Bradley and the Foundations) are secured by a pledge of the gross receipts of RIH and TMH and by mortgage liens on RIH's and TMH's real property and all buildings, structures and improvements thereon. The Obligated Group Hospitals and the Foundations are jointly and severally liable for repayment of the 2006A Bonds. Payment of the principal and interest on the 2006A Bonds when due is guaranteed by a financial guaranty insurance policy issued by Assured Guaranty Corp.

On July 9, 2002, RIHEBC issued, on behalf of the Lifespan Obligated Group, \$78,000 of tax-exempt bonds (the 2002 Bonds) to finance routine capital expenditures, renovations of the RIH emergency department and construction and equipping of a cancer center on the campus of RIH.

The above outstanding 2002 Hospital Financing Revenue Bonds (Lifespan Obligated Group – RIH, TMH, Bradley and the Foundations) are secured by mortgage liens on RIH's and TMH's real property and all buildings, structures and improvements thereon. The Obligated Group Hospitals and the Foundations are jointly and severally liable for repayment of the 2002 Bonds.

LIFESPAN CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2010 and 2009

(In thousands)

On December 1, 1996, RIHEBC issued, on behalf of the Lifespan Obligated Group, \$214,585 of tax-exempt bonds (the 1996 Bonds), to finance portions of Lifespan's, RIH's and TMH's 1996, 1997, 1998, and 1999 expenditures for routine capital equipment and facility renovation/replacement, and to advance refund \$8,455 of TMH 1989 Series A bonds, \$1,900 of TMH 1992 Series A bonds and \$10,065 of TMH 1992 Series B bonds.

The above outstanding 1996 Hospital Financing Revenue Bonds (Lifespan Obligated Group – RIH, TMH, Bradley and the Foundations) are secured by a pledge of the gross receipts of RIH and TMH. The Obligated Group Hospitals and the Foundations are jointly and severally liable for repayment of the 1996 Bonds. Payment of the principal and interest on the 1996 Bonds when due is guaranteed by a financial guaranty insurance policy issued by National Public Finance Guarantee Corp.

Under the terms of the 2009A, 2006A, 2002 and 1996 Bonds, the Obligated Group Hospitals are required to satisfy certain measures of financial performance as long as the bonds are outstanding. At September 30, 2010, management believes the Obligated Group Hospitals were in compliance with all covenants of the bonds.

On February 1, 1999, RIHEBC issued, on behalf of NH, \$30,000 of tax-exempt bonds (the 1999 Bonds) to finance the acquisition, construction, renovation and equipping of various NH facilities. The 1999 Bonds are secured by a pledge of the gross receipts of NH.

Payment of the principal and interest on the 1999 Bonds when due is guaranteed by Newport Hospital Foundation, Inc. Under the terms of the 1999 Bonds, NH is required to satisfy certain measures of financial performance as long as the bonds are outstanding. At September 30, 2010, management believes NH was in compliance with all covenants of the bonds.

Lifespan's aggregate maturities of long-term debt for the five fiscal years ending in September 2014 are as follows: 2011, \$9,785; 2012, \$10,295; 2013, \$10,820; 2014, \$11,370; and 2015, \$11,940.

Agreements underlying the various Hospital Financing Revenue Bonds require that RIH, TMH, Bradley and NH maintain certain trustee-held funds, included with assets limited as to use in the consolidated statements of financial position, as follows:

Project Fund – RIH, TMH and Bradley are required to apply monies in the Project Fund to pay the costs of debt issuance, facility renovation/replacement, and routine capital equipment.

Bond Funds – RIH, TMH, Bradley and NH are required to make periodic deposits to the trustee sufficient to provide sinking funds for the payment of principal and interest to bondholders when due.

Debt Service Reserve Funds – RIH, TMH and Bradley are required to apply monies in the Debt Service Reserve Funds to remedy deficiencies in the Bond Funds, if any.

LIFESPAN CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2010 and 2009

(In thousands)

The balances of these trustee-held funds at September 30 are summarized as follows:

	<u>2010</u>	<u>2009</u>
RIH, TMH and Bradley:		
Project Fund – 2009 Series	\$ 38,743	\$ 56,336
Bond Funds	1,099	2
Debt Service Reserve Fund – 2009 Series	11,502	11,502
Debt Service Reserve Fund – 2002 Series	309	520
	<u>51,653</u>	<u>68,360</u>
Newport Hospital Bond Fund – 1999 Series	498	497
Total	<u>\$ 52,151</u>	<u>\$ 68,857</u>

(13) Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at September 30:

	<u>2010</u>	<u>2009</u>
General health care service activities	\$ 237,589	\$ 221,110
Research	65,427	62,191
Total	<u>\$ 303,016</u>	<u>\$ 283,301</u>

Permanently restricted net assets are restricted in perpetuity at September 30, the income from which is expendable to support the following:

	<u>2010</u>	<u>2009</u>
General health care service activities	\$ 131,590	\$ 113,356
Research	4,995	4,995
Total	<u>\$ 136,585</u>	<u>\$ 118,351</u>

Permanently restricted net assets increased by \$18,234 in the year ended September 30, 2010 primarily due to gifts totaling \$14,940 received from the Frederick Henry Prince Trust. RIH received \$9,655, TMH received \$3,018 and NH received \$2,267. The income on these endowments will be used to support RIH's Neurosciences Institute and the emergency departments at both TMH and NH, respectively.

LIFESPAN CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2010 and 2009

(In thousands)

(14) Leases

Lifespan leases building space and equipment under various noncancelable operating lease agreements. Future minimum lease payments, by year and in the aggregate, under noncancelable operating leases with terms of one year or more consist of the following at September 30, 2010:

	<u>Amount</u>
Year ending September 30:	
2011	\$ 13,279
2012	11,052
2013	8,029
2014	6,103
2015	3,047
Thereafter	<u>1,189</u>
Total minimum lease payments	<u>\$ 42,699</u>

Rental expense, including rentals under leases with terms of less than one year, for the years ended September 30, 2010 and 2009 was \$13,364 and \$12,856, respectively.

(15) Concentrations of Credit Risk

Financial instruments which potentially subject Lifespan to concentrations of credit risk consist primarily of accounts receivable and certain investments. The risk associated with temporary cash investments is mitigated by the fact that the investments are placed with what management believes are high credit quality financial institutions. Investments, which include government and agency obligations, stocks, and corporate bonds, are not concentrated in any corporation or industry.

Lifespan receives a significant portion of its payments for services rendered from a limited number of government and commercial third-party payors, including Medicare, Blue Cross, Medicaid, and various managed care entities. Lifespan has not historically incurred any significant concentrated credit losses in the normal course of business.

(16) Malpractice and Other Litigation

Certain Lifespan hospitals or their indemnified physicians have been named as defendants in a number of pending actions seeking damages for alleged medical malpractice liability. In the opinion of management, any liability and legal defense costs resulting from these actions will be within the limits of each hospital's malpractice insurance coverage provided by RISE and/or commercial excess carriers.

Lifespan is also involved in a number of miscellaneous suits and general liability suits arising in the course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on Lifespan's future financial position or results from operations.

LIFESPAN CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2010 and 2009

(In thousands)

(17) Related-Party Transactions

Lifespan Physicians Professional Service Organization, Inc. (the PSO) is a collaborative venture between Lifespan Corp. and New England Physicians Alliance (NEPA) organized for the purpose of contributing to the mission of Lifespan and NEPA.

The amounts included in operating expenses in the consolidated statements of operations and changes in net assets related to services provided to Lifespan by the PSO for the years ended September 30, 2010 and 2009 are \$2,953 and \$3,001, respectively.

(18) Functional Expenses

Lifespan provides general health care services to residents within its geographic location. Expenses related to providing these services are as follows for the years ended September 30:

	<u>2010</u>	<u>2009</u>
Health care services	\$ 1,291,071	\$ 1,234,977
Research	92,134	81,384
General and administrative:		
Depreciation and amortization	53,271	52,187
Interest	20,879	17,260
Other	130,507	124,002
	<u>204,657</u>	<u>193,449</u>
Total general and administrative	<u>\$ 1,587,862</u>	<u>\$ 1,509,810</u>

LIFESPAN CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2010 and 2009

(In thousands)

(19) Promises to Give

Included in contributions receivable are the following unconditional promises to give:

	<u>2010</u>	<u>2009</u>
Capital campaigns	\$ 5,177	\$ 7,441
Other restricted	4,832	5,399
Unconditional promises to give before unamortized discount and allowance for uncollectibles	10,009	12,840
Less: unamortized discount at rates ranging from 1.3% to 4.6%	(787)	(1,238)
Subtotal	9,222	11,602
Less: allowance for uncollectibles	(487)	(399)
Net unconditional promises to give	<u>\$ 8,735</u>	<u>\$ 11,203</u>
Amounts due in:		
Less than one year	\$ 4,447	\$ 5,151
One to five years	4,743	6,804
More than five years	819	885
Total	<u>\$ 10,009</u>	<u>\$ 12,840</u>

(20) Combination of RIH and TMH

In 2009, Lifespan announced its intention to combine RIH and TMH into a single hospital with two campuses. Rhode Island Hospital Foundation and The Miriam Hospital Foundation will remain as separate entities. The hospitals do not expect the elimination of services or a significant loss of jobs. The plan will be subject to applicable State regulatory approvals.

(21) Subsequent Event

On November 23, 2010, Lifespan announced a voluntary early retirement program which is designed to provide salary and benefits continuation for eligible employees who wish to retire. The cost of this program, which will be recorded in 2011, is not currently known.

LIFESPAN CORPORATION AND AFFILIATES

Schedule of Expenditures of Federal Awards

Year ended September 30, 2010

Federal grantor/pass-through grantor	CFDA number	Pass-through number	Expenditures
Research and Development Cluster:			
Department of Defense:			
US Army Medical Command	12.420		\$ 38,892
Passed through:			
Brown University	12.420	W81XWH-07-1-0689	104,521
Department of Health and Human Services:			
Administration for Children and Families			
Passed through:			
Rhode Island College	93.632	90 DD0539	56,885
Rhode Island Kids Count	93.670	90CA1775	101,852
Indiana University	93.623-A-00-08	623-A-00-08-00003	45,138
Agency for Healthcare Research and Quality	93.226		150,978
Agency for Healthcare Research and Quality	93.HS017735		(2,450)
Centers for Disease Control and Prevention	93.136		163,448
Centers for Disease Control and Prevention	93.2007-N-09570		612,183
Passed through:			
Association of American Medical Colleges	93.283	U36 CD319276	7,314
Cerner Corporation	93.200-2006-18797	200-2006-18797	104,391
University of Massachusetts	93.283	U27 CCU116648	7,388
Department of Health and Human Services			
Passed through:			
Brown University	93.N2682009	HHSN2682009000031	7,543
Massachusetts Department of Public Health	93.UNKNOWN	70A00301391	12,982
Rhode Island Department of Health	93.UNKNOWN	Z101136497	49,789
Rhode Island Department of Health	93.UNKNOWN	701-1528	(991)
Rhode Island Department of Health	93.UNKNOWN	3035861	(250)
Rhode Island Department of Health	93.UNKNOWN	3,147,655	1,866
Rhode Island Department of Health	93.UNKNOWN	3,027,508	110,838
Health Resources and Services Administration	93.110		168,778
Health Resources and Services Administration	93.145		28,914
Health Resources and Services Administration	93.928		529,729
Passed through:			
University of New Hampshire	93.110	U22MC10980	17,751
Family Aid Center for Treatment & Support	93.153	H12H100010-17-00	53,937
Butler Hospital	93.156	9113-8337	51,789
Rhode Island Department of Health	93.917	PO3028292	134,770
National Institutes of Health	93.213		65,081
National Institutes of Health	93.242		3,286,630
National Institutes of Health	93.273		2,847,024
National Institutes of Health	93.277		162,105
National Institutes of Health	93.278		364,698
National Institutes of Health	93.279		4,327,852
National Institutes of Health	93.281		886,255
National Institutes of Health	93.282		429,057
National Institutes of Health	93.361		966,500
National Institutes of Health	93.389		5,570,790
National Institutes of Health	93.393		1,726,211
National Institutes of Health	93.394		1,276,528
National Institutes of Health	93.395		533,680
National Institutes of Health	93.396		474,359
National Institutes of Health	93.398		588,150
ARRA-National Institutes of Health	93.701		4,112,222
National Institutes of Health	93.837		5,860,875
National Institutes of Health	93.838		1,360,546
National Institutes of Health	93.846		1,647,486
National Institutes of Health	93.847		1,688,578
National Institutes of Health	93.848		1,543,664
National Institutes of Health	93.849		2,602,338
National Institutes of Health	93.853		2,702
National Institutes of Health	93.855		4,474,083
National Institutes of Health	93.856		284,606
National Institutes of Health	93.859		794,619
National Institutes of Health	93.865		884,009
National Institutes of Health	93.866		1,018,854

LIFESPAN CORPORATION AND AFFILIATES

Schedule of Expenditures of Federal Awards

Year ended September 30, 2010

Federal grantor/pass-through grantor	CFDA number	Pass-through number	Expenditures
National Institutes of Health	93.989		\$ 668,577
National Institutes of Health	93.DA-024549		248,586
Passed through:			
Brown University	93.113	1P20ES018169	43,112
Boston University	93.121	U54-DE019275	203,881
National Jewish Health	93.233	7R01 HL075366	(132)
National Jewish Health	93.233	2R01 HL067209	78,549
Temple University	93.233	R01 HL70301	(5,596)
Brown University	93.242	R21AA017273	2,823
Brown University	93.242	R21AA007850	4,293
Brown University	93.242	1R34MH082211	21,080
Brown University	93.242	1R34MH083092	63,321
Brown University	93.242	00000315	52,222
Brown University	93.242	00000310	8,665
Brown University	93.242	00000282	219,449
Brown University	93.242	00000259	44,179
Butler Hospital	93.242	9141-8327	48,904
Butler Hospital	93.242	9125-8339	153,433
Butler Hospital	93.242	9081-8339	5,656
Butler Hospital	93.242	1U01MH076179	4,672
Massachusetts General Hospital	93.242	R01-MH04757	112,934
Mount Sinai School of Medicine	93.242	R25-MH080663	1,225
University of Alabama	93.242	U01 HD040533	112,868
Women & Infants Hospital of Rhode Island	93.242	1R01 MH078033	17,994
Women & Infants Hospital of Rhode Island	93.242	R01 MH071766	79,726
Brown University	93.273	00000288	9,574
Brown University	93.273	1R01 AA017181	12,088
Brown University	93.273	00000295	5,447
George Mason University	93.273	32,016,321	22,137
Washington University	93.273	WU-10-258	47,524
Brown University	93.279	00000294	17,126
Brown University	93.279	1R01 DA020725	16,910
Butler Hospital	93.279	R01 DA018079	16,720
Fenway Health Center	93.279	5R21DA025010	32,687
Rensselaer Polytechnic Institute	93.279	U01 DA-023822	25,983
Tufts University	93.279	P30 DA13868	54,989
Tufts University	93.279	P30-DA013868	7,532
University of Massachusetts	93.279	R01 DA023170	17,405
University of Massachusetts	93.279	5R01 DA023170	98,541
University of Medicine & Dentistry of New Jersey	93.279	R01 DA023170	(549)
Brigham & Women's Hospital	93.281	K23 MH073416	8,550
American College of Radiology	93.299	U01CA80098	12,838
American College of Radiology	93.299	U01CA80098	7,142
University of Pittsburgh	93.310	R21-DA021144	9,499
University of Rhode Island	93.361	2R01NR003695	31,786
Brown University	93.361	1R01NR011295	63,389
Women & Infants Hospital of Rhode Island	93.389	#9658	23,200
Boston University	93.393	1R01CA141587	38,428
Georgetown University	93.393	7R01 CA104836	(87)
Brown University	93.394	00000289	36,761
Brigham & Women's Hospital	93.395	U10CA031946	2,831
National Childhood Cancer Foundation	93.395	CA98543-01	2,989
National Childhood Cancer Foundation	93.395	U10 CA98543	29,167
National Childhood Cancer Foundation	93.395	U10 CA98543	275
Brown University	93.396	00000266	12,188
Butler Hospital	93.399	P50 CA084719	(823)
National Surgical Adjuvant and Bowel Project	93.399	PFED24-DAN-05	12,199
University of Texas	93.399	1R01 CA109919	(1,116)
ARRA-Brigham & Women's Hospital	93.701	RCHL101816	20,552
ARRA-Brown University	93.701	00000343	4,114
ARRA-Brown University	93.701	R21 AI083908	36,686
ARRA-Brown University	93.701	R01 AA009892	2,302
ARRA-Dana Farber Cancer Institute	93.701	RC2HL101631	109,155
ARRA-Memorial Hospital of Rhode Island	93.701	1R01DA024093	10,702

LIFESPAN CORPORATION AND AFFILIATES

Schedule of Expenditures of Federal Awards

Year ended September 30, 2010

Federal grantor/pass-through grantor	CFDA number	Pass-through number	Expenditures
ARRA-Tribologics	93.701	1R41AR057276	\$ 56,316
ARRA-University of Arkansas	93.701	R21 DK081628	52,412
ARRA-University of California at San Diego	93.701	RC2AG036535	222
ARRA-University of California at San Francisco	93.701	U01NS062835	50,410
ARRA-University of Medicine & Dentistry of New Jersey	93.701	1RC2HL101458	23,831
ARRA-University of Michigan	93.701	1RC2HL101740	314,323
ARRA-University of Michigan	93.701	1RC2HL101740	18,659
Butler Hospital	93.837	R01 HL084178	59,926
Butler Hospital	93.837	1R01 HL084178	56,249
Cooperative Protocol Research Program	93.837	U27CCU116648	47,479
Kent State University	93.837	R01-HL089311	33,808
Medical College of Ohio	93.837	U01HL715560	169,445
Medical College of Ohio	93.837	U01HL715560	117,025
Medical College of Ohio	93.837	U01HL715560	(5,671)
Northwestern University	93.837	R01HL080416	3,641
Texas Heart Institute	93.837	R01HL090521	22,637
University of Massachusetts	93.837	R01 HL077248	20,823
University of Pittsburgh	93.837	2P01 HL040962	11,339
Veterans Affairs Medical Center (Providence)	93.837	5784240	34,746
Yale University	93.837	R01 HL081153	26,262
Johns Hopkins University	93.838	R01 HL079301	37,809
Johns Hopkins University	93.838	R01 HL087997	36,427
University of Rochester	93.838	1R01 HL079954	7,652
Washington University	93.839	WU-10-361	46,990
Washington University	93.839	WU-09-230	1,934
Children's Hospital Boston	93.846	R01 AR05018	291,960
Children's Hospital Boston	93.846	7011937	27,363
Sloan-Kettering Cancer Institute	93.846	R01AR049342	34,212
Vanderbilt University	93.846	R01 AR053684	7,612
Massachusetts General Hospital	93.847	R01 DK61230	(572)
Kent State University	93.848	1R01 DK075119-01	55,562
Massachusetts General Hospital	93.848	1R21 DK078555-01	89,410
University of Tennessee	93.848	5R01 DK074721	17,754
Tufts University	93.853	2R01 NS036524	45,015
University of Iowa	93.853	1000745613	189,914
University of Missouri at St. Louis	93.853	1R01 NS052470	14,463
Brigham & Women's Hospital	93.855	R01AI079085	48,363
Fred Hutchinson Cancer Research Center	93.855	U01 AI068614	41,639
ImQuest BioSciences	93.855	R33AI076967	66,647
ImQuest BioSciences	93.855	1U19 AI077289	118,181
Massachusetts General Hospital	93.855	U01 AI069472	704,087
Massachusetts General Hospital	93.855	R01-AI058736	45,760
Social and Scientific Systems	93.855	U01AI068636	93,381
Stanford University	93.855	R01 AI066922	217,406
University of Rhode Island	93.855	1U19AI082642	44,208
University of Rhode Island	93.855	IU19AI082642	238,775
University of Rhode Island	93.855	U19AI082642-01	301,752
University of Pittsburgh	93.856	U19 AI065430	354
American College of Surgeons Oncology Group	93.865	GCID	15,477
National Jewish Health Center	93.865	R21HD0590430	13,993
Simbex	93.865	R01 HD48638	110,640
University of Alabama	93.865	5U01 HD040533	52,659
University of Massachusetts	93.865	1R03HD055989	3,567
Women & Infants Hospital of Rhode Island	93.865	1R01 HD057100	13,928
Bedford Veterans Administration Research Corp.	93.866	7R01 AG020654	500
Boston University	93.866	R01-AG018384	18,546
University of California at San Diego	93.866	U01 AG10483	1,680
University of California at San Diego	93.866	U01 AG024904	61,707
Massachusetts General Hospital	93.945	5U01DP000340	222,916
Vanderbilt University	93.989	R24TW007988	124,595
Vanderbilt University	93.989	R24 TW007988	165
Vanderbilt University	93.989	R24 TW007988	11,662
Brown University	93.11-009892	R01 AA009892	843
Brown University	93.AG030663	P251970	4,385

LIFESPAN CORPORATION AND AFFILIATES

Schedule of Expenditures of Federal Awards

Year ended September 30, 2010

Federal grantor/pass-through grantor	CFDA number	Pass-through number	Expenditures
Women & Infants Hospital of Rhode Island	93.AR016783	K08 AA016783	\$ 83,840
National Childhood Cancer Foundation	93.CA098543	17897	21,797
American College of Radiology	93.CA21661	U10 CA21661	48,539
American College of Radiology	93.CA80098	U01 CA80098	3,167
Brown University	93.DK075371	R18 DK075371	190,634
Mount Sinai School of Medicine	93.DK078555	0255-3121-4609	96,116
Mount Sinai School of Medicine	93.DK078555	0255-3121-4609	21,418
Mount Sinai School of Medicine	93.HL071988	R01 HL071988	13
University of Connecticut Health Sciences Center	93.HL077082	R01HL077082	3,996
Brown University	93.HL077608	R01 HL077608	76,887
Myomics	93.HL093939	R43HL093939	20,126
Brown University	93.RR015578	P20 RR015578	2,597
Brown University	93.RR015578	P20 RR015578	72,589
Brown University	93.RR023509	P20RR023509	1,391
Datari	93.SP015040	U79SP015040	81,633
Brown University	93.TW-008102	P254765	24,734
Brown University	93.UNKNOWN	R01 MH59691	16,250
Brown University	93.UNKNOWN	7011589	29,400
Rhode Island Department of Health	93.UNKNOWN	3014007-8	9,735
University of Florida at Gainesville	93.UNKNOWN	7019633	8,001
Substance Abuse and Mental Health Services Administration	93.230		(646)
Environmental Protection Agency: Office of Water			
Passed through: Brown University	66.P20ES018169		39,028
National Endowment for the Arts Passed through: New England Foundation for the Arts	45.025	7132025	10,000
National Science Foundation: National Science Foundation	47.041		107,153
Passed through: Brown University	47.075	P252408	2,866
Total expenditures of research and development federal awards			60,951,216
Other federal programs:			
Department of Agriculture: Food and Nutrition Services			
Passed through: Rhode Island Department of Education	10.553	10804	76,176
Rhode Island Department of Education	10.555	10804	127,224
Department of Health and Human Services: Health Resources and Services Administration	93.887		117,135
Health Resources and Services Administration	93.918		673,486
Health Resources and Services Administration	93.918		22,530
Health Resources and Services Administration	93.918		1,505
Health Resources and Services Administration	93.928		44,925
Passed through: University of Massachusetts	93.110	H30 MC00037	27,089
Office of the Secretary	93.889		1,530,095
Substance Abuse and Mental Health Services Administration			
Passed through: Rhode Island Department of Health	93.243	PO# 3120323-7	772,998
Department of Education: Office of Special Education and Rehabilitative Services			
Passed through: ARRA-Rhode Island Department of Human Services	84.393	PO# 3178854	185,410
Department of Homeland Security: Department of Homeland Security			
Passed through: Rhode Island Emergency Management Agency	97.008	2008-TU-T8-0006	65,344
Rhode Island Department of Health	97.073	75E00325156	25,207

LIFESPAN CORPORATION AND AFFILIATES

Schedule of Expenditures of Federal Awards

Year ended September 30, 2010

<u>Federal grantor/pass-through grantor</u>	<u>CFDA number</u>	<u>Pass-through number</u>	<u>Expenditures</u>
Department of Labor:			
Employment Training Administration			
Passed through:			
Workforce Solutions of Providence/Cranston	17.259	WSPC-JOF-900	\$ 49,529
ARRA-Workforce Solutions of Providence/Cranston	17.259	RA-962	<u>526</u>
Total expenditures of other federal awards			<u>3,719,179</u>
Total expenditures of federal awards			<u>\$ 64,670,395</u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

LIFESPAN CORPORATION AND AFFILIATES

Notes to Schedule of Expenditures of Federal Awards

Year ended September 30, 2010

(1) Definition of Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activity of all federal awards of Rhode Island Hospital, The Miriam Hospital and Emma Pendleton Bradley Hospital of Lifespan Corporation and Affiliates (Lifespan). All federal awards received directly from federal agencies, as well as federal awards passed through other agencies, are included on the schedule.

(2) Summary of Significant Accounting Policies

The accounting and reporting policies of Lifespan are set forth below:

Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards is presented using the accrual basis of accounting.

(3) Subrecipients

During the year ended September 30, 2010, Lifespan provided \$10,381,313 to subrecipients as part of its research and development program.