



LIFESPAN CORPORATION AND AFFILIATES

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

Year ended September 30, 2011

LIFESPAN CORPORATION AND AFFILIATES

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

Year ended September 30, 2011

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Exhibit I

Independent Auditors' 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, 2011. 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, 2011.

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 12, 2012



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, 2011, and have issued our report thereon dated January 30, 2012. 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

Management of Lifespan is responsible for establishing and maintaining effective 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

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

January 30, 2012

LIFESPAN CORPORATION AND AFFILIATES

Schedule of Findings and Questioned Costs

Year ended September 30, 2011

(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: \$1,944,072

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, 2011 and 2010

(With Independent Auditors' Report Thereon)

LIFESPAN CORPORATION AND AFFILIATES

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

September 30, 2011 and 2010

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KPMG LLP
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Exhibit IV

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, 2011 and 2010, 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, 2011 and 2010, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 30, 2012 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 2011 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 Organizations* and is not a required part of the 2011 basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the 2011 basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

KPMG LLP

January 30, 2012

LIFESPAN CORPORATION AND AFFILIATES

Consolidated Statements of Financial Position

September 30, 2011 and 2010

(In thousands)

Assets	2011	2010	Liabilities and Net Assets	2011	2010
Current assets:			Current liabilities:		
Cash and cash equivalents	\$ 57,225	\$ 84,517	Accounts payable	\$ 60,329	\$ 55,813
Patient accounts receivable	251,462	253,554	Accrued employee benefits and compensation	55,144	66,504
Less allowance for doubtful accounts	(66,372)	(61,597)	Other accrued expenses	41,427	29,582
Net patient accounts receivable	185,090	191,957	Current portion of long-term debt	10,295	9,785
Other receivables	23,961	27,837	Current portion of estimated third-party payor settlements	25,950	31,648
Current portion of contributions receivable, net	7,738	3,908	Current portion of estimated malpractice and other self-insurance costs	30,962	29,215
Total receivables	216,789	223,702	Total current liabilities	224,107	222,547
Assets limited as to use	25,049	22,297	Long-term debt, net of current portion	364,488	375,429
Inventories	19,211	17,881	Estimated third-party payor settlements, net of current portion	30,880	58,695
Prepaid expenses and other current assets	8,375	8,706	Estimated malpractice self-insurance costs, net of current portion	82,956	82,121
Total current assets	326,649	357,103	Accrued pension liability	184,039	190,293
Assets limited as to use	1,129,978	1,143,816	Other liabilities	43,198	38,357
Less amount required to meet current obligations	(25,049)	(22,297)	Total liabilities	929,668	967,442
Noncurrent assets limited as to use	1,104,929	1,121,519	Net assets:		
Property and equipment, net	763,483	760,500	Unrestricted	852,165	864,832
Other assets:			Temporarily restricted	298,310	303,016
Contributions receivable, net	4,187	4,827	Permanently restricted	144,053	136,585
Deferred charges and financing costs, net	8,878	9,604	Total net assets	1,294,528	1,304,433
Other noncurrent assets	16,070	18,322			
Total other assets	29,135	32,753	Total liabilities and net assets	\$ 2,224,196	\$ 2,271,875
Total assets	\$ 2,224,196	\$ 2,271,875			

See accompanying notes to consolidated financial statements.

LIFESPAN CORPORATION AND AFFILIATES

Consolidated Statements of Operations and Changes in Net Assets

Years ended September 30, 2011 and 2010

(In thousands)

	<u>2011</u>	<u>2010</u>
Unrestricted revenues and other support:		
Net patient service revenue	\$ 1,511,410	\$ 1,439,677
Other revenue	58,304	65,704
Endowment earnings contributed toward community benefit	13,406	13,279
Net assets released from restrictions used for operations	22,423	21,688
Net assets released from restrictions used for research	80,809	78,450
Total unrestricted revenues and other support	<u>1,686,352</u>	<u>1,618,798</u>
Operating expenses:		
Compensation and benefits	987,295	924,403
Supplies and other expenses	364,394	359,926
Purchased services	96,585	86,698
Provision for bad debts	91,666	81,114
Depreciation and amortization	53,935	53,271
Interest	20,470	20,879
License fees	67,076	61,571
Total operating expenses	<u>1,681,421</u>	<u>1,587,862</u>
Income from operations	<u>4,931</u>	<u>30,936</u>
Nonoperating gains and losses:		
Unrestricted gifts and bequests	2,001	1,530
Unrestricted income from board-designated investments	1,979	2,074
Net realized (losses) gains on board-designated investments	(1,692)	6,885
Grants to outside agencies	(546)	(829)
Fundraising expenses	(3,536)	(3,973)
Litigation settlement (note 16)	(12,233)	—
Other nonoperating (losses) gains, net	(97)	337
Total nonoperating (losses) gains, net	<u>(14,124)</u>	<u>6,024</u>
(Deficiency) excess of revenues over expenses	<u>\$ (9,193)</u>	<u>\$ 36,960</u>

LIFESPAN CORPORATION AND AFFILIATES

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

Years ended September 30, 2011 and 2010

(In thousands)

	<u>2011</u>	<u>2010</u>
Unrestricted net assets:		
(Deficiency) excess of revenues over expenses	\$ (9,193)	\$ 36,960
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	(7,934)	(31,164)
Net change in unrealized gains on investments available for sale	(1,869)	27,367
Net assets released from restrictions used for purchase of property and equipment	7,277	8,730
Other decreases	(948)	(124)
(Decrease) increase in unrestricted net assets	<u>(12,667)</u>	<u>41,769</u>
Temporarily restricted net assets:		
Gifts, grants, and bequests	101,417	97,712
Income from restricted endowment and other restricted investments	4,385	4,668
Net assets released from restrictions	(110,509)	(108,868)
Net realized and unrealized gains on investments	2,626	28,187
Fundraising expenses	(2,103)	(1,477)
Grants to outside agencies	(421)	(121)
Other decreases	(101)	(386)
(Decrease) increase in temporarily restricted net assets	<u>(4,706)</u>	<u>19,715</u>
Permanently restricted net assets:		
Gifts and bequests (note 13)	9,916	16,664
Net change in unrealized gains on investments	(2,929)	1,087
Other increases	481	483
Increase in permanently restricted net assets	<u>7,468</u>	<u>18,234</u>
(Decrease) increase in net assets	(9,905)	79,718
Net assets, beginning of year	<u>1,304,433</u>	<u>1,224,715</u>
Net assets, end of year	<u>\$ 1,294,528</u>	<u>\$ 1,304,433</u>

See accompanying notes to consolidated financial statements.

LIFESPAN CORPORATION AND AFFILIATES

Consolidated Statements of Cash Flows
 Years ended September 30, 2011 and 2010
 (In thousands)

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
(Decrease) increase in net assets	\$ (9,905)	\$ 79,718
Adjustments to reconcile (decrease) increase 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	7,934	31,164
Net realized and unrealized losses (gains) on investments	3,864	(63,526)
Permanently restricted gifts and bequests	(9,916)	(16,664)
Depreciation and amortization	53,935	53,271
Provision for estimated self-insurance costs	130,596	122,632
Decrease in liabilities for estimated self-insurance costs resulting from claims paid	(128,014)	(118,756)
Net decrease (increase) in patient accounts receivable	6,867	(19,309)
Increase in accounts payable	4,516	1,716
Decrease in accrued employee benefits and compensation	(11,360)	(10,427)
Decrease in estimated third-party payor settlements	(33,513)	(1,628)
Increase in all other current and noncurrent assets and liabilities, net	4,517	13,831
Net cash provided by operating activities	<u>19,521</u>	<u>72,022</u>
Cash flows from investing activities:		
Purchase of property and equipment	(56,918)	(54,912)
Net decrease in trustee-held bond funds	14,573	16,706
Other net increases in assets limited as to use	(4,599)	(82,080)
Net cash used in investing activities	<u>(46,944)</u>	<u>(120,286)</u>
Cash flows from financing activities:		
Payments on long-term debt	(9,785)	(9,370)
Permanently restricted gifts and bequests	9,916	16,664
Net cash provided by financing activities	<u>131</u>	<u>7,294</u>
Net decrease in cash and cash equivalents	(27,292)	(40,970)
Cash and cash equivalents at:		
Beginning of year	84,517	125,487
End of year	<u>\$ 57,225</u>	<u>\$ 84,517</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	<u>\$ 21,341</u>	<u>\$ 21,754</u>

See accompanying notes to consolidated financial statements.

LIFESPAN CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2011 and 2010

(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, 2011 and 2010

(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, 2011 and 2010 is summarized in the following table:

	<u>2011</u>	<u>2010</u>
Charity care	\$ 63,505	\$ 59,485
Medical education, net	65,067	55,951
Research	14,382	13,361
Subsidized health services	18,759	18,057
Community health improvement services and community benefit operations	1,539	1,541
Unreimbursed Medicaid costs	<u>5,308</u>	<u>2,305</u>
Total	<u>\$ 168,560</u>	<u>\$ 150,700</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 \$63,505 and \$59,485 in 2011 and 2010, respectively. Charges forgone, based on established rates, amounted to \$220,449 and \$210,292 in 2011 and 2010, 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 \$65,067 and \$55,951 in 2011 and 2010, 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 currently sponsors 46 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; pathology; child psychiatry; emergency medicine and emergency medicine specialties;

LIFESPAN CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2011 and 2010

(In thousands)

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; Community College of Rhode Island (CCRI); 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; Walden University; 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 required clinical and fieldwork experiences in physical, speech, and occupational therapy to university students in each discipline through contracts with the various universities. TMH serves as a clinical training site for students from CCRI for the vascular and cardiology ultrasound programs and also provides training experiences for students in diagnostic radiology, nuclear medicine technology, pathology, laboratory medicine and phlebotomy. 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.

LIFESPAN CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2011 and 2010

(In thousands)

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 page 7.

Federal support accounts for approximately 79% 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 programs: adult psychiatry, oncology, diabetes, dental, tuberculosis, adolescent, and Alzheimer's, as well as the Center for Special Children, Vanderbilt Rehabilitation, early intervention, occupational health and certain other specialty services. 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, immunization, and nutrition programs, diabetes education, community health training programs, 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

LIFESPAN CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2011 and 2010

(In thousands)

evidence relative to certain estimates or to identify matters that require additional disclosure. These consolidated financial statements were issued on January 30, 2012 and subsequent events have been evaluated through that date.

(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) Accounting Pronouncement Not Yet Adopted

In July 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-07, Health Care Entities (Topic 954): *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities* (ASU 2011-07), which requires certain health care entities to change the presentation of their statement of operations by reclassifying the provision for bad debts associated with patient service revenue from an operating expense to a deduction from patient service revenue (net of contractual allowances and discounts). Additionally, those health care entities are required to provide enhanced disclosure about their policies for recognizing revenue and assessing bad debts. Also required are disclosures of patient service revenue (net of contractual allowances and discounts) as well as qualitative and quantitative information about changes in the allowance for doubtful accounts. ASU 2011-07 is effective for Lifespan's fiscal year beginning October 1, 2012, and the change in presentation is not expected to significantly impact Lifespan's financial position, results of operations or cash flows.

(d) 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.

(e) 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;

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- 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, including matrix pricing based on quoted prices for securities with similar coupons, ratings and maturities.

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

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 valued at the closing prices reported by an active market in which the individual securities are traded. Investments in collective investment funds with monthly pricing and liquidity are valued using NAV as a practical expedient; 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. Also, because Lifespan uses NAV as a practical expedient to estimate fair value, the level in the fair value hierarchy in which each fund's fair value measurement is classified is based primarily on Lifespan's ability to redeem its

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interest in the fund at or near the date of the consolidated statement of financial position. Accordingly, the inputs or methodology used for valuing or classifying investments for financial reporting purposes are not necessarily an indication of the risk associated with those investments or a reflection on the liquidity of each fund's underlying assets and liabilities.

Investments designated by Lifespan as trading securities 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 securities 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 asset category. 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.

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.

(f) *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.

(g) *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

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improvements lives range from 5 to 40 years and equipment lives range 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.

(h) *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.

(i) *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 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.

See note 5 for more information about Lifespan's endowment.

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(j) 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 net change in unrealized gains on investments available for sale, and net assets released from restrictions used for purchase of property and equipment.

(k) 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, 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.

(l) 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.

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(m) 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.

(n) 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 fair value, which is measured as the present value of their future cash flows. The discounts on those amounts are computed using interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in gifts, grants and bequests. Conditional promises to give are not included as support until the conditions are substantially met. 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 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.

(o) Inventories

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

(p) 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.

(q) 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

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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.

(r) Reclassifications

Certain 2010 amounts have been reclassified to conform with the 2011 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 \$66,135 and \$61,895 in 2011 and 2010, respectively, and are reflected as part of net patient service revenue in the accompanying consolidated statements of operations and changes in net assets.

In 2011 and 2010, the State of Rhode Island has assessed a license fee to all Rhode Island hospitals, based on each hospital's 2009 and 2008 net patient service revenue, respectively, as defined. The Hospitals' license fee expense was \$67,076 in 2011 and \$61,571 in 2010. 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 2011, 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, 2011 and 2010 is set forth in the following table.

	<u>2011</u>	<u>2010</u>
Funds available for self-insurance liabilities	\$ 146,764	\$ 150,457
Unrestricted board-designated funds	521,734	515,452
Held by trustee under bond indenture agreements	37,578	52,151
Temporarily restricted funds	286,203	292,002
Permanently restricted funds	137,699	133,754
Total	<u>\$ 1,129,978</u>	<u>\$ 1,143,816</u>

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

	<u>2011</u>	<u>2010</u>
Available-for-sale	\$ 805,445	\$ 864,299
Trading	324,533	279,517
Total	<u>\$ 1,129,978</u>	<u>\$ 1,143,816</u>

Assets limited as to use are classified as trading securities if the buy/sell decision with respect to each portfolio security is the responsibility of an external investment manager. All other assets limited as to use are classified as available-for-sale securities.

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, 2011 and 2010, as well as related strategy and liquidity/notice requirements:

	<u>2011</u>			<u>Total</u>	<u>Redemption or liquidation</u>	<u>Days' notice</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>			
U.S. equities:						
Large cap value	\$ 30,642	\$ —	\$ —	\$ 30,642	Daily	One
Mid-cap value	29,426	—	—	29,426	Daily	One
Large cap growth	37,690	—	—	37,690	Daily	One
Marketable alternatives:						
Multiple strategies	—	104,226	89	104,315	Quarterly-Annually	Sixty-Sixty-five
Absolute return strategies	—	57,488	—	57,488	Monthly	Five
International equities:						
Developed markets	—	106,641	—	106,641	Daily - Monthly	One - Seven
Emerging markets	—	32,149	—	32,149	Monthly	Ten
Commodities:						
Energy	17,488	—	—	17,488	Daily	One
Various	—	15,101	—	15,101	Daily	One
Real estate	15,599	—	—	15,599	Daily	Five
Fixed income:						
U.S. Treasuries	37,485	—	—	37,485	Daily	One - Five
U.S. Treasury inflation-protected	—	45,658	—	45,658	Daily	Two
U.S. Government and agency	—	18,012	—	18,012	Daily	One
Domestic bonds	74,196	149,460	—	223,656	Daily	One
Global bonds	28,748	68,515	425	97,688	Daily - Illiquid	One - N/A
Cash and short-term investments	45,205	—	—	45,205	Daily	One
	316,479	597,250	514	914,243		
Assets held in trust (note 6)	—	—	58,337	58,337		
Held by trustee under bond indenture agreements (note 12)	37,578	—	—	37,578		
Total	<u>\$ 354,057</u>	<u>\$ 597,250</u>	<u>\$ 58,851</u>	<u>\$ 1,010,158</u>		

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	2010				Redemption or liquidation	Days' notice
	Level 1	Level 2	Level 3	Total		
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	Daily	One
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		

Trustee-held investments under bond indenture agreements consist of a money market fund invested in U.S. Government obligations.

Investments of less than 5% 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 \$119,820 at September 30, 2011 and \$102,647 at September 30, 2010.

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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The following table presents Lifespan's activity for the years ended September 30, 2011 and 2010 for investments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) as defined in ASC 820-10:

	Global bonds	Marketable alternatives	Assets held in trust	2011 Total
Fair value at October 1, 2010	\$ 443	\$ 4,142	\$ 60,954	\$ 65,539
Realized gains	—	937	—	937
Net unrealized losses	(18)	(591)	(2,617)	(3,226)
Sales	—	(4,399)	—	(4,399)
Fair value at September 30, 2011	<u>\$ 425</u>	<u>\$ 89</u>	<u>\$ 58,337</u>	<u>\$ 58,851</u>

	Global bonds	Marketable alternatives	Assets held in trust	2010 Total
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>

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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>2011</u>	<u>2010</u>
Other revenue:		
Investment income	\$ <u>2,033</u>	\$ <u>7,810</u>
Endowment earnings contributed toward community benefit:		
Dividend and interest income	\$ <u>13,406</u>	\$ <u>13,279</u>
Nonoperating gains and losses:		
Unrestricted income from board-designated investments	\$ 1,979	\$ 2,074
Net realized (losses) gains on board-designated investments	<u>(1,692)</u>	<u>6,885</u>
	<u>\$ 287</u>	<u>\$ 8,959</u>
Other changes in unrestricted net assets:		
Net change in unrealized gains on investments available for sale	\$ <u>(1,869)</u>	\$ <u>27,367</u>
Changes in temporarily restricted net assets:		
Income from restricted endowment and other restricted investments	\$ 4,385	\$ 4,668
Net realized and unrealized gains on investments	<u>2,626</u>	<u>28,187</u>
	<u>\$ 7,011</u>	<u>\$ 32,855</u>
Changes in permanently restricted net assets:		
Net change in unrealized gains on investments	\$ <u>(2,929)</u>	\$ <u>1,087</u>

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Liquidity

Investments as of September 30, 2011 and 2010 are summarized below based on when they may be redeemed or sold:

	<u>2011</u>		<u>2010</u>
Investment redemption or sale period:			
Daily	\$ 656,126	\$	696,180
Monthly	177,759		167,238
Quarterly	104,229		98,804
One-to-five years	1,780		6,048
Locked-up until liquidation	70,264		72,899
Total	<u>\$ 1,010,158</u>	\$	<u>1,041,169</u>

Locked-up until liquidation includes assets held in trust (note 6) and the trustee-held debt service reserve fund under the 2009A bond indenture agreement (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, 2011 was \$11,895.

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Investments With Unrealized Losses

Information regarding investments with unrealized losses at September 30, 2011 and 2010 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:

	<u>Less than 12 months</u>		<u>12 months or longer</u>		<u>Total</u>	
	<u>Fair value</u>	<u>Unrealized losses</u>	<u>Fair value</u>	<u>Unrealized losses</u>	<u>Fair value</u>	<u>Unrealized losses</u>
September 30, 2011:						
Unrestricted board-designated and temporarily restricted funds:						
Collective investment funds	\$ 74,196	\$ 2,787	\$ 28,748	\$ 1,777	\$ 102,944	\$ 4,564
Total temporarily impaired securities	<u>\$ 74,196</u>	<u>\$ 2,787</u>	<u>\$ 28,748</u>	<u>\$ 1,777</u>	<u>\$ 102,944</u>	<u>\$ 4,564</u>
	<u>Less than 12 months</u>		<u>12 months or longer</u>		<u>Total</u>	
	<u>Fair value</u>	<u>Unrealized losses</u>	<u>Fair value</u>	<u>Unrealized losses</u>	<u>Fair value</u>	<u>Unrealized losses</u>
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	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 65,887</u>	<u>\$ 2,683</u>	<u>\$ 65,887</u>	<u>\$ 2,683</u>

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.

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Endowments

Lifespan's endowment consists of approximately 469 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.

Endowment funds consist of the following at September 30, 2011:

	<u>Unrestricted board-designated</u>	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ —	\$ 286,203	\$ 137,699	\$ 423,902
Internally board-designated endowment funds	<u>521,734</u>	<u>—</u>	<u>—</u>	<u>521,734</u>
Total endowment funds	<u>\$ 521,734</u>	<u>\$ 286,203</u>	<u>\$ 137,699</u>	<u>\$ 945,636</u>

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>

LIFESPAN CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2011 and 2010

(In thousands)

Endowments (continued)

Changes in endowment funds for the year ended September 30, 2011 are as follows:

	Unrestricted board-designated	Temporarily restricted	Permanently restricted	Total
Endowment funds, October 1, 2010	\$ 515,452	\$ 292,002	\$ 133,754	\$ 941,208
Interest and dividend income	13,001	4,385	—	17,386
Net realized and unrealized (losses) gains	(1,963)	2,626	(2,929)	(2,266)
Cash gifts, grants and bequests	2,001	100,324	6,393	108,718
Net assets released from restrictions	—	(110,509)	—	(110,509)
Deposits	4,424	—	—	4,424
Withdrawals	(11,181)	—	—	(11,181)
Other (decreases) increases	—	(2,625)	481	(2,144)
Endowment funds, September 30, 2011	<u>\$ 521,734</u>	<u>\$ 286,203</u>	<u>\$ 137,699</u>	<u>\$ 945,636</u>

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

	Unrestricted board-designated	Temporarily restricted	Permanently restricted	Total
Endowment funds, October 1, 2009	\$ 426,047	\$ 267,533	\$ 115,619	\$ 809,199
Interest and dividend income	12,978	4,668	—	17,646
Net realized and unrealized gains	30,583	28,187	1,087	59,857
Cash gifts, grants and bequests	1,530	102,466	16,565	120,561
Net assets released from restrictions	—	(108,868)	—	(108,868)
Deposits	56,924	—	—	56,924
Withdrawals	(12,610)	—	—	(12,610)
Other (decreases) increases	—	(1,984)	483	(1,501)
Endowment funds, September 30, 2010	<u>\$ 515,452</u>	<u>\$ 292,002</u>	<u>\$ 133,754</u>	<u>\$ 941,208</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, 2011 and 2010 was \$58,337 and \$60,954, 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>2011</u>	<u>2010</u>
Land and improvements	\$ 31,909	\$ 31,909
Buildings and improvements	998,735	976,742
Equipment	<u>520,920</u>	<u>494,865</u>
	1,551,564	1,503,516
Less accumulated depreciation and amortization	<u>828,012</u>	<u>777,881</u>
	723,552	725,635
Construction in progress	<u>39,931</u>	<u>34,865</u>
Property and equipment, net	<u>\$ 763,483</u>	<u>\$ 760,500</u>

Depreciation and amortization expense for the years ended September 30, 2011 and 2010 amounted to \$53,935 and \$53,271, respectively.

The estimated cost of completion of construction in progress approximated \$11,500 at September 30, 2011, comprised principally of RIH (\$7,000) and NHCC (\$2,700) projects. In addition, TMH and RIH have several building renovation projects pending contractual commitments with estimated costs of completion of approximately \$12,000 and \$7,000, respectively.

LIFESPAN CORPORATION AND AFFILIATES

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(In thousands)

(8) Pension and Other Postretirement Benefits***Voluntary Early Retirement Program (VERP)***

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 estimated cost of this program amounting to \$19,228 in 2011 is included in compensation and benefits in the consolidated statement of operations and changes in net assets. The liability related to the VERP was approximately \$7,627 at September 30, 2011 and is included in accrued employee benefits and compensation in the consolidated statement of financial position.

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. In 2011, the Plan was amended to freeze NHCC defined benefit accruals effective October 31, 2011. NHCC participants continue to accrue benefits under the separate account balance component 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 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. Lifespan may also make certain discretionary matching contributions to participant account balances included in Plan assets based on salary deferral elections of participants. Matching contributions of \$8,235 and \$8,198 were made in 2011 and 2010, respectively.

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

LIFESPAN CORPORATION AND AFFILIATES

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(In thousands)

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. Due to changes in the timing and amount of contributions, combined with the results of an actuarial assumption experience study, Lifespan elected to remeasure the assets and benefit obligations of the Plan as of March 31, 2011. Based on March 31, 2011 and September 30, 2011 funded-status amounts for the Plan, Lifespan recorded a decrease in unrestricted net assets of \$4,562.

The estimated amounts that will be amortized from unrestricted net assets into net periodic pension cost in 2012 are as follows:

Net actuarial loss	\$	10,918
Prior service benefit		(540)
	\$	<u>10,378</u>

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

	<u>2011</u>	<u>2010</u>
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	\$ 528,319	\$ 452,976
Service cost	26,395	26,012
Interest cost	28,785	27,178
Plan amendments	(7,092)	157
Actuarial (gain) loss	(3,656)	42,355
Benefits paid	(33,849)	(19,262)
Administrative expenses	(1,238)	(1,097)
Projected benefit obligation at end of year	\$ <u>537,664</u>	\$ <u>528,319</u>

The accumulated benefit obligation at the end of 2011 and 2010 was \$473,368 and \$455,687, respectively.

	<u>2011</u>	<u>2010</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	\$ 338,026	\$ 307,775
Actual return on plan assets	2,643	26,807
Employer contributions	48,043	23,803
Benefits paid	(33,849)	(19,262)
Administrative expenses	(1,238)	(1,097)
Fair value of plan assets at end of year	\$ <u>353,625</u>	\$ <u>338,026</u>

LIFESPAN CORPORATION AND AFFILIATES

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(In thousands)

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>2011</u>	<u>2010</u>
Funded status, end of year:		
Fair value of plan assets	\$ 353,625	\$ 338,026
Projected benefit obligation	<u>537,664</u>	<u>528,319</u>
	<u>\$ (184,039)</u>	<u>\$ (190,293)</u>

Amounts recognized in the consolidated statements of financial position at September 30, 2011 and 2010 are as follows:

	<u>2011</u>	<u>2010</u>
Accrued pension liability	<u>\$ (184,039)</u>	<u>\$ (190,293)</u>

	<u>2011</u>	<u>2010</u>
Amounts not yet reflected in net periodic pension cost and included in unrestricted net assets:		
Prior service benefit (cost)	\$ 5,547	\$ (1,834)
Accumulated net actuarial loss	<u>(148,488)</u>	<u>(136,545)</u>
Amounts not yet recognized as a component of net periodic pension cost	(142,941)	(138,379)
Accumulated net periodic pension cost in excess of employer contributions	<u>(41,098)</u>	<u>(51,914)</u>
Net amount recognized	<u>\$ (184,039)</u>	<u>\$ (190,293)</u>

	<u>2011</u>	<u>2010</u>
Sources of change in unrestricted net assets:		
Net loss arising during the year	\$ (20,491)	\$ (38,879)
New prior service benefit (cost)	7,092	(157)
Amortizations:		
Net actuarial loss	8,549	7,940
Prior service cost	<u>288</u>	<u>801</u>
Total unrestricted net asset loss recognized during the year	<u>\$ (4,562)</u>	<u>\$ (30,295)</u>

LIFESPAN CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

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(In thousands)

Net Periodic Pension Cost

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

	<u>2011</u>	<u>2010</u>
Service cost	\$ 26,395	\$ 26,012
Interest cost	28,785	27,178
Expected return on plan assets	(26,791)	(23,331)
Amortization of net actuarial loss	8,549	7,940
Amortization of prior service cost	288	801
Net periodic pension cost	<u>\$ 37,226</u>	<u>\$ 38,600</u>

In 2011, Lifespan modified its discretionary matching contribution to participant account balances, reducing net periodic pension cost by \$2,764.

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

	<u>2011</u>	<u>2010</u>
Discount rate for benefit obligations	4.70%	4.98%
Discount rate for net periodic pension cost	5.25	5.74
Rate of compensation increase	4.50	4.50
Expected long-term rate of return on Plan assets	7.75	7.75

The asset allocation for the Plan at September 30, 2011 and 2010, and the target allocation for 2012, by asset category, are as follows:

<u>Asset category</u>	<u>Target allocation 2012</u>	<u>Percentage of plan assets September 30</u>	
		<u>2011</u>	<u>2010</u>
U.S. equities	15 - 35%	11.6%	11.8%
Marketable alternatives	0 - 25%	13.7	14.3
International equities	10 - 35%	13.2	15.0
Venture capital	0 - 10%	1.4	1.5
Commodities	0 - 20%	7.8	8.2
Real estate	0 - 15%	2.3	2.7
Fixed income	10 - 50%	43.2	45.4
Cash and cash equivalents	0 - 10%	6.8	1.1
Total		<u>100.0%</u>	<u>100.0%</u>

LIFESPAN CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

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The asset allocation table on page 30 does not include \$77,173 and \$75,626 of Plan assets at September 30, 2011 and 2010, 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 outlook for a globally diversified portfolio. Asset allocations are regularly updated based on evaluations of future market returns for each asset class.

LIFESPAN CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

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(In thousands)

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, 2011 and 2010, as well as related strategy and liquidity/notice requirements:

	2011				Redemption or liquidation	Days' notice
	Level 1	Level 2	Level 3	Total		
U.S. equities:						
Large cap value	\$ 11,734	\$ —	\$ —	\$ 11,734	Daily	One
Mid-cap value	7,906	—	—	7,906	Daily	One
Large cap growth	11,602	—	—	11,602	Daily	One
Marketable alternatives:						
Multiple strategies	—	21,921	7,785	29,706	Quarterly-Illiquid	Sixty-Ninety-five
Absolute return strategies	—	8,398	—	8,398	Monthly	Five
International equities:						
Developed markets	—	25,395	—	25,395	Daily - Monthly	One - Seven
Emerging markets	—	11,293	—	11,293	Monthly	Ten
Venture capital	—	—	10,004	10,004	Illiquid	N/A
Commodities:						
Energy	—	5,882	—	5,882	Daily	One
Various	—	11,628	—	11,628	Daily	One
Real estate	3,254	—	—	3,254	Daily	One
Fixed income:						
U.S. Treasuries	7,526	—	—	7,526	Daily	One
U.S. Treasury inflation-protected	—	13,218	—	13,218	Daily	Two
U.S. Government and agency	—	10,053	—	10,053	Daily	One
Domestic bonds	21,197	39,039	—	60,236	Daily	One
Global bonds	—	28,269	—	28,269	Monthly	Fifteen
Cash and cash equivalents	20,348	—	—	20,348	Daily	One
Fidelity mutual funds	77,173	—	—	77,173	Daily	One
Total	\$ 160,740	\$ 175,096	\$ 17,789	\$ 353,625		

LIFESPAN CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

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(In thousands)

	2010				Redemption or liquidation	Days' notice
	Level 1	Level 2	Level 3	Total		
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	Daily	One
Real estate	3,432	—	—	3,432	Daily	One
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	Monthly	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		

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, 2011 and 2010:

	Venture capital	Marketable alternatives	2011 Total
Fair value at October 1, 2010	\$ 11,480	\$ 4,062	\$ 15,542
Transfers in	—	11,037	11,037
Transfers out	—	(7,008)	(7,008)
Purchases	315	—	315
Sales	(2,823)	—	(2,823)
Realized gains, net	1,356	—	1,356
Unrealized losses, net	(324)	(306)	(630)
Fair value at September 30, 2011	\$ 10,004	\$ 7,785	\$ 17,789

LIFESPAN CORPORATION AND AFFILIATES

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(In thousands)

	<u>Venture capital</u>	<u>Marketable alternatives</u>	<u>2010 Total</u>
Fair value at October 1, 2009	\$ 12,509	\$ 7,846	\$ 20,355
Transfers out	—	(7,846)	(7,846)
Purchases	472	4,050	4,522
Sales	(2,055)	—	(2,055)
Realized gains, net	1,148	—	1,148
Unrealized (losses) gains, net	(594)	12	(582)
Fair value at September 30, 2010	<u>\$ 11,480</u>	<u>\$ 4,062</u>	<u>\$ 15,542</u>

Expected Cash Flows

Information about the expected cash flows for the Plan follows:

Employer contributions:	
2012 (expected)	\$ 38,694
Expected benefit payments:	
2012	27,739
2013	25,826
2014	24,607
2015	26,287
2016	28,263
2017 through 2021	178,225

Management evaluates its Plan assumptions annually and the expected employer contributions in 2012 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, 2011 funded-status amounts for the postretirement benefit plan, Lifespan recorded a decrease in unrestricted net assets of \$3,372.

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The estimated amounts that will be amortized from unrestricted net assets into net periodic postretirement benefit cost in 2012 are as follows:

Net actuarial loss	\$ 410
Prior service benefit	(204)
	<u>\$ 206</u>

Benefit Obligations

	<u>2011</u>	<u>2010</u>
Change in accumulated postretirement benefit obligation:		
Accumulated postretirement benefit obligation at beginning of year	\$ 22,712	\$ 22,469
Service cost	428	413
Interest cost	1,095	1,249
Benefits paid	(1,105)	(1,354)
Actuarial loss (gain)	2,728	(65)
Accumulated postretirement benefit obligation at end of year	<u>\$ 25,858</u>	<u>\$ 22,712</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>2011</u>	<u>2010</u>
Benefit obligations	\$ 25,858	\$ 22,712
Funded status	<u>\$ (25,858)</u>	<u>\$ (22,712)</u>
Accrued postretirement benefit cost recognized in the consolidated statements of financial position	<u>\$ 25,858</u>	<u>\$ 22,712</u>

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Amounts recognized in the consolidated statements of financial position at September 30, 2011 and 2010 consist of:

	<u>2011</u>	<u>2010</u>
Accrued postretirement benefit cost:		
Current (included in accrued employee benefits and compensation)	\$ 2,196	\$ 1,470
Noncurrent (included in other liabilities)	<u>23,662</u>	<u>21,242</u>
Total accrued postretirement benefit cost	<u>\$ 25,858</u>	<u>\$ 22,712</u>
	<u>2011</u>	<u>2010</u>
Amounts not yet reflected in net periodic postretirement benefit cost and included in unrestricted net assets:		
Prior service benefit	\$ 568	\$ 1,411
Accumulated net actuarial loss	<u>(6,265)</u>	<u>(3,666)</u>
Amounts not yet recognized as a component of net periodic postretirement benefit cost	(5,697)	(2,255)
Accumulated net periodic postretirement benefit cost	<u>(20,161)</u>	<u>(20,457)</u>
Net amount recognized	<u>\$ (25,858)</u>	<u>\$ (22,712)</u>
	<u>2011</u>	<u>2010</u>
Sources of change in unrestricted net assets:		
Net (loss) gain arising during the year	\$ (2,658)	\$ 19
Amortizations:		
Net actuarial loss	130	168
Prior service benefit	<u>(844)</u>	<u>(1,056)</u>
Total unrestricted net asset loss recognized during the year	<u>\$ (3,372)</u>	<u>\$ (869)</u>

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(In thousands)

Net Periodic Postretirement Benefit Cost

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

	<u>2011</u>	<u>2010</u>
Service cost	\$ 428	\$ 413
Interest cost	1,095	1,249
Amortization of prior service benefit	(844)	(1,056)
Amortization of net actuarial loss	130	168
Net periodic postretirement benefit cost	<u>\$ 809</u>	<u>\$ 774</u>

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

	<u>2011</u>	<u>2010</u>
Discount rate for benefit obligations	4.70%	4.98%
Discount rate for net periodic postretirement benefit cost	4.98	5.74

Assumed Health Care Cost Trend Rates at September 30:

	<u>2011</u>	<u>2010</u>
Health care cost trend rate assumed for next year	8.13%	8.03%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	4.5%	4%
Year that the rate reaches the ultimate trend rate	2030	2029

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, 2011:

	<u>One-Percentage- Point Increase</u>	<u>One-Percentage- Point Decrease</u>
Effect on total of service cost and interest cost	\$ 112	\$ (102)
Effect on accumulated postretirement benefit obligation	1,508	(1,380)

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(In thousands)

Expected Cash Flows

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

Expected benefit payments:		
2012	\$	2,196
2013		2,179
2014		2,129
2015		2,203
2016		2,201
2017 through 2021		11,724

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 \$32,000 per claim. Also covered under the Lifespan professional liability/medical malpractice policy are 560 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, 2011 and 2010 have been discounted at 4%. Had Lifespan provided for losses at undiscounted levels, estimated self-insurance liabilities would have been increased by approximately \$7,200 and \$7,250 at September 30, 2011 and 2010, respectively.

LIFESPAN CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2011 and 2010

(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, 2011 and 2010 have been discounted at 4%. Had such losses been provided for at undiscounted levels, estimated self-insurance liabilities would have been increased by approximately \$612 and \$608 at September 30, 2011 and 2010, respectively. Lifespan has a standby letter of credit at September 30, 2011 in the amount of \$6,500 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>2011</u>	<u>2010</u>
Medicare and Senior Care	40%	39%
Blue Cross	19	20
Medicaid and RIte Care	15	16
Managed care	12	12
Commercial, self-pay, and other	14	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 2011 Medicare cost reports have not been filed and therefore are not settled. The Centers for Medicare and Medicaid Services has placed a temporary moratorium on final settlement of Medicare cost reports from 2007 forward. The State of Rhode Island Medicaid Program no longer requires year end retrospective settlements, effective for periods beginning October 1, 2009 for outpatient services and July 1, 2010 for inpatient services.

LIFESPAN CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2011 and 2010

(In thousands)

The following cost reports have not been settled:

	<u>RIH</u>	<u>TMH</u>	<u>Bradley</u>	<u>NH</u>
Medicare 2010	X	X		X
Medicare 2009	X	X		X
Medicare 2008	X	X		X
Medicare 2007	X	X		X
Medicaid 2010	X	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

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 \$24,600 and \$10,286 in 2011 and 2010, respectively, to reflect changes in the estimated settlements for certain prior years.

Revenues from Medicare and Medicaid programs accounted for approximately 40% and 15%, respectively, of Lifespan's gross patient service revenue for the year ended September 30, 2011. 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. In 2011, Lifespan reached a settlement with respect 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. 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, 2011 and 2010

(In thousands)

(12) Long-Term Debt

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

	<u>2011</u>	<u>2010</u>
Hospital Financing Revenue fixed rate serial and term bonds due May 15, 2012 through 2032 in annual amounts ranging from \$7,215 to \$15,020 at rates ranging from 4% to 5% (2006A Series – Lifespan Obligated Group)	\$ 176,300	\$ 183,175
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, 2012 through 2026 in annual amounts ranging from \$690 to \$14,705 at rates ranging from 5.4% to 5.75% (1996 Series – Lifespan Obligated Group)	53,305	53,960
Hospital Financing Revenue fixed rate serial and term bonds due July 1, 2012 through 2029 in annual amounts ranging from \$795 to \$1,890 at rates ranging from 5% to 5.3% (1999 Series – NH)	22,780	23,535
Hospital Financing Revenue fixed rate serial and term bonds due August 15, 2012 at 6.375% (2002 Series – Lifespan Obligated Group)	1,595	3,095
Unamortized premium – 2006A Series	5,638	6,290
Unamortized premium – 2009A Series	187	194
Unamortized discount – 1996 and 2002 Series	(7)	(20)
	<u>374,783</u>	<u>385,214</u>
Less current portion	<u>10,295</u>	<u>9,785</u>
Long-term debt, excluding current portion	<u>\$ 364,488</u>	<u>\$ 375,429</u>

The estimated fair value of Lifespan's long-term debt at September 30, 2011 and 2010 approximates \$394,000 and \$390,000, respectively, 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.

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Notes to Consolidated Financial Statements

September 30, 2011 and 2010

(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.

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Notes to Consolidated Financial Statements

September 30, 2011 and 2010

(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, 2011, 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, 2011, 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 2016 are as follows: 2012, \$10,295; 2013, \$10,820; 2014, \$11,370; 2015, \$11,940, and 2016, \$12,535.

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, 2011 and 2010

(In thousands)

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

	<u>2011</u>	<u>2010</u>
RIH, TMH and Bradley:		
Project Fund – 2009A Series	\$ 24,385	\$ 38,743
Bond Funds	884	1,099
Debt Service Reserve Fund – 2009A Series	11,502	11,502
Debt Service Reserve Fund – 2002 Series	309	309
	<u>37,080</u>	<u>51,653</u>
Newport Hospital Bond Fund – 1999 Series	498	498
Total	<u>\$ 37,578</u>	<u>\$ 52,151</u>

(13) Temporarily and Permanently Restricted Net Assets

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

	<u>2011</u>	<u>2010</u>
General health care service activities	\$ 242,117	\$ 249,576
Research	56,193	53,440
Total	<u>\$ 298,310</u>	<u>\$ 303,016</u>

Permanently restricted net assets at September 30 are restricted to:

	<u>2011</u>	<u>2010</u>
General health care service activities	\$ 139,592	\$ 132,124
Research	4,461	4,461
Total	<u>\$ 144,053</u>	<u>\$ 136,585</u>

Income from permanently restricted investments is expendable to support donor-designated purposes.

Permanently restricted net assets increased by \$7,468 and \$18,234 in the years ended September 30, 2011 and 2010, respectively, primarily due to gifts totaling \$9,540 and \$14,940, respectively, received from the Frederick Henry Prince Trust by the following Lifespan affiliates:

	<u>2011</u>	<u>2010</u>
RIH	\$ 4,675	\$ 9,655
TMH	1,046	3,018
NH	3,819	2,267
Total	<u>\$ 9,540</u>	<u>\$ 14,940</u>

LIFESPAN CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

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(In thousands)

The income on these endowments will be used to support RIH's Neurosciences Institute and the emergency departments at both TMH and NH, as well as promote athletic activity and wellness among youth and families of Newport County (NH).

(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, 2011:

	<u>Amount</u>
Year ending September 30:	
2012	\$ 16,545
2013	12,980
2014	9,829
2015	5,495
2016	3,714
Thereafter	<u>3,767</u>
Total minimum lease payments	<u>\$ 52,330</u>

Rental expense, including rentals under leases with terms of less than one year, for the years ended September 30, 2011 and 2010 was \$14,318 and \$13,364, 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. While Lifespan has not historically incurred any significant concentrated credit losses in the normal course of business, in 2011 the allowance for doubtful accounts was increased by \$4,000 as a result of past due receivables from the eighty-seven municipal school departments served by Emma Pendleton Bradley Hospital.

(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 CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2011 and 2010

(In thousands)

Effective September 30, 2011, Lifespan and Tufts Medical Center, Inc. (NEMC) agreed upon the satisfaction in full of a court judgment against Lifespan which had resulted in a net award to NEMC in the amount of \$9,208. This settlement, which was reflected as a non-operating loss in 2011, was paid to NEMC on October 3, 2011. Lifespan recorded an additional \$3,025 non-operating loss in 2011 resulting from the write-off of Lifespan's notes receivable from NEMC, which had originated upon the exit of NEMC from the Lifespan system in 2002.

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.

(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, 2011 and 2010 are \$3,260 and \$2,953, 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>2011</u>	<u>2010</u>
Health care services	\$ 1,378,405	\$ 1,291,071
Research	95,191	91,811
General and administrative:		
Depreciation and amortization	53,935	53,271
Interest	20,470	20,879
Other	133,420	130,830
Total general and administrative	<u>207,825</u>	<u>204,980</u>
	<u>\$ 1,681,421</u>	<u>\$ 1,587,862</u>

LIFESPAN CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2011 and 2010

(In thousands)

(19) Promises to Give

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

	<u>2011</u>	<u>2010</u>
Capital campaigns	\$ 4,325	\$ 5,177
Other restricted	<u>8,666</u>	<u>4,832</u>
Unconditional promises to give before unamortized discount and allowance for collectibles	12,991	10,009
Less: unamortized discount at rates ranging from 1% to 4.6%	<u>(667)</u>	<u>(787)</u>
Subtotal	12,324	9,222
Less: allowance for uncollectibles	<u>(399)</u>	<u>(487)</u>
Net unconditional promises to give	<u>\$ 11,925</u>	<u>\$ 8,735</u>
Amounts due in:		
Less than one year	\$ 8,347	\$ 4,447
One to five years	3,865	4,743
More than five years	<u>779</u>	<u>819</u>
Total	<u>\$ 12,991</u>	<u>\$ 10,009</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 have begun to integrate clinical programs and services and do not expect the elimination of services or a significant loss of jobs. Each has nominated, and Lifespan has elected, an identical slate of trustees to serve as the governing body for both hospitals.

LIFESPAN CORPORATION AND AFFILIATES

Schedule of Expenditures of Federal Awards

Year ended September 30, 2011

Federal grantor/pass-through grantor	CFDA number	Pass-through number	Expenditures
Research and Development Cluster:			
Department of Defense:			
U.S. Army Medical Command	12.420		\$ 334,254
Passed through:			
Brown University	12.420	P262236	119,350
Department of Health and Human Services:			
Administration for Children and Families			
Passed through:			
Rhode Island College	93.632	90 DD0539	(385)
Rhode Island Kids Count	93.670	90CA1775	158,730
Indiana University	93.623-A-00-08	623-A-00-08-00003	36,869
Agency for Healthcare Research and Quality	93.226		269,073
Passed through:			
University of California at San Francisco	93.715		123,527
Centers for Disease Control and Prevention	93.136		356,464
Centers for Disease Control and Prevention	93.200-2010-36764		567,131
Centers for Disease Control and Prevention	93.2007-N-09570		16,496
Passed through:			
Association of American Medical Colleges	93.283	U36 CD319276	1,000
Cerner Corporation	93.200-2006-18797	200-2006-18797	93,742
Massachusetts General Hospital	93.945	U01 DP000340	(11,141)
Mount Sinai School of Medicine	93.945	0258-8811/8812-4609	382,701
University of Massachusetts	93.283	U27 CCU116648	63,618
Department of Health and Human Services			
Passed through:			
Massachusetts Department of Public Health	93.UNK	70A00301391	12,212
Rhode Island Department of Health	93.UNK	PO 3028292	43,073
Rhode Island Department of Health	93.UNK	3014007-8	99,755
Rhode Island Department of Health	93.UNK	Z101136497	13,694
Rhode Island Department of Health	93.UNK	3147655	2,045
Health Resources and Services Administration	93.110		192,652
Health Resources and Services Administration	93.145		28,454
Health Resources and Services Administration	93.928		440,402
Passed through:			
Children's Hospital of Pittsburgh	93.127	U03 MC22685	4,131
Yale University	93.127	H34 MC19349	106,576
Family Aid Center for Treatment & Support	93.153	7017973	58,965
Butler Hospital	93.156	9113-8337	(14,386)
Butler Hospital	93.156	R01 HP08796	67,073
Rhode Island Department of Health	93.917	X07HA00011	50,735
Food and Drug Administration			
Passed through:			
Montefiore Medical Center	93.103	R01FD002613	30,939
National Institutes of Health	93.213		30,386
National Institutes of Health	93.242		4,120,659
National Institutes of Health	93.273		3,226,554
National Institutes of Health	93.277		110,725
National Institutes of Health	93.278		306,024
National Institutes of Health	93.279		5,137,693
National Institutes of Health	93.281		1,140,214
National Institutes of Health	93.282		615,387
National Institutes of Health	93.361		1,212,583
National Institutes of Health	93.389		7,018,557
National Institutes of Health	93.393		1,099,990
National Institutes of Health	93.394		1,142,939
National Institutes of Health	93.395		423,071
National Institutes of Health	93.396		288,955
National Institutes of Health	93.398		542,082
ARRA-National Institutes of Health	93.701		3,974,537
National Institutes of Health	93.837		5,616,885
National Institutes of Health	93.838		1,070,340
National Institutes of Health	93.839		107,483
National Institutes of Health	93.846		1,411,061
National Institutes of Health	93.847		2,890,966

LIFESPAN CORPORATION AND AFFILIATES

Schedule of Expenditures of Federal Awards

Year ended September 30, 2011

Federal grantor/pass-through grantor	CFDA number	Pass-through number	Expenditures
National Institutes of Health	93.848		\$ 1,258,114
National Institutes of Health	93.849		884,493
National Institutes of Health	93.855		3,704,017
National Institutes of Health	93.856		45,200
National Institutes of Health	93.859		811,464
National Institutes of Health	93.865		585,566
National Institutes of Health	93.866		612,385
National Institutes of Health	93.989		409,598
National Institutes of Health	93.DA-024549		287,375
Passed through:			
Brown University	93.113	1P20ES018169	67,350
Boston University	93.121	U54-DE019275	170,691
National Jewish Health	93.233	2R01 HL067209	73,174
American Academy of Child & Adolescent Psychiatry	93.242	K12 DA000357	35,067
Brown University	93.242	R21AA007850	11,914
Brown University	93.242	7127432	262,799
Brown University	93.242	7127435	9,853
Brown University	93.242	R34 MH082211	49,938
Brown University	93.242	7127995	46,696
Brown University	93.242	R34 MH083092	163,127
Brown University	93.242	R34 MH083092	17,814
Brown University	93.242	R01 MH092238	12,369
Brown University	93.242	00000259	41,336
Brown University	93.242	00000315	121,973
Brown University	93.242	R34 MH082164	74,977
Butler Hospital	93.242	7011908	66,460
Butler Hospital	93.242	9141-8327	217,143
Butler Hospital	93.242	9081-8339	10,922
Massachusetts General Hospital	93.242	R01-MH04757	198,076
Mount Sinai School of Medicine	93.242	R25-MH080663	(358)
University of Alabama	93.242	R01 AG018384	97,536
University of Colorado	93.242	1547678	17,139
University of Connecticut	93.242	R01 MH058563	9,019
Women & Infants Hospital of Rhode Island	93.242	R01 MH071766	49,064
Women & Infants Hospital of Rhode Island	93.242	R01 MH078033	20,229
Brown University	93.273	R01 AA012518	10,236
Brown University	93.273	P01 AA019072	192,440
Brown University	93.273	R01 AA017659	24,067
Brown University	93.273	R01 AA016978	30,404
Brown University	93.273	R01 AA015753	8,695
Brown University	93.273	R01 AA016079	39,217
Brown University	93.273	P01 AA019072	24,006
Brown University	93.273	P01 AA019072	98,799
Brown University	93.273	R01 AA017181	12,265
Brown University	93.273	P01 AA019072	30,901
George Mason University	93.273	R01 AA016854	14,391
University of Connecticut	93.273	R01 AA017399	9,598
Washington University	93.273	Study 6666	48,232
Brown University	93.279	R01 DA020725	12,872
Brown University	93.279	R03 DA027484	40,245
Columbia University	93.279	R01 DA030459	16,622
Columbia University	93.279	R01 DA023650	13,871
Fenway Health Center	93.279	5R21DA025010	56,666
Friends Research Institute	93.279	R01 DA030771	231,048
Rensselaer Polytechnic Institute	93.279	A11867	25,546
Research Foundation for Mental Hygiene	93.279	R01 DA026775	50,261
Research Foundation for Mental Hygiene	93.279	R01 DA031005	32,064
Treatment Research Institute	93.279	R01 DA025687	1,234
Tufts University	93.279	P30 DA013868	37,480
Tufts University	93.279	P30 DA013868	21,672
Tufts University	93.279	P30 DA013868	12,874
Tufts University	93.279	P30 DA013868	25,551
University of Arkansas for Medical Sciences	93.279	R01 DA022386	11,206
University of Massachusetts	93.279	R01 DA023170	15,890

LIFESPAN CORPORATION AND AFFILIATES

Schedule of Expenditures of Federal Awards

Year ended September 30, 2011

Federal grantor/pass-through grantor	CFDA number	Pass-through number	Expenditures
University of Massachusetts	93.279	R01 DA023170	\$ 139,436
Brigham & Women's Hospital	93.281	K23 MH073416	198
American College of Radiology	93.299	U01 DK056992	4,827
New York University Medical Center	93.310	UH3 CA140233	8,120
University of Pittsburgh	93.310	R21 DA021144	6,862
Brown University	93.361	R01 NR022295	90,107
Butler Hospital	93.361	R01 NR012005	20,423
University of Massachusetts	93.361	R01 NR011317	63,310
University of Rhode Island	93.361	R01 NR003695	24,412
Women & Infants Hospital of Rhode Island	93.389	P20 RR018728	28,491
Boston University	93.393	R01 CA141587	59,868
Brown University	93.393	R01 CA155381	13,882
Brown University	93.394	R21 CA137211	7,222
Brigham & Women's Hospital	93.395	U10 CA031946	53,487
Brigham & Women's Hospital	93.395	U10 CA031496	18,753
Dana Farber Cancer Institute	93.395	P01 DA068484	18,386
National Childhood Cancer Foundation	93.395	U10 CA98543	75,504
National Childhood Cancer Foundation	93.395	U10 CA98543	12,221
Brown University	93.396	00000288266	30,291
National Surgical Adjuvant and Bowel Project	93.399	PFED24-DAN-05	6,535
ARRA-Brigham & Women's Hospital	93.701	RC2 HL101816	16,465
ARRA-Brown University	93.701	R01 DA026778	10,430
ARRA-Brown University	93.701	R21 AI083908	27,250
ARRA-Dana Farber Cancer Institute	93.701	RC2 HL101631	103,445
ARRA-Duke University Medical Center	93.701	R01 HL098237	2,624
ARRA-Duke University Medical Center	93.701	RC2 AR058934	9,329
ARRA-Memorial Hospital of Rhode Island	93.701	1R01DA024093	9,211
ARRA-Rhode Island Department of Health	93.701	PO Req. #1202298	110,796
ARRA-State University of New York at Birmingham	93.701	R01 HD057066	31,771
ARRA-Tribologics	93.701	R41 AR057276	41,068
ARRA-University of Arkansas	93.701	R21 DK081628	34,475
ARRA-University of California at San Diego	93.701	RC2 AG036535	20,394
ARRA-University of Medicine & Dentistry of New Jersey	93.701	RC2 HL101458	50,152
ARRA-University of Michigan	93.701	RC2 HL101740	45,363
ARRA-University of Michigan	93.701	RC2 HL101740	204,046
ARRA-University of Pennsylvania	93.701	U01 NS062835	1,264
Butler Hospital	93.837	R01 HL084178	42,011
Butler Hospital	93.837	R01 HL084178	41,566
Kent State University	93.837	R01 HL089311	34,776
Medical College of Ohio	93.837	U01 HL715560	131,054
Medical College of Ohio	93.837	U01 HL715560	7,556
Medical College of Ohio	93.837	U01 HL715560	55,564
Northwestern University	93.837	U01 HL080416	13,584
Texas Heart Institute	93.837	R01 HL090521	40,829
University of Massachusetts	93.837	R01 HL077248	21,247
University of Pittsburgh	93.837	P01 HL040962	11,688
Veterans Affairs Medical Center (Providence)	93.837	5784240	35,003
Yale University	93.837	R01 HL081153	1,489
Johns Hopkins University	93.838	R01 HL079301	5,664
Johns Hopkins University	93.838	R01 HL087997	60,163
University of Rochester	93.838	R01 HL079954	5,784
Washington University	93.839	WU-10-361	33,164
Washington University	93.839	WU-09-230	22,485
Children's Hospital Boston	93.846	7011937	98,304
Children's Hospital Boston	93.846	R01 AR05018	267,966
Sloan-Kettering Cancer Institute	93.846	R01AR049342	27,940
Vanderbilt University	93.846	R01 AR053684	20,276
Massachusetts General Hospital	93.847	R01 DK61230	14,229
Kent State University	93.848	R01 DK075119	48,393
Massachusetts General Hospital	93.848	R21 DK078555	(1,926)
Mount Sinai School of Medicine	93.848	0255-3121-4609	73,443
Tufts University	93.853	R01 NS036524	24,255
University of Iowa	93.853	R01 NS040068	198,195
University of Missouri at St. Louis	93.853	R01 NS052470	16,635

LIFESPAN CORPORATION AND AFFILIATES

Schedule of Expenditures of Federal Awards

Year ended September 30, 2011

Federal grantor/pass-through grantor	CFDA number	Pass-through number	Expenditures
Brigham & Women's Hospital	93.855	R01AI079085	\$ 42,689
Brown University	93.855	D43 TW000237	15,022
Fred Hutchinson Cancer Research Center	93.855	UMI AI068618	5,017
Fred Hutchinson Cancer Research Center	93.855	UM1 AI068618	3,400
Fred Hutchinson Cancer Research Center	93.855	P30 AI042853	24,801
ImQuest BioSciences	93.855	U19 AI077289	111,130
ImQuest BioSciences	93.855	R33 AI076967	177,283
Massachusetts General Hospital	93.855	U01 AI069472	696,124
Massachusetts General Hospital	93.855	R01 AI058736	34,981
Seattle Biomedical Research Institute	93.855	7019631	18,586
Social and Scientific Systems	93.855	U01 AI068636	(13,065)
Stanford University	93.855	R01 AI066922	261,713
University of Rhode Island	93.855	U19AI082642	352,407
University of Rhode Island	93.855	U19AI082642	39,142
University of Rhode Island	93.855	U19AI082642	39,711
University of Rhode Island	93.855	U19AI082642	206,840
Memorial Hospital of Rhode Island	93.864	R01 HD054890	631
American College of Surgeons Oncology Group	93.865	U01 HL090864	10,705
Fenway Health Center	93.865	U01 HD068040	4,181
Indiana University	93.865	U01 AI069911	21,955
National Jewish Health Center	93.865	R21 HD0590430	20,613
Simbex	93.865	R01 HD48638	85,995
University of Alabama at Birmingham	93.865	U01 HD040533	22,880
University of Alabama at Birmingham	93.865	U01 HD040533	52,755
University of Utah	93.865	K12 HD047349	74,133
Women & Infants Hospital of Rhode Island	93.865	1R01 HD057100	16,461
Boston University	93.866	R01 AG018384	17,575
University of California at San Diego	93.866	U01 AG10483	2,591
University of California at San Diego	93.866	U01 AG10483	477
University of California at San Diego	93.866	U01 AG10483	141
University of California at San Diego	93.866	AG024904	24,278
University of California at San Diego	93.866	U01 AG024904	68,360
Vanderbilt University	93.989	R24 TW007988	46,200
Vanderbilt University	93.989	R24 TW007988	4,720
Vanderbilt University	93.989	R24TW007988	96,236
Vanderbilt University	93.989	R24 TW007988	26,322
Brown University	93.UNK	P251970	(246)
Women & Infants Hospital of Rhode Island	93.UNK	K08 AA016783	57,460
National Childhood Cancer Foundation	93.UNK	U01 CA098543	10,624
American College of Radiology	93.UNK	U10 CA21661	9,273
American College of Radiology	93.UNK	U10 CA21661	57,121
American College of Radiology	93.UNK	U01 CA80098	4,321
Brown University	93.UNK	R18 DK075371	107,204
Brown University	93.UNK	R01 HL077608	38,992
Myomics	93.UNK	R43 HL093939	2,958
Brown University	93.UNK	N26820090000031	10,990
Brown University	93.UNK	P20 RR015578	162
Drug and Alcohol Treatment Association of RI	93.UNK	U79 P015040	41,232
Brown University	93.UNK	R25 TW008102	22,032
University of Florida at Gainesville	93.UNK	701-9663	(22)
Environmental Protection Agency:			
Office of Water			
Passed through:			
Brown University	66.UNK	00000375-1	116,746
National Science Foundation:			
National Science Foundation	47.041		27,939
United States Agency for International Development:			
Passed through:			
Brown University	98.012	00000455	11,726
Total expenditures of research and development federal awards			62,608,970

LIFESPAN CORPORATION AND AFFILIATES

Schedule of Expenditures of Federal Awards

Year ended September 30, 2011

Federal grantor/pass-through grantor	CFDA number	Pass-through number	Expenditures
Child Nutrition Cluster:			
Department of Agriculture:			
Food and Nutrition Services			
Passed through:			
Rhode Island Department of Education	10.553	10801	\$ 79,778
Rhode Island Department of Education	10.555	10801	135,833
Total expenditures of child nutrition federal awards			215,611
Early Intervention Services Cluster:			
Department of Education:			
Office of Special Education and Rehabilitative Services			
Passed through:			
State of Rhode Island	84.181A	Admin Suppl 11-0004	40,900
State of Rhode Island	84.181A	Perf Incentive	24,377
ARRA-Rhode Island Department of Human Services	84.393	PO# 3178854	18,991
Total expenditures of early intervention services federal awards			84,268
Workforce Investment Act (WIA) Cluster:			
Department of Labor:			
Employment Training Administration			
Passed through:			
Workforce Solutions of Providence/Cranston	17.259	WSPC-JDF-1112	50,362
Total expenditures of WIA federal awards			50,362
Other Federal Awards:			
Department of Education:			
Office of Special Education and Rehabilitative Services			
Passed through:			
Rhode Island Department of Education	10.582	10801	1,634
Department of Health and Human Services:			
Health Resources and Services Administration	93.887		148,455
Health Resources and Services Administration	93.918		799,190
Health Resources and Services Administration	93.928		17,365
Passed through:			
University of Massachusetts	93.110	H30 MC00037	27,090
Rhode Island Department of Health	93.917	X07HA00011	52,341
Rhode Island Department of Health	93.917	DOH: 3027508	60,421
Office of the Secretary	93.889		3,443
Substance Abuse and Mental Health Services Administration			
Passed through:			
Rhode Island Department of Health	93.243	PO# 3120323-7	733,250
Total expenditures of other federal awards			1,843,189
Total expenditures of federal awards			\$ 64,802,400

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, 2011

(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, 2011, Lifespan provided \$9,414,750 to subrecipients as part of its research and development program.