# LIFESPAN CORPORATION AND AFFILIATES

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

Year ended September 30, 2012

**LIFESPAN CORPORATION AND AFFILIATES**

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

Year ended September 30, 2012

**Table of Contents**

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

**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 Lifespan Corporation and Affiliates' (Lifespan) compliance 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, 2012. 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, 2012.

## 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 purpose 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.



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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

May 23, 2013

**Exhibit II**

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

# 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, 2012, and have issued our report thereon dated January 24, 2013. 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*.



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**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 24, 2013

# LIFESPAN CORPORATION AND AFFILIATES

Schedule of Findings and Questioned Costs

Year ended September 30, 2012

## (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: $1,897,535

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.

**Exhibit IV**

# LIFESPAN CORPORATION AND AFFILIATES

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

September 30, 2012 and 2011

(With Independent Auditors' Report Thereon)

**Exhibit IV**

# LIFESPAN CORPORATION AND AFFILIATES

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

September 30, 2012 and 2011

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**Exhibit IV**

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

## 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, 2012 and 2011, 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, 2012 and 2011, 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 24, 2013 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. 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 2012 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 consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The Schedule of Expenditures of Federal Awards has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other additional procedures in accordance with auditing standards generally accepted in the United



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States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

KPMG LLP

January 24, 2013

Exhibit IV

**LIFESPAN CORPORATION AND AFFILIATES**

Consolidated Statements of Financial Position

September 30, 2012 and 2011

(In thousands)

| Assets | 2012 | 2011 |
|---|---|---|
| Current assets: | | |
| Cash and cash equivalents | $ 42,645 | $ 57,225 |
| Patient accounts receivable | 272,745 | 251,462 |
| Less allowance for doubtful accounts | (67,302) | (66,372) |
| Net patient accounts receivable | 205,443 | 185,090 |
| Other receivables | 23,299 | 23,961 |
| Current portion of contributions receivable, net | 2,627 | 7,738 |
| Total receivables | 231,369 | 216,789 |
| Assets limited as to use | 21,783 | 25,049 |
| Inventories | 21,491 | 19,211 |
| Prepaid expenses and other current assets | 8,886 | 8,375 |
| Total current assets | 326,174 | 326,649 |
| Assets limited as to use | 1,198,447 | 1,129,978 |
| Less amount required to meet current obligations | (21,783) | (25,049) |
| Noncurrent assets limited as to use | 1,176,664 | 1,104,929 |
| Property and equipment, net | 770,251 | 763,483 |
| Other assets: | | |
| Contributions receivable, net | 4,286 | 4,187 |
| Deferred charges and financing costs, net | 8,173 | 8,878 |
| Other noncurrent assets | 11,854 | 16,070 |
| Total other assets | 24,313 | 29,135 |
| Total assets | $ 2,297,402 | $ 2,224,196 |

| Liabilities and Net Assets | 2012 | 2011 |
|---|---|---|
| Current liabilities: | | |
| Accounts payable | $ 68,974 | $ 60,329 |
| Accrued employee benefits and compensation | 58,297 | 55,144 |
| Other accrued expenses | 30,402 | 41,427 |
| Current portion of long-term debt | 10,820 | 10,295 |
| Current portion of estimated third-party payor settlements | 10,678 | 25,950 |
| Current portion of estimated malpractice and other self-insurance costs | 29,348 | 30,962 |
| Total current liabilities | 208,519 | 224,107 |
| Long-term debt, net of current portion | 353,041 | 364,488 |
| Estimated third-party payor settlements, net of current portion | 39,236 | 30,880 |
| Estimated malpractice self-insurance costs, net of current portion | 74,061 | 82,956 |
| Accrued pension liability | 244,403 | 184,039 |
| Other liabilities | 39,666 | 43,198 |
| Total liabilities | 958,926 | 929,668 |
| Net assets: | | |
| Unrestricted | 861,763 | 852,165 |
| Temporarily restricted | 327,555 | 298,310 |
| Permanently restricted | 149,158 | 144,053 |
| Total net assets | 1,338,476 | 1,294,528 |
| Total liabilities and net assets | $ 2,297,402 | $ 2,224,196 |

See accompanying notes to consolidated financial statements.

# LIFESPAN CORPORATION AND AFFILIATES

Consolidated Statements of Operations and Changes in Net Assets

Years ended September 30, 2012 and 2011

(In thousands)

| | 2012 | 2011 |
|---|---|---|
| Unrestricted revenues and other support: | | |
| Patient service revenue, net of contractual allowances | $ 1,554,915 | $ 1,513,101 |
| Provision for bad debts | (90,204) | (91,666) |
| Net patient service revenue | 1,464,711 | 1,421,435 |
| Other revenue | 60,967 | 56,613 |
| Endowment earnings contributed toward community benefit | 14,100 | 13,406 |
| Net assets released from restrictions used for operations | 23,974 | 22,423 |
| Net assets released from restrictions used for research | 80,866 | 80,809 |
| Total unrestricted revenues and other support | 1,644,618 | 1,594,686 |
| Operating expenses: | | |
| Compensation and benefits | 1,001,375 | 987,295 |
| Supplies and other expenses | 374,553 | 364,394 |
| Purchased services | 104,394 | 96,585 |
| Depreciation and amortization | 57,345 | 53,935 |
| Interest | 19,992 | 20,470 |
| License fees | 69,058 | 67,076 |
| Total operating expenses | 1,626,717 | 1,589,755 |
| Income from operations | 17,901 | 4,931 |
| Nonoperating gains and losses: | | |
| Unrestricted gifts and bequests | 2,242 | 2,001 |
| Unrestricted income from board-designated investments | 1,217 | 1,979 |
| Net realized gains (losses) on board-designated investments | 24,387 | (1,692) |
| Grants to outside agencies | (354) | (546) |
| Fundraising expenses | (3,625) | (3,536) |
| Litigation settlement (note 16) | - | (12,233) |
| Other nonoperating losses, net | (328) | (97) |
| Total nonoperating gains (losses), net | 23,539 | (14,124) |
| Excess (deficiency) of revenues over expenses | $ 41,440 | $ (9,193) |



(Continued)

**LIFESPAN CORPORATION AND AFFILIATES**

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

Years ended September 30, 2012 and 2011

(In thousands)

| | 2012 | 2011 |
|---|---|---|
| Unrestricted net assets: | | |
| Excess (deficiency) of revenues over expenses | $ 41,440 | $ (9,193) |
| 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 | (64,237) | (7,934) |
| Net change in unrealized gains on investments available for sale | 16,970 | (1,869) |
| Net assets released from restrictions used for purchase of property and equipment | 15,088 | 7,277 |
| Other increases (decreases) | 337 | (948) |
| Increase (decrease) in unrestricted net assets | 9,598 | (12,667) |
| Temporarily restricted net assets: | | |
| Gifts, grants, and bequests | 110,041 | 101,417 |
| Income from restricted endowment and other restricted investments | 3,086 | 4,385 |
| Net assets released from restrictions | (119,928) | (110,509) |
| Net realized and unrealized gains on investments | 39,177 | 2,626 |
| Fundraising expenses | (1,701) | (2,103) |
| Grants to outside agencies | (646) | (421) |
| Other decreases | (784) | (101) |
| Increase (decrease) in temporarily restricted net assets | 29,245 | (4,706) |
| Permanently restricted net assets: | | |
| Gifts and bequests (note 13) | 837 | 9,916 |
| Net change in unrealized gains on investments held in perpetual trusts by others | 4,243 | (2,929) |
| Other increases | 25 | 481 |
| Increase in permanently restricted net assets | 5,105 | 7,468 |
| Increase (decrease) in net assets | 43,948 | (9,905) |
| Net assets, beginning of year | 1,294,528 | 1,304,433 |
| Net assets, end of year | $ 1,338,476 | $ 1,294,528 |

See accompanying notes to consolidated financial statements.

## LIFESPAN CORPORATION AND AFFILIATES

Consolidated Statements of Cash Flows

Years ended September 30, 2012 and 2011

(In thousands)

| | 2012 | 2011 |
|---|---|---|
| Cash flows from operating activities: | | |
| Increase (decrease) in net assets | $ 43,948 | $ (9,905) |
| Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities: | | |
| Change in funded status of pension and other postretirement plans, other than net periodic pension and postretirement benefit costs | 64,237 | 7,934 |
| Net realized and unrealized (gains) losses on investments | (84,777) | 3,864 |
| Permanently restricted gifts and bequests | (837) | (9,916) |
| Depreciation and amortization | 57,345 | 53,935 |
| Provision for estimated self-insurance costs | 129,427 | 132,534 |
| Decrease in liabilities for estimated self-insurance costs resulting from claims paid | (139,936) | (129,952) |
| Net (increase) decrease in patient accounts receivable | (20,353) | 6,867 |
| Increase in accounts payable | 8,645 | 4,516 |
| Increase (decrease) in accrued employee benefits and compensation | 3,153 | (11,360) |
| Decrease in estimated third-party payor settlements | (6,916) | (33,513) |
| (Decrease) increase in all other current and noncurrent assets and liabilities, net | (11,253) | 4,517 |
| Net cash provided by operating activities | 42,683 | 19,521 |
| Cash flows from investing activities: | | |
| Purchase of property and equipment | (64,113) | (56,918) |
| Net decrease in trustee-held bond funds | 8,182 | 14,573 |
| Other net decreases (increases) in assets limited as to use | 8,126 | (4,599) |
| Net cash used in investing activities | (47,805) | (46,944) |
| Cash flows from financing activities: | | |
| Payments on long-term debt | (10,295) | (9,785) |
| Permanently restricted gifts and bequests | 837 | 9,916 |
| Net cash (used in) provided by financing activities | (9,458) | 131 |
| Net decrease in cash and cash equivalents | (14,580) | (27,292) |
| Cash and cash equivalents at: | | |
| Beginning of year | 57,225 | 84,517 |
| End of year | $ 42,645 | $ 57,225 |
| Supplemental disclosure of cash flow information: | | |
| Cash paid for interest | $ 20,829 | $ 21,341 |

See accompanying notes to consolidated financial statements.

## (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:

| Member, Shareholder, or Entity with Reserved Powers | Affiliate |
|---|---|
| Lifespan Corp. | Rhode Island Hospital (RIH) |
| | The Miriam Hospital (TMH) |
| | Emma Pendleton Bradley Hospital (Bradley) |
| | Newport Health Care Corporation (NHCC) |
| | R.I. Sound Enterprises Insurance Co. Ltd. (RISE) |
| | Lifespan Risk Services, Inc. (LRS) |
| | RIH Ventures (RIHV) |
| | Lifespan Physician Group, Inc. (LPG) |
| | Lifespan Diversified Services, Inc. (LDS) |
| | Hospital Properties, Inc. (HPI) |
| | 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 |

The consolidated financial statements include the financial information of LPG, a new physician entity with a Board comprised entirely of physicians which was formed and became an affiliate of Lifespan Corp. on May 25, 2012. Two Lifespan physician-designees represent the parent on the LPG Board and hold designated reserved powers.

(In thousands)

On September 4, 2012, TMH and RIH acquired the assets of two cardiology practices to launch the Cardiovascular Institute (CVI) in an effort to meet the demands of a changing health care environment and to enhance the level of cardiovascular care provided to the community. CVI includes approximately 30 cardiologists, with support staff, and the creation of three new ambulatory care centers and two comprehensive cardiac centers. The activities of CVI, which added approximately $2,200 to operating expenses in 2012 (and a similar increase to net patient service revenue), are reflected primarily within LPG.

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 would 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.

## (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, 2012 and 2011 is summarized in the following table:

| | 2012 | 2011 |
|---|---|---|
| Charity care | $ 64,840 | $ 63,505 |
| Medical education, net | 64,653 | 62,507 |
| Research | 15,939 | 14,382 |
| Subsidized health services | 21,176 | 18,759 |
| Community health improvement services and community benefit operations | 1,804 | 1,669 |
| Unreimbursed Medicaid costs | 13,538 | 5,308 |
| Total | $ 181,950 | $ 166,130 |

### *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 discount 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 $64,840 and $63,505 in 2012 and 2011, respectively. Charges forgone, based on established rates, amounted to $227,772 and $220,449 in 2012 and 2011, 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 $64,653 and $62,507 in 2012 and 2011, respectively.



(Continued)

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; 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, 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 educational affiliations with the University of Rhode Island College of Nursing; Rhode Island College School of Nursing; 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, as well as other Schools of Nursing, 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, physical therapy assistants, occupational therapy, and certified occupational therapy assistants. In addition, RIH serves as the clinical setting for training programs in histology, cytology, 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, medical technology, phlebotomy, and social work. TMH serves as a clinical training site for students from The Nuclear Medical Institute of the University of Findlay (Ohio).

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

***Research***

Lifespan conducts extensive medical research, with RIH and TMH in the forefront of biomedical health care delivery research and among the leaders nationally in the 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 75% 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, orthopedic advancements, mental health concerns, and brain science. 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, dental, tuberculosis, adolescent, and Alzheimer’s, as well as the Center for Special Children, Vanderbilt Rehabilitation, early intervention, 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 evidence relative to certain estimates or to identify matters that require additional disclosure. These consolidated financial statements were issued on January 24, 2013 and subsequent events have been evaluated through that date (see Note 21).

### *(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 Adopted in 2012*

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).

Effective September 30, 2012, Lifespan elected to early adopt ASU 2011-07 and changed its reporting of the provision for bad debts. All periods have been reclassified in accordance with the provisions of ASU 2011-07. The adoption of ASU 2011-07 did not 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;
- 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. These investments are designated by Lifespan as trading securities.

*Corporate equity securities*: Valued at the closing prices reported by an active market in which the individual securities are traded. These investments are designated by Lifespan as trading securities.

*Collective investment funds*: Investments in collective investment funds with monthly pricing and liquidity are 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. Otherwise, such investments are recorded at historical cost. 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 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 of less than 5% in limited partnerships are 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 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.

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 statements of operations and changes in net assets as realized gains or losses on investments. 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 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.

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.



(Continued)

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 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 law and 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 functioning as endowment funds.

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

### *(j) Excess (Deficiency) of Revenues over Expenses*

The consolidated statements of operations and changes in net assets include excess (deficiency) of revenues over expenses. Changes in unrestricted net assets which are excluded from excess (deficiency) 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*

Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectibility of accounts receivable, Lifespan analyzes its past history and identifies its revenue trends for each of its major payors to estimate the appropriate allowance for doubtful accounts and the associated provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, Lifespan analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), Lifespan records a significant allowance for doubtful accounts and provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates, if applicable) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

Lifespan's allowance for doubtful accounts for self-pay patients decreased from 80% of self-pay accounts receivable at September 30, 2011 to 79% of self-pay accounts receivable at September 30, 2012. Lifespan's self-pay writeoffs for the years ended September 30, 2012 and 2011 amounted to $81,528 and $81,961, respectively. Lifespan did not change its charity care or uninsured discount policies during the years ended September 30, 2012 and 2011, respectively. Lifespan does not maintain a material allowance for doubtful accounts from third-party payors, nor did it have significant writeoffs from third-party payors in either 2012 or 2011.

### *(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 (see Note 2).

### *(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***

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 costs approximate their respective fair values. The estimated fair values of Lifespan's assets limited as to use, pension-related assets, and long-term debt are disclosed in notes 5, 8, and 12, respectively.

***(r) Reclassifications***

Certain 2011 amounts have been reclassified to conform with the 2012 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 $65,273 and $66,135 in 2012 and 2011, respectively, and are reflected as part of net patient service revenue in the accompanying consolidated statements of operations and changes in net assets.

(In thousands)

For periods beyond 2012, 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, 2012 and 2011 is set forth in the following table:

| | | 2012 | | 2011 |
|---|---|---|---|---|
| Funds available for self-insurance liabilities | $ | 145,788 | $ | 146,764 |
| Unrestricted board-designated funds | | 557,664 | | 521,734 |
| Held by trustee under bond indenture agreements | | 29,397 | | 37,579 |
| Temporarily restricted funds | | 317,437 | | 286,202 |
| Permanently restricted funds | | 148,161 | | 137,699 |
| Total | $ | 1,198,447 | $ | 1,129,978 |

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

| | | 2012 | | 2011 |
|---|---|---|---|---|
| Available-for-sale | $ | 832,833 | $ | 805,445 |
| Trading | | 365,614 | | 324,533 |
| Total | $ | 1,198,447 | $ | 1,129,978 |

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.



(Continued)

(In thousands)

### *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, 2012 and 2011, as well as related strategy and liquidity/notice requirements:

| | 2012 | | | | Redemption | Days' |
|---|---|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** | **or liquidation** | **notice** |
| U.S. equities: | | | | | | |
| Large cap value | $ 50,297 | $ — | $ — | $ 50,297 | Daily | One |
| Mid-cap value | 38,060 | — | — | 38,060 | Daily | One |
| Large cap growth | 35,639 | — | — | 35,639 | Daily | One |
| Marketable alternatives: | | | | | | |
| Multiple strategies | — | 110,978 | — | 110,978 | Quarterly-Annually | Sixty-Sixty-five |
| Absolute return strategies | — | 59,347 | — | 59,347 | Monthly | Five |
| International equities: | | | | | | |
| Developed markets | — | 124,485 | — | 124,485 | Daily - Monthly | Five - Seven |
| Emerging markets | — | 40,503 | — | 40,503 | Monthly | Ten |
| Commodities: | | | | | | |
| Energy | 19,414 | — | — | 19,414 | Daily | One |
| Various | — | 16,902 | 338 | 17,240 | Daily - Illiquid | One - N/A |
| Real estate | 19,771 | — | — | 19,771 | Daily | Five |
| Fixed income: | | | | | | |
| U.S. Treasuries | 35,548 | — | — | 35,548 | Daily | One - Five |
| U.S. Treasury inflation-protected | — | 49,806 | — | 49,806 | Daily | Two |
| U.S. Government and agency | — | 11,893 | — | 11,893 | Daily | One |
| Domestic bonds | 82,736 | 147,454 | — | 230,190 | Daily | One |
| Global bonds | 30,668 | 82,279 | — | 112,947 | Daily - Monthly | One - Ten |
| Cash and short-term investments | 24,606 | — | — | 24,606 | Daily | One |
| | 336,739 | 643,647 | 338 | 980,724 | | |
| Assets held in trust (note 6) | — | — | 62,794 | 62,794 | | |
| Held by trustee under bond indenture agreements (note 12) | 29,397 | — | — | 29,397 | | |
| Total | $ 366,136 | $ 643,647 | $ 63,132 | $ 1,072,915 | | |

(In thousands)

| | 2011 | | | | Redemption | Days' |
|---|---|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** | **or liquidation** | **notice** |
| 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 | Three - Seven |
| Emerging markets | — | 32,149 | — | 32,149 | Monthly | Ten |
| Commodities: | | | | | | |
| Energy | 17,488 | — | — | 17,488 | Daily | One |
| Various | — | 15,101 | 338 | 15,439 | Daily - Illiquid | One - N/A |
| 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 | — | 97,263 | Daily - Monthly | One - Ten |
| Cash and short-term investments | 45,291 | — | — | 45,291 | Daily | One |
| | 316,565 | 597,250 | 427 | 914,242 | | |
| Assets held in trust (note 6) | — | — | 58,337 | 58,337 | | |
| Held by trustee under bond indenture agreements (note 12) | 37,579 | — | — | 37,579 | | |
| Total | $ 354,144 | $ 597,250 | $ 58,764 | $ 1,010,158 | | |

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 $125,532 at September 30, 2012 and $119,820 at September 30, 2011.

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.

There were no transfers between Level 1 and Level 2 fair value measurements during the years ended September 30, 2012 and 2011.

(In thousands)

The following table presents Lifespan's activity for the years ended September 30, 2012 and 2011 for investments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) as defined in ASC 820-10:

| | Commodities | Marketable alternatives | Assets held in trust | 2012 Total |
|---|---|---|---|---|
| Fair value at October 1, 2011 | $ 338 | $ 89 | $ 58,337 | $ 58,764 |
| Realized gains | — | 19 | — | 19 |
| Net unrealized gains (losses) | — | (19) | 4,457 | 4,438 |
| Sales | — | (89) | — | (89) |
| Fair value at September 30, 2012 | $ 338 | $ — | $ 62,794 | $ 63,132 |

| | Commodities | Marketable alternatives | Assets held in trust | 2011 Total |
|---|---|---|---|---|
| Fair value at October 1, 2010 | $ 356 | $ 4,142 | $ 60,954 | $ 65,452 |
| Realized gains | — | 937 | — | 937 |
| Net unrealized losses | (18) | (591) | (2,617) | (3,226) |
| Sales | — | (4,399) | — | (4,399) |
| Fair value at September 30, 2011 | $ 338 | $ 89 | $ 58,337 | $ 58,764 |

(In thousands)

### *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:

| | 2012 | 2011 |
|---|---|---|
| Other revenue: | | |
| Investment income | $ 5,491 | $ 2,033 |
| Endowment earnings contributed toward community benefit: | | |
| Interest and dividend income | $ 14,100 | $ 13,406 |
| Nonoperating gains and losses: | | |
| Unrestricted income from board-designated investments | $ 1,217 | $ 1,979 |
| Net realized gains (losses) on board-designated investments | 24,387 | (1,692) |
| | $ 25,604 | $ 287 |
| Other changes in unrestricted net assets: | | |
| Net change in unrealized gains on investments available for sale | $ 16,970 | $ (1,869) |
| Changes in temporarily restricted net assets: | | |
| Income from restricted endowment and other restricted investments | $ 3,086 | $ 4,385 |
| Net realized and unrealized gains on investments | 39,177 | 2,626 |
| | 42,263 | $ 7,011 |
| Changes in permanently restricted net assets: | | |
| Net change in unrealized gains on investments held in perpetual trusts by others | $ 4,243 | $ (2,929) |



(Continued)

(In thousands)

### *Liquidity*

Investments as of September 30, 2012 and 2011 are summarized below based on when they may be redeemed or sold:

| | | 2012 | | 2011 |
|---|---|---|---|---|
| Investment redemption or sale period: | | | | |
| Daily | $ | 653,900 | $ | 656,213 |
| Monthly | | 232,020 | | 177,759 |
| Quarterly | | 110,978 | | 104,229 |
| One-to-five years | | 1,383 | | 1,780 |
| Locked-up until liquidation | | 74,634 | | 70,177 |
| Total | $ | 1,072,915 | $ | 1,010,158 |

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, 2012 was $10,076.

(In thousands)

### *Investments With Unrealized Losses*

Information regarding investments with unrealized losses at September 30, 2012 and 2011 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:

| | Less than 12 months | | 12 months or longer | | Total | |
|---|---|---|---|---|---|---|
| | **Fair value** | **Unrealized losses** | **Fair value** | **Unrealized losses** | **Fair value** | **Unrealized losses** |
| September 30, 2012: | | | | | | |
| Unrestricted board-designated and temporarily restricted funds: | | | | | | |
| Collective investment funds | $ — | $ — | $ 30,668 | $ 269 | $ 30,668 | $ 269 |
| Total temporarily impaired securities | $ — | $ — | $ 30,668 | $ 269 | $ 30,668 | $ 269 |

| | Less than 12 months | | 12 months or longer | | Total | |
|---|---|---|---|---|---|---|
| | **Fair value** | **Unrealized losses** | **Fair value** | **Unrealized losses** | **Fair value** | **Unrealized losses** |
| 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 | $ 74,196 | $ 2,787 | $ 28,748 | $ 1,777 | $ 102,944 | $ 4,564 |

Lifespan reviewed the above investments with unrealized losses and determined that no impairment was considered to be other than temporary. 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, current market conditions, and expected future performance.

(In thousands)

***Endowments***

Lifespan's endowment consists of approximately 474 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, 2012:

| | Unrestricted board-designated | Temporarily restricted | Permanently restricted | Total |
|---|---|---|---|---|
| Donor-restricted endowment funds | $ — | $ 317,437 | $ 148,161 | $ 465,598 |
| Internally board-designated endowment funds | 557,664 | — | — | 557,664 |
| Total endowment funds | $ 557,664 | $ 317,437 | $ 148,161 | $ 1,023,262 |

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

| | Unrestricted board-designated | Temporarily restricted | Permanently restricted | Total |
|---|---|---|---|---|
| Donor-restricted endowment funds | $ — | $ 286,202 | $ 137,699 | $ 423,901 |
| Internally board-designated endowment funds | 521,734 | — | — | 521,734 |
| Total endowment funds | $ 521,734 | $ 286,202 | $ 137,699 | $ 945,635 |

(In thousands)

***Endowments (continued)***

Changes in endowment funds for the year ended September 30, 2012 are as follows:

| | Unrestricted board-designated | Temporarily restricted | Permanently restricted | Total |
|---|---|---|---|---|
| Endowment funds, October 1, 2011 | $ 521,734 | $ 286,202 | $ 137,699 | $ 945,635 |
| Interest and dividend income | 13,427 | 3,086 | — | 16,513 |
| Net realized and unrealized gains | 36,517 | 39,177 | 4,243 | 79,937 |
| Cash gifts, grants and bequests | 2,242 | 112,031 | 6,194 | 120,467 |
| Net assets released from restrictions | — | (119,928) | — | (119,928) |
| Deposits | 6,824 | — | — | 6,824 |
| Withdrawals | (23,929) | — | — | (23,929) |
| Other (decreases) increases | 849 | (3,131) | 25 | (2,257) |
| Endowment funds, September 30, 2012 | $ 557,664 | $ 317,437 | $ 148,161 | $ 1,023,262 |

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 | 100,323 | 6,393 | 108,717 |
| 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 | $ 521,734 | $ 286,202 | $ 137,699 | $ 945,635 |

***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% 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.

(In thousands)

***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, 2012 and 2011 was $62,794 and $58,337, 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:

| | 2012 | 2011 |
|---|---|---|
| Land and improvements | $ 32,299 | $ 31,909 |
| Buildings and improvements | 1,030,491 | 998,751 |
| Equipment | 551,694 | 520,904 |
| | 1,614,484 | 1,551,564 |
| Less accumulated depreciation and amortization | 881,148 | 828,012 |
| | 733,336 | 723,552 |
| Construction in progress | 36,915 | 39,931 |
| Property and equipment, net | $ 770,251 | $ 763,483 |

Depreciation and amortization expense for the years ended September 30, 2012 and 2011 amounted to $57,345 and $53,935, respectively.

The estimated cost of completion of construction in progress approximated $16,100 at September 30, 2012, comprised principally of RIH ($8,000) and TMH ($8,000) projects. In addition, RIH and TMH have several building renovation projects pending contractual commitments with estimated costs of completion of approximately $10,000 and $8,000, respectively.



(Continued)

## (8) Pension and Other Postretirement Benefits

***Voluntary Early Retirement Program (VERP)***

On November 23, 2010, Lifespan announced a voluntary early retirement program, which was designed to provide salary and benefits continuation for eligible employees who wished to retire. The estimated costs of this program in 2011 amounted to $19,228 and were included in compensation and benefits in the consolidated statement of operations and changes in net assets. In 2012, compensation and benefits were reduced by $3,228 as these estimated costs were adjusted to account for updated information regarding employees who subsequently withdrew their VERP election. The liability related to the VERP is approximately $2,841 and $7,627 as of September 30, 2012 and 2011, respectively, and is included in accrued employee benefits and compensation in the consolidated statements 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 $6,201 and $8,235 were made in 2012 and 2011, respectively.

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



(Continued)

(In thousands)

The provisions of FASB ASC Topic 715, *Compensation-Retirement Benefits: Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* (ASC 715), require an employer to recognize in its statement of financial position an asset for a benefit plan's overfunded status or a liability for a plan's underfunded status, and to recognize changes in that funded status in the year in which the changes occur through changes in unrestricted net assets. The funded-status amount is measured as the difference between the fair value of plan assets and the projected benefit obligation including all actuarial gains and losses and prior service cost. Based on September 30, 2012 and 2011 funded-status amounts for the Plan, Lifespan recorded decreases in unrestricted net assets of $65,016 and $4,562 in 2012 and 2011, respectively.

The estimated amounts that will be amortized from unrestricted net assets into net periodic pension cost in 2013 are as follows:

| | | |
|---|---|---|
| Net actuarial loss | $ | 15,544 |
| Prior service benefit | | (541) |
| | $ | 15,003 |

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

| | | 2012 | | 2011 |
|---|---|---|---|---|
| Change in projected benefit obligation: | | | | |
| Projected benefit obligation at beginning of year | $ | 537,664 | $ | 528,319 |
| Service cost | | 24,220 | | 26,395 |
| Interest cost | | 26,972 | | 28,785 |
| Plan amendments | | — | | (7,092) |
| Actuarial loss (gain) | | 94,953 | | (3,656) |
| Benefits paid | | (42,798) | | (33,849) |
| Administrative expenses | | (2,272) | | (1,238) |
| Projected benefit obligation at end of year | $ | 638,739 | $ | 537,664 |

The accumulated benefit obligation at the end of 2012 and 2011 was $561,362 and $473,368, respectively.

| | | 2012 | | 2011 |
|---|---|---|---|---|
| Change in plan assets: | | | | |
| Fair value of plan assets at beginning of year | $ | 353,625 | $ | 338,026 |
| Actual return on plan assets | | 46,162 | | 2,643 |
| Employer contributions | | 39,619 | | 48,043 |
| Benefits paid | | (42,798) | | (33,849) |
| Administrative expenses | | (2,272) | | (1,238) |
| Fair value of plan assets at end of year | $ | 394,336 | $ | 353,625 |



(Continued)

**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:

| | 2012 | 2011 |
|---|---|---|
| Funded status, end of year: | | |
| Fair value of plan assets | $ 394,336 | $ 353,625 |
| Projected benefit obligation | 638,739 | 537,664 |
| | $ (244,403) | $ (184,039) |

Amounts recognized in the consolidated statements of financial position at September 30, 2012 and 2011 are as follows:

| | 2012 | 2011 |
|---|---|---|
| Accrued pension liability | $ 244,403 | $ 184,039 |

| | 2012 | 2011 |
|---|---|---|
| Amounts not yet reflected in net periodic pension cost and included in unrestricted net assets: | | |
| Prior service benefit | $ 5,006 | $ 5,547 |
| Accumulated net actuarial loss | (212,947) | (148,488) |
| Amounts not yet recognized as a component of net periodic pension cost | (207,941) | (142,941) |
| Accumulated net periodic pension cost in excess of employer contributions | (36,462) | (41,098) |
| Net amount recognized | $ (244,403) | $ (184,039) |

| | 2012 | 2011 |
|---|---|---|
| Sources of change in unrestricted net assets: | | |
| Net loss arising during the year | $ (75,393) | $ (20,491) |
| New prior service benefit | — | 7,092 |
| Amortizations: | | |
| Net actuarial loss | 10,918 | 8,549 |
| Prior service (benefit) cost | (541) | 288 |
| Total unrestricted net asset loss recognized during the year | $ (65,016) | $ (4,562) |



(Continued)

(In thousands)

***Net Periodic Pension Cost***

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

| | 2012 | 2011 |
|---|---|---|
| Service cost | $ 24,220 | $ 26,395 |
| Interest cost | 26,972 | 28,785 |
| Expected return on plan assets | (26,585) | (26,791) |
| Amortization of net actuarial loss | 10,918 | 8,549 |
| Amortization of prior service (benefit) cost | (541) | 288 |
| Net periodic pension cost | $ 34,984 | $ 37,226 |

In 2012 and 2011, Lifespan modified its discretionary matching contribution to participant account balances, reducing net periodic pension cost by $3,350 and $2,764, respectively.

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

| | 2012 | 2011 |
|---|---|---|
| Discount rate for benefit obligations | 3.66% | 4.70% |
| Discount rate for net periodic pension cost | 4.70 | 5.25 |
| 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, 2012 and 2011, and the target allocation for 2013, by asset category, are as follows:

| | Target allocation | Percentage of plan assets September 30 | |
|---|---|---|---|
| Asset category | 2013 | 2012 | 2011 |
| U.S. equities | 15 - 35% | 13.5% | 11.6% |
| Marketable alternatives | 0 - 25% | 13.6 | 13.7 |
| International equities | 10 - 35% | 14.6 | 13.2 |
| Venture capital | 0 - 10% | 1.1 | 1.4 |
| Commodities | 0 - 20% | 7.5 | 7.8 |
| Real estate | 0 - 15% | 2.3 | 2.3 |
| Fixed income | 10 - 50% | 42.1 | 43.2 |
| Cash and cash equivalents | 0 - 10% | 5.3 | 6.8 |
| Total | | 100.0% | 100.0% |

The asset allocation table on page 31 does not include $93,409 and $77,173 of Plan assets at September 30, 2012 and 2011, 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 as measured 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, 2012 and 2011, as well as related strategy and liquidity/notice requirements:

| | 2012 | | | | Redemption | Days' |
|---|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total | or liquidation | notice |
| U.S. equities: | | | | | | |
| Large cap value | $ 14,860 | $ — | $ — | $ 14,860 | Daily | One |
| Mid-cap value | 11,798 | — | — | 11,798 | Daily | One |
| Large cap growth | 13,150 | — | — | 13,150 | Daily | One |
| Marketable alternatives: | | | | | | |
| Multiple strategies | — | 32,635 | — | 32,635 | Quarterly-Annually | Sixty-Ninety-five |
| Absolute return strategies | — | 8,563 | — | 8,563 | Monthly | Five |
| International equities: | | | | | | |
| Developed markets | — | 29,720 | — | 29,720 | Monthly | Five - Seven |
| Emerging markets | — | 14,231 | — | 14,231 | Monthly | Ten |
| Venture capital | — | — | 7,889 | 7,889 | Illiquid | N/A |
| Commodities: | | | | | | |
| Energy | — | 7,452 | — | 7,452 | Daily | One |
| Various | — | 12,207 | — | 12,207 | Daily | One |
| Real estate | 4,199 | — | — | 4,199 | Daily | One |
| Fixed income: | | | | | | |
| U.S. Treasuries | 8,887 | — | — | 8,887 | Daily | One |
| U.S. Treasury inflation-protected | — | 13,624 | — | 13,624 | Daily | Two |
| U.S. Government and agency | — | 13,304 | — | 13,304 | Daily | One |
| Domestic bonds | 18,959 | 43,103 | — | 62,062 | Daily - Monthly | One - Five |
| Global bonds | — | 28,772 | — | 28,772 | Monthly | Forty-five |
| Cash and cash equivalents | 17,574 | — | — | 17,574 | Daily | One |
| Fidelity mutual funds | 93,409 | — | — | 93,409 | Daily | One |
| Total | $ 182,836 | $ 203,611 | $ 7,889 | $ 394,336 | | |



(Continued)

**LIFESPAN CORPORATION AND AFFILIATES**

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(In thousands)

| | 2011 | | | | Redemption | Days' |
|---|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total | or liquidation | notice |
| 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-Annually | Sixty-Ninety-five |
| Absolute return strategies | — | 8,398 | — | 8,398 | Monthly | Five |
| International equities: | | | | | | |
| Developed markets | — | 25,395 | — | 25,395 | Daily - Monthly | Three - 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 | 16,054 | 44,182 | — | 60,236 | Daily - Monthly | One - Five |
| Global bonds | — | 28,269 | — | 28,269 | Monthly | Forty-five |
| Cash and cash equivalents | 20,348 | — | — | 20,348 | Daily | One |
| Fidelity mutual funds | 77,173 | — | — | 77,173 | Daily | One |
| Total | $ 155,597 | $ 180,239 | $ 17,789 | $ 353,625 | | |

There were no transfers between Level 1 and Level 2 fair value measurements during the years ended September 30, 2012 and 2011.

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, 2012 and 2011:

| | Venture capital | Marketable alternatives | 2012 Total |
|---|---|---|---|
| Fair value at October 1, 2011 | $ 10,004 | $ 7,785 | $ 17,789 |
| Unrealized (losses) gains, net | (1,488) | 979 | (509) |
| Transfers out | — | (8,764) | (8,764) |
| Purchases | 350 | — | 350 |
| Sales | (2,793) | — | (2,793) |
| Realized gains, net | 1,816 | — | 1,816 |
| Fair value at September 30, 2012 | $ 7,889 | $ — | $ 7,889 |



(Continued)

(In thousands)

| | 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 |

***Expected Cash Flows***

Information about the expected cash flows for the Plan is as follows:

| | |
|---|---|
| Employer contributions: | |
| 2013 (expected) | $ 30,619 |
| Expected benefit payments: | |
| 2013 | 29,577 |
| 2014 | 24,978 |
| 2015 | 24,720 |
| 2016 | 26,899 |
| 2017 | 31,693 |
| 2018 through 2022 | 182,250 |

Management evaluates its Plan assumptions annually and the expected employer contributions in 2013 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, 2012 and 2011 funded-status amounts for the postretirement benefit plan, Lifespan recorded an increase in unrestricted net assets of $779 in 2012 and a decrease in unrestricted net assets of $3,372 in 2011.

(In thousands)

The estimated amounts that will be amortized from unrestricted net assets into net periodic postretirement benefit cost in 2013 are as follows:

| | | |
|---|---|---|
| Net actuarial loss | $ | 313 |
| Prior service benefit | | (204) |
| | $ | 109 |

***Benefit Obligations***

| | | 2012 | | 2011 |
|---|---|---|---|---|
| Change in accumulated postretirement benefit obligation: | | | | |
| Accumulated postretirement benefit obligation at beginning of year | $ | 25,858 | $ | 22,712 |
| Service cost | | 467 | | 428 |
| Interest cost | | 1,164 | | 1,095 |
| Benefits paid | | (1,846) | | (1,105) |
| Actuarial (gain) loss | | (574) | | 2,728 |
| Accumulated postretirement benefit obligation at end of year | $ | 25,069 | $ | 25,858 |

***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:

| | | 2012 | | 2011 |
|---|---|---|---|---|
| Benefit obligations | $ | 25,069 | $ | 25,858 |
| Funded status | $ | (25,069) | $ | (25,858) |
| Accrued postretirement benefit cost recognized in the consolidated statements of financial position | $ | 25,069 | $ | 25,858 |



(Continued)

(In thousands)

Amounts recognized in the consolidated statements of financial position at September 30, 2012 and 2011 consist of:

| | 2012 | 2011 |
|---|---|---|
| Accrued postretirement benefit cost: | | |
| Current (included in accrued employee benefits and compensation) | $ 1,770 | $ 2,196 |
| Noncurrent (included in other liabilities) | 23,299 | 23,662 |
| Total accrued postretirement benefit cost | $ 25,069 | $ 25,858 |

| | 2012 | 2011 |
|---|---|---|
| Amounts not yet reflected in net periodic postretirement benefit cost and included in unrestricted net assets: | | |
| Prior service benefit | $ 364 | $ 568 |
| Accumulated net actuarial loss | (5,282) | (6,265) |
| Amounts not yet recognized as a component of net periodic postretirement benefit cost | (4,918) | (5,697) |
| Accumulated net periodic postretirement benefit cost | (20,151) | (20,161) |
| Net amount recognized | $ (25,069) | $ (25,858) |

| | 2012 | 2011 |
|---|---|---|
| Sources of change in unrestricted net assets: | | |
| Net gain (loss) arising during the year | $ 573 | $ (2,658) |
| Amortizations: | | |
| Net actuarial loss | 410 | 130 |
| Prior service benefit | (204) | (844) |
| Total unrestricted net asset gain (loss) recognized during the year | $ 779 | $ (3,372) |



(Continued)

(In thousands)

***Net Periodic Postretirement Benefit Cost***

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

| | 2012 | 2011 |
|---|---|---|
| Service cost | $ 467 | $ 428 |
| Interest cost | 1,164 | 1,095 |
| Amortization of net actuarial loss | 410 | 130 |
| Amortization of prior service benefit | (204) | (844) |
| Net periodic postretirement benefit cost | $ 1,837 | $ 809 |

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

| | 2012 | 2011 |
|---|---|---|
| Discount rate for benefit obligations | 3.66% | 4.70% |
| Discount rate for net periodic postretirement benefit cost | 4.70 | 4.98 |

***Assumed Health Care Cost Trend Rates at September 30:***

| | 2012 | 2011 |
|---|---|---|
| Health care cost trend rate assumed for next year | 7.89% | 8.13% |
| Rate to which the cost trend rate is assumed to decline (the ultimate trend rate) | 4.50% | 4.50% |
| Year that the rate reaches the ultimate trend rate | 2030 | 2030 |

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, 2012:

| | One-Percentage-Point Increase | One-Percentage-Point Decrease |
|---|---|---|
| Effect on total of service cost and interest cost | $ 124 | $ (112) |
| Effect on accumulated postretirement benefit obligation | 1,538 | (1,408) |

(In thousands)

***Expected Cash Flows***

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

| | | |
|---|---|---|
| Expected benefit payments: | | |
| 2013 | $ | 1,770 |
| 2014 | | 1,864 |
| 2015 | | 2,016 |
| 2016 | | 2,124 |
| 2017 | | 2,256 |
| 2018 through 2022 | | 11,543 |

***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 541 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, 2012 and 2011 have been discounted at 4%. Had Lifespan provided for losses at undiscounted levels, estimated self-insurance liabilities would have been increased by approximately $6,500 and $7,200 at September 30, 2012 and 2011, respectively.



(Continued)

(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, 2012 and 2011 have been discounted at 4%. Had such losses been provided for at undiscounted levels, estimated self-insurance liabilities would have been increased by approximately $568 and $612 at September 30, 2012 and 2011, respectively. Lifespan has a standby letter of credit at September 30, 2012 in the amount of $6,500 supporting the estimated unpaid liability.

## (10) Patient Service Revenue and Related Reimbursement

Lifespan recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for charity care, Lifespan recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). The following is an approximate percentage breakdown of gross patient service revenue by payor type for the years ended September 30:

| | 2012 | 2011 |
|---|---|---|
| Medicare and Senior Care | 40% | 40% |
| Blue Cross | 18 | 19 |
| Medicaid and RIte Care | 16 | 15 |
| Managed care | 12 | 12 |
| Commercial, self-pay, and other | 14 | 14 |
| | 100% | 100% |

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). On the basis of historical experience, a significant portion of Lifespan's uninsured patients will be unable or unwilling to pay for the services provided. Thus, Lifespan records a significant provision for bad debts related to uninsured patients in the period the services are provided.

Medicare cost reports filed annually with The Centers for Medicare and Medicaid Services (CMS) are subject to audit prior to final settlement. The 2012 Medicare cost reports have not been filed and, therefore, are not settled. CMS had placed a temporary moratorium on final settlement of Medicare cost reports from 2007 forward, hence the Medicare cost reports for 2007 through 2011 are neither audited nor final settled. The State of Rhode Island Medicaid Program no longer requires annual cost reports and year-end retrospective settlements; however, Medicaid cost reports for 2004 through 2010 have not been final settled.



(Continued)

(In thousands)

The following cost reports have not been settled:

| | **RIH** | **TMH** | **Bradley** | **NH** |
|---|---|---|---|---|
| Medicare 2011 | X | X | N/A | X |
| Medicare 2010 | X | X | N/A | X |
| Medicare 2009 | X | X | N/A | X |
| Medicare 2008 | X | X | N/A | X |
| Medicare 2007 | X | X | N/A | 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 $9,274 and $24,600 in 2012 and 2011, respectively, to reflect changes in the estimated settlements for certain prior years.

Revenues from Medicare and Medicaid programs accounted for approximately 40% and 16%, respectively, of Lifespan's gross patient service revenue for the year ended September 30, 2012. 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. 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 recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount of benefit that is greater than fifty percent likely to be realized upon settlement. Changes in measurement are reflected in the period in which the change in judgment occurs. Lifespan did not recognize the effect of any income tax positions in either 2012 or 2011.



(Continued)

(In thousands)

## (12) Long-Term Debt

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

| | 2012 | 2011 |
|---|---|---|
| Hospital Financing Revenue fixed rate serial and term bonds due May 15, 2013 through 2032 in annual amounts ranging from $9,255 to $15,020 at rates ranging from 4% to 5% (2006A Series – Lifespan Obligated Group) | $ 169,085 | $ 176,300 |
| 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, 2013 through 2026 in annual amounts ranging from $730 to $14,705 at rates ranging from 5.25% to 5.75% (1996 Series – Lifespan Obligated Group) | 52,615 | 53,305 |
| Hospital Financing Revenue fixed rate serial and term bonds due July 1, 2013 through 2029 in annual amounts ranging from $835 to $1,890 at rates ranging from 5.1% to 5.3% (1999 Series – NH) | 21,985 | 22,780 |
| Hospital Financing Revenue fixed rate serial and term bonds due August 15, 2012 at 6.375% (2002 Series – Lifespan Obligated Group) | — | 1,595 |
| Unamortized premium – 2006A Series | 5,013 | 5,638 |
| Unamortized premium – 2009A Series | 178 | 187 |
| Unamortized discount – 1996 and 2002 Series | — | (7) |
| | 363,861 | 374,783 |
| Less current portion | 10,820 | 10,295 |
| Long-term debt, excluding current portion | $ 353,041 | $ 364,488 |

The estimated fair value of Lifespan's long-term debt at September 30, 2012 and 2011 approximates $385,000 and $394,000, 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.

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 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.

(In thousands)

Under the terms of the 2009A, 2006A 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, 2012, 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, 2012, 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 2017 are as follows: 2013, $10,820; 2014, $11,370; 2015, $11,940; 2016, $12,535; and 2017, $13,145.

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.

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

| | 2012 | 2011 |
|---|---|---|
| RIH, TMH and Bradley: | | |
| Project Fund – 2009A Series | $ 16,510 | $ 24,385 |
| Bond Fund – 2009A Series | 885 | 885 |
| Debt Service Reserve Fund – 2009A Series | 11,504 | 11,502 |
| Debt Service Reserve Fund – 2002 Series | — | 309 |
| | 28,899 | 37,081 |
| Newport Hospital Bond Fund – 1999 Series | 498 | 498 |
| Total | $ 29,397 | $ 37,579 |



(Continued)

(In thousands)

## (13) Temporarily and Permanently Restricted Net Assets

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

| | 2012 | 2011 |
|---|---|---|
| General health care service activities | $ 268,826 | $ 242,117 |
| Research | 58,729 | 56,193 |
| Total | $ 327,555 | $ 298,310 |

Permanently restricted net assets at September 30 are restricted to:

| | 2012 | 2011 |
|---|---|---|
| General health care service activities | $ 144,697 | $ 139,592 |
| Research | 4,461 | 4,461 |
| Total | $ 149,158 | $ 144,053 |

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

Permanently restricted gifts totaling $348 and $9,540 were received from the Frederick Henry Prince Trust by the following Lifespan affiliates in the years ended September 30:

| | 2012 | 2011 |
|---|---|---|
| RIH | $ 250 | $ 4,675 |
| TMH | 56 | 1,046 |
| NH | 42 | 3,819 |
| Total | $ 348 | $ 9,540 |

The income on these endowments is restricted 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).

(In thousands)

## (14) Leases

Lifespan leases building space and equipment under various noncancelable operating lease agreements. Future minimum lease payments, by year and in the aggregate, under noncancelable operating leases with terms of one year or more consist of the following at September 30, 2012:

| | | Amount |
|---|---|---|
| Year ending September 30: | | |
| 2013 | $ | 17,828 |
| 2014 | | 12,050 |
| 2015 | | 8,470 |
| 2016 | | 6,162 |
| 2017 | | 4,405 |
| Thereafter | | 8,679 |
| Total minimum lease payments | $ | 57,594 |

Rental expense, including rentals under leases with terms of less than one year, for the years ended September 30, 2012 and 2011 was $16,469 and $14,318, 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, industry, or geographical area.

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. In 2012, as a result of subsequent collections of these receivables, the allowance for doubtful accounts was decreased by $4,000.

## (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.

(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, 2012 and 2011 are $3,430 and $3,260, respectively.

## (18) License Fees

In 2012 and 2011, the State of Rhode Island has assessed a license fee to all Rhode Island hospitals, based on each hospital's 2010 and 2009 net patient service revenue, respectively, as defined. The Hospitals' license fee expense was $69,058 in 2012 and $67,076 in 2011.

## (19) 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:

| | 2012 | 2011 |
|---|---|---|
| Health care services | $ 1,296,162 | $ 1,287,056 |
| Research | 96,805 | 95,191 |
| General and administrative: | | |
| Depreciation and amortization | 57,345 | 53,935 |
| Interest | 19,992 | 20,470 |
| Other | 156,413 | 133,103 |
| Total general and administrative | 233,750 | 207,508 |
| | $ 1,626,717 | $ 1,589,755 |



(Continued)

(In thousands)

## (20) Promises to Give

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

| | 2012 | 2011 |
|---|---|---|
| Capital campaigns | $ 4,284 | $ 3,761 |
| Other restricted | 3,927 | 9,230 |
| Unconditional promises to give before unamortized discount and allowance for collectibles | 8,211 | 12,991 |
| Less: unamortized discount at rates ranging from .6% to 4.6% | (514) | (667) |
| Subtotal | 7,697 | 12,324 |
| Less: allowance for uncollectibles | (784) | (399) |
| Net unconditional promises to give | $ 6,913 | $ 11,925 |
| Amounts due in: | | |
| Less than one year | $ 3,075 | $ 8,347 |
| One to five years | 4,319 | 3,865 |
| More than five years | 817 | 779 |
| Total | $ 8,211 | $ 12,991 |

## (21) Subsequent Events

***Affiliation with Gateway Healthcare, Inc.***

On August 16, 2012, Lifespan Corporation signed a letter of intent to affiliate with Gateway Healthcare, Inc., the largest community behavioral health care organization in Rhode Island. On September 25, 2012, Lifespan Corporation and Gateway Healthcare, Inc. entered into an affiliation agreement setting forth additional terms describing the relationship the entities would create. Under the proposed affiliation agreement, Lifespan Corporation would become the sole corporate member of Gateway Healthcare, Inc., which would maintain its corporate identity. The board of directors of Gateway Healthcare, Inc. would be comprised of those persons serving as the directors of Lifespan Corporation. On January 8, 2013, the Lifespan Corporation board of directors authorized consummation of the proposed affiliation. Gateway Healthcare, Inc., established in 1995, provides integrated behavioral health care treatment and prevention through residential, outpatient and community-based programs that reach more than 15,000 residents annually in 42 locations. Approval will be sought from the Rhode Island Department of Behavioral Healthcare, Developmental Disabilities and Hospitals. A decision is expected sometime during the next year.

### *Governance Restructuring*

The board of directors of Lifespan Corporation and the boards of trustees of RIH, TMH, NHCC, NH, and EPBH approved a restructuring of their governance, effective October 23, 2012. The restructuring is intended to increase governance effectiveness, streamline governance operation, and provide a single strategic perspective for the Lifespan system hospitals. Pursuant to the restructuring, the composition of the boards of trustees of each of the hospitals and of NHCC is defined as those persons serving from time to time as the board of directors of Lifespan Corporation. As a result, the boards of each entity are comprised of the same individuals. The board of each entity retains its responsibilities and authorities notwithstanding the revision in its composition. The composition of the boards of trustees of the respective hospital foundations are not impacted by this restructuring; however, the chairs of the four hospital foundations serve ex officio as directors of Lifespan Corporation, and by extension, as trustees of each of the hospitals.

**Exhibit IV**
**Schedule 1**

**LIFESPAN CORPORATION AND AFFILIATES**

Schedule of Expenditures of Federal Awards

Year ended September 30, 2012

| **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 | | $ 645,182 |
| Passed through: | | | |
| Brown University | 12.420 | P262236 | 19,209 |
| Department of Health and Human Services: | | | |
| Administration for Children and Families | | | |
| Passed through: | | | |
| Rhode Island Kids Count | 93.670 | 90CA1775 | 121,870 |
| Indiana University | 93.623-A-00-08 | 623-A-00-08-00003 | 62,804 |
| Agency for Healthcare Research and Quality | 93.226 | | 381,522 |
| Passed through: | | | |
| ARRA-University of California at San Francisco | 93.715 | | 174,646 |
| Centers for Disease Control and Prevention | 93.136 | | 311,712 |
| Centers for Disease Control and Prevention | 93.200-2010-36764 | | 503,154 |
| Passed through: | | | |
| Cerner Corporation | 93.200-2006-18797 | 200-2006-18797 | 98,573 |
| Mount Sinai School of Medicine | 93.945 | 8811-4609/8812-4609 | 14,908 |
| Mount Sinai School of Medicine | 93.945 | 0258-8812 | 87,014 |
| Department of Health and Human Services | | | |
| Passed through: | | | |
| Massachusetts Department of Public Health | 93.UNKNOWN | 70A00301391 | 338 |
| Rhode Island Department of Health | 93.UNKNOWN | 3014007-8 | 69,234 |
| Rhode Island Department of Health | 93.UNKNOWN | PO 3293475-01 | 65,068 |
| Sleep Research Society Foundation | 93.UNKNOWN | 7015203 | 15,714 |
| Health Resources and Services Administration | 93.110 | | 226,458 |
| Health Resources and Services Administration | 93.145 | | 20,322 |
| Passed through: | | | |
| Children's Hospital of Pittsburgh | 93.127 | U03 MC22685 | 132,826 |
| Yale University | 93.127 | H34 MC19349 | 93,856 |
| Family Aid Center for Treatment & Support | 93.153 | 7017973 | 48,780 |
| Butler Hospital | 93.156 | R01 HP08796 | 53,773 |
| Rhode Island Department of Health | 93.917 | X07HA00011 | 156,790 |
| Food and Drug Administration | | | |
| Passed through: | | | |
| Montefiore Medical Center | 93.103 | R01FD002613 | 77,946 |
| National Institutes of Health | 93.213 | | 62,716 |
| National Institutes of Health | 93.242 | | 5,300,571 |
| National Institutes of Health | 93.273 | | 2,615,413 |
| National Institutes of Health | 93.277 | | 124,859 |
| National Institutes of Health | 93.279 | | 6,359,646 |
| National Institutes of Health | 93.281 | | 889,910 |
| National Institutes of Health | 93.282 | | 533,949 |
| National Institutes of Health | 93.361 | | 1,063,588 |
| National Institutes of Health | 93.389 | | 1,816,971 |
| National Institutes of Health | 93.393 | | 1,629,128 |
| National Institutes of Health | 93.394 | | 1,039,886 |
| National Institutes of Health | 93.395 | | 422,400 |
| National Institutes of Health | 93.396 | | (187) |
| National Institutes of Health | 93.398 | | 119,718 |
| ARRA-National Institutes of Health | 93.701 | | 951,760 |
| National Institutes of Health | 93.837 | | 5,596,423 |
| National Institutes of Health | 93.838 | | 614,694 |
| National Institutes of Health | 93.839 | | 398,251 |
| National Institutes of Health | 93.846 | | 1,960,760 |
| National Institutes of Health | 93.847 | | 5,133,436 |
| National Institutes of Health | 93.849 | | 424,507 |
| National Institutes of Health | 93.853 | | 30,106 |
| National Institutes of Health | 93.855 | | 4,253,979 |
| National Institutes of Health | 93.856 | | 1 |
| National Institutes of Health | 93.859 | | 4,862,175 |
| National Institutes of Health | 93.865 | | 1,427,787 |
| National Institutes of Health | 93.866 | | 237,713 |



(Continued)

**LIFESPAN CORPORATION AND AFFILIATES**

Schedule of Expenditures of Federal Awards

Year ended September 30, 2012

| Federal grantor/pass-through grantor | CFDA number | Pass-through number | | Expenditures |
|---|---|---|---|---|
| National Institutes of Health | 93.928 | | $ | 359,353 |
| National Institutes of Health | 93.DA-024549 | | | 281,407 |
| Passed through: | | | | |
| Brown University | 93.113 | 1P20ES018169 | | 74,419 |
| Brown University | 93.113 | 1U0ES020913 | | 42,624 |
| Boston University | 93.121 | U54-DE019275 | | 130,736 |
| Pennsylvania State University | 93.173 | 1R03DC010904 | | 17,010 |
| National Jewish Medical and Research Center | 93.233 | 7R01 HL067209 | | 34,307 |
| American Academy of Child & Adolescent Psychiatry | 93.242 | AACAP | | 158,231 |
| Brown University | 93.242 | 7127432 | | 279,112 |
| Brown University | 93.242 | 7127435 | | 13,549 |
| Brown University | 93.242 | 7127451 | | 41,776 |
| Brown University | 93.242 | R21 MH092781 | | 17,008 |
| Brown University | 93.242 | R34MH094188 | | 16,310 |
| Brown University | 93.242 | R34 MH082211 | | 23,029 |
| Brown University | 93.242 | 7127994 | | (8,202) |
| Brown University | 93.242 | R34 MH083092 | | (10) |
| Brown University | 93.242 | R34 MH083092 | | 196,277 |
| Brown University | 93.242 | R01 MH092238 | | 23,195 |
| Brown University | 93.242 | 00000259 | | 33,843 |
| Brown University | 93.242 | 00000315 | | 127,478 |
| Brown University | 93.242 | 00000534 | | 8,552 |
| Brown University | 93.242 | R34 MH082164 | | 77,565 |
| Butler Hospital | 93.242 | 9141-8327 | | 286,965 |
| Butler Hospital | 93.242 | 9081-8339 | | 8,021 |
| Massachusetts General Hospital | 93.242 | R01 MH04757 | | 200,027 |
| Mount Sinai School of Medicine | 93.242 | 0253-6142-4609 | | 15,887 |
| University of Alabama | 93.242 | R01 AG018384 | | 96,886 |
| University of Colorado | 93.242 | 1547678 | | 17,571 |
| University of Connecticut | 93.242 | R01 MH058563 | | 51,033 |
| Women & Infants Hospital of Rhode Island | 93.242 | R01 MH071766 | | 16,926 |
| Women & Infants Hospital of Rhode Island | 93.242 | R01 MH074919 | | 40,455 |
| Women & Infants Hospital of Rhode Island | 93.242 | 7127995 | | 16,005 |
| Yale University | 93.242 | 1K01 MH093273 | | 11,955 |
| Drug & Alcohol Treatment Association of Rhode Island | 93.243 | U79P01 5404 | | 44,495 |
| Brown University | 93.273 | R01 AA012518 | | 71,468 |
| Brown University | 93.273 | R01 AA017659 | | 11,782 |
| Brown University | 93.273 | R01 AA016978 | | 27,448 |
| Brown University | 93.273 | R01 AA015753 | | 6,665 |
| Brown University | 93.273 | R01 AA016079 | | 1,783 |
| Brown University | 93.273 | P01 AA019072 | | 196,874 |
| Brown University | 93.273 | P01 AA019072 | | 13,550 |
| Brown University | 93.273 | P01 AA019072 | | 359,768 |
| Brown University | 93.273 | R01 AA017181 | | 12,152 |
| Brown University | 93.273 | P01 AA019072 | | 45,939 |
| Brown University | 93.273 | R01 AA020805 | | 5,458 |
| George Mason University | 93.273 | R01 AA016854 | | 23,006 |
| University of Connecticut | 93.273 | R01 AA017399 | | 67,577 |
| Washington University | 93.273 | Study 6666 | | 47,271 |
| Columbia University | 93.279 | R01 DA030459 | | 25,217 |
| Columbia University | 93.279 | R01 DA023650 | | 14,568 |
| Fenway Health Center | 93.279 | R21 DA025010 | | 10,116 |
| Friends Research Institute | 93.279 | R01 DA030771 | | 419,426 |
| Memorial Hospital of Rhode Island | 93.279 | R21 DA032739 | | 31,253 |
| Rensselaer Polytechnic Institute | 93.279 | A11867 | | (1,633) |
| Research Foundation for Mental Hygiene | 93.279 | R01 DA026775 | | 68,595 |
| Research Foundation for Mental Hygiene | 93.279 | R01 DA031005 | | 26,450 |
| Treatment Research Institute | 93.279 | R01 DA025687 | | 4,067 |
| Tufts University | 93.279 | P30 DA013868 | | 27,927 |
| Tufts University | 93.279 | P30 DA013868 | | 51,073 |
| Tufts University | 93.279 | P30 DA013868 | | 8,327 |
| Tufts University | 93.279 | P30 DA013868 | | 8,026 |
| Tufts University | 93.279 | P30 DA013868 | | 7,794 |
| University of Arkansas for Medical Sciences | 93.279 | R01 DA022386 | | 11,822 |



(Continued)

**Exhibit IV**
**Schedule 1**

**LIFESPAN CORPORATION AND AFFILIATES**

Schedule of Expenditures of Federal Awards

Year ended September 30, 2012

| Federal grantor/pass-through grantor | CFDA number | Pass-through number | Expenditures |
|---|---|---|---|
| University of Massachusetts | 93.279 | R01 DA023170 | $ 14,902 |
| University of Massachusetts | 93.279 | R01 DA031081 | 16,311 |
| University of Massachusetts | 93.279 | R01 DA023170 | 113,518 |
| University of Texas | 93.279 | R01 DA032457 | 40,325 |
| Association of American Medical Colleges | 93.283 | U36 CD319276 | 640 |
| Lucidux, LLC | 93.286 | R43 EB013523 | 23,869 |
| New York University Medical Center | 93.310 | 7011966 | 154 |
| Butler Hospital | 93.361 | R01 NR012005 | 41,567 |
| University of California at San Diego | 93.361 | R01 NR011295 | 53,344 |
| University of Massachusetts | 93.361 | R01 NR011317 | 83,174 |
| University of Rhode Island | 93.361 | R01 NR003695 | 14,581 |
| Women & Infants Hospital of Rhode Island | 93.389 | P20 RR018278 | 27,589 |
| Women & Infants Hospital of Rhode Island | 93.389 | P20 RR018278 | 55,211 |
| Boston University | 93.393 | R01 CA141587 | 55,248 |
| Brown University | 93.393 | R01 CA155381 | 19,165 |
| University of Washington | 93.393 | 724570 | 41,309 |
| American College of Radiology | 93.394 | U01 CA080098 | 8,000 |
| American College of Radiology | 93.394 | U01 CA080098 | 8,000 |
| University of California at San Diego | 93.394 | R01 CA159954 | 49,352 |
| Brigham & Women's Hospital | 93.395 | U10 CA031946 | 91,927 |
| Brigham & Women's Hospital | 93.395 | U10 CA031496 | 27,738 |
| University of Chicago | 93.395 | 7019238 | 306 |
| National Childhood Cancer Foundation | 93.395 | U10 CA98543 | 18,160 |
| Vanderbilt University | 93.395 | R21 CA141313 | 9,383 |
| Brown University | 93.396 | 00000288 | (2,858) |
| National Surgical Adjuvant and Bowel Project | 93.399 | PFED24-DAN-05 | 7,051 |
| ARRA-Brigham & Women's Hospital | 93.701 | RC2 HL101816 | 4,283 |
| ARRA-Brown University | 93.701 | R01 DA026778 | 7,094 |
| ARRA-Dana Farber Cancer Institute | 93.701 | RC2 HL101631 | (343) |
| ARRA-Duke University Medical Center | 93.701 | 90DD0539 | 12,463 |
| ARRA-Duke University Medical Center | 93.701 | R01 HL098237 | 1,100 |
| ARRA-Rhode Island Department of Health | 93.701 | PO Req. #1202298 | (94) |
| ARRA-State University of New York at Birmingham | 93.701 | R01 HD057066 | (1,300) |
| ARRA-Tribologics LLC | 93.701 | R41 AR057276 | 7,187 |
| ARRA-University of Arkansas | 93.701 | R21 DK081628 | (393) |
| ARRA-University of California at San Diego | 93.701 | RC2 AG036535 | 4,404 |
| ARRA-University of Medicine & Dentistry of New Jersey | 93.701 | RC2 HL101458 | 31,438 |
| ARRA-University of Michigan | 93.701 | RC2 HL101740 | 18,774 |
| ARRA-University of Michigan | 93.701 | RC2 HL101740 | 50,062 |
| ARRA-University of Pennsylvania | 93.701 | U01 NS062835 | 3,397 |
| Butler Hospital | 93.837 | R01 HL084178 | 16,364 |
| California Polytechnic State University | 93.837 | U01 HL114377 | 95,979 |
| Cincinnati Children's Hospital Medical Center | 93.837 | Sub#109363/1R24 | 399 |
| Kent State University | 93.837 | R01 HL089311 | 29,383 |
| Medical College of Ohio | 93.837 | U01 HL715560 | 115,057 |
| Medical College of Ohio | 93.837 | U01 HL715560 | 87,077 |
| Medical College of Ohio | 93.837 | U01 HL715560 | 18,181 |
| Northwestern University | 93.837 | U01 HL080416 | 13,011 |
| Texas Heart Institute | 93.837 | R01 HL090521 | 35,360 |
| Tufts University | 93.837 | R01 HL06160 | 4,611 |
| University of Massachusetts | 93.837 | R01 HL077248 | (14,295) |
| University of Pittsburgh | 93.837 | P01 HL040962 | 13,387 |
| University of Vermont | 93.837 | U01 HL084904 | 4,197 |
| Virtually Better, Inc. | 93.837 | R41 HL114046 | 10,420 |
| Yale University | 93.837 | R01 HL081153 | (2,606) |
| Johns Hopkins University | 93.838 | R01 HL087997 | 76,142 |
| University of Michigan Medical Center | 93.838 | R01 HL109118 | 14,579 |
| University of Rochester | 93.838 | R01 HL079954 | 10,293 |
| Washington University | 93.839 | WU-10-361 | 12,267 |
| Washington University | 93.839 | WU-09-230 | 15,157 |
| Children's Hospital Boston | 93.846 | R01 AR114054 | 77,840 |
| Children's Hospital Boston | 93.846 | R01 AR05018 | 272,141 |
| Sloan-Kettering Cancer Institute | 93.846 | R01 AR049342 | 35,933 |
| Vanderbilt University | 93.846 | R01 AR053684 | 17,463 |

**LIFESPAN CORPORATION AND AFFILIATES**

Schedule of Expenditures of Federal Awards

Year ended September 30, 2012

| Federal grantor/pass-through grantor | CFDA number | Pass-through number | Expenditures |
|---|---|---|---|
| Beth Israel Deaconess Medical Center | 93.847 | R01 DK085185 | $ 38,110 |
| Massachusetts General Hospital | 93.847 | R01 DK61230 | 6,680 |
| University of Pittsburgh | 93.847 | R21 DK088672 | 80 |
| University of Pittsburgh | 93.847 | R01 DK087780 | 1,626 |
| Wake Forest University | 93.847 | R01 DK092237 | 95,352 |
| Kent State University | 93.848 | R01 DK075119 | 26,321 |
| University of Iowa | 93.853 | R01 NS040068 | 208,219 |
| University of Missouri at St. Louis | 93.853 | R01 NS052470 | 18,015 |
| Boston University | 93.855 | U19 AI096398 | 21,974 |
| Brigham & Women's Hospital | 93.855 | R01AI079085 | 14,293 |
| Brown University | 93.855 | D43 TW000237 | 33,370 |
| Fred Hutchinson Cancer Research Center | 93.855 | UMI AI068618 | 60,409 |
| Fred Hutchinson Cancer Research Center | 93.855 | P30 AI042853 | 13,317 |
| Fred Hutchinson Cancer Research Center | 93.855 | UM1 AI068618 | 116,130 |
| Fred Hutchinson Cancer Research Center | 93.855 | UM1 AI068618 | 115,847 |
| George Washington University | 93.855 | R01 AI102837 | 10,312 |
| ImQuest BioSciences | 93.855 | U19 AI077289 | 83,709 |
| ImQuest BioSciences | 93.855 | R33 AI076967 | 169,963 |
| Massachusetts General Hospital | 93.855 | U01 AI069472 | 567,327 |
| Massachusetts General Hospital | 93.855 | R01 AI058736 | 22,613 |
| Pennsylvania State University | 93.855 | R21 Ai094514 | 4,246 |
| Social & Scientific Systems, Inc. | 93.855 | ACTG A5280 | 710 |
| Stanford University | 93.855 | R01 AI066922 | 317,051 |
| University of Rhode Island | 93.855 | U19AI082642 | 339,473 |
| University of Rhode Island | 93.855 | U19AI082642 | 206,818 |
| University of Rhode Island | 93.855 | U19AI082642 | 42,910 |
| University of Rhode Island | 93.855 | U19AI082642 | (564) |
| University of Rhode Island | 93.855 | U19AI082642 | 46,445 |
| Memorial Hospital of Rhode Island | 93.864 | R01 HD054890 | 2,379 |
| American College of Surgeons Oncology Group | 93.865 | U01 HL090864 | 3,750 |
| Fenway Health Center | 93.865 | U01 HD068040 | 15,017 |
| Indiana University | 93.865 | U01 AI069911 | 31,808 |
| National Jewish Medical and Research Center | 93.865 | R21 HD0590430 | 9,957 |
| Simbex LLC | 93.865 | R01 HD48638 | 28,074 |
| State University of New York Research Foundation | 93.865 | R01HD057066 | 28,972 |
| University of Alabama at Birmingham | 93.865 | U01 HD040533 | 7,377 |
| University of Alabama at Birmingham | 93.865 | U01 HD040533 | 106,714 |
| University of Utah | 93.865 | K12 HD047349 | 113,974 |
| Wayne State University | 93.865 | R01 HD062477 | 16,524 |
| Women & Infants Hospital of Rhode Island | 93.865 | 1R01 HD057100 | 13,719 |
| Women & Infants Hospital of Rhode Island | 93.865 | U01 HD027904 | 12,206 |
| Boston University | 93.866 | R01 AG018384 | 17,137 |
| University of California at San Diego | 93.866 | U01 AG10483 | 5,193 |
| University of California at San Diego | 93.866 | AG024904 | 79,535 |
| Vanderbilt University | 93.989 | R24 TW007988 | 4,889 |
| Vanderbilt University | 93.989 | R24 TW007988 | 2,748 |
| Vanderbilt University | 93.989 | R24TW007988 | 1,716 |
| Vanderbilt University | 93.989 | R24 TW007988 | 4,381 |
| Women & Infants Hospital of Rhode Island | 93.AR016783 | K08 AA016783 | 21,287 |
| National Childhood Cancer Foundation | 93.CA098543 | U01 CA098543 | 8,100 |
| American College of Radiology | 93.CA21661 | U10 CA21661 | 55,321 |
| American College of Radiology | 93.CA21661 | U10 CA21661 | 7,721 |
| American College of Radiology | 93.CA80098 | U01 CA80098 | 1,961 |
| Brown University | 93.DK075371 | R18 DK075371 | 41,727 |
| Mount Sinai School of Medicine | 93.HL071988 | R01 HL071988 | 967 |
| Motivation Educational Entertainment (MEE) Productions, Inc. | 93.MH082103 | R44 MH082103 | 23,158 |
| Cayetano Heredia University | 93.N2682009 | HHSN26820090033 | 16,418 |
| Brown University | 93.N2682009 | HHSN26820090033 | 17,177 |
| University of Alabama at Birmingham | 93.N27220100035C | N27220100035C | 10,959 |
| University of Alabama at Birmingham | 93.N27220100037C | N27220100037C | 10,959 |
| University of Alabama at Birmingham | 93.N27220100038C | N27220100038C | 10,959 |
| Brown University | 93.TW-008102 | R25 TW008102 | 10,569 |
| NIH Office of AIDS Research | 93.UNKNOWN | CFAR Symposium | 15,744 |



(Continued)

**Exhibit IV**
**Schedule 1**

## LIFESPAN CORPORATION AND AFFILIATES

Schedule of Expenditures of Federal Awards

Year ended September 30, 2012

| Federal grantor/pass-through grantor | CFDA number | Pass-through number | Expenditures |
|---|---|---|---|
| Environmental Protection Agency: | | | |
| Office of Water | | | |
| Passed through: | | | |
| Brown University | 66.P20ES018169 | 00000375-1 | $ 111,103 |
| National Science Foundation | 47.041 | | 33,753 |
| United States Agency for International Development: | | | |
| Passed through: | | | |
| Brown University | 98.012 | ED1329747GHA | 54,537 |
| **Total expenditures of research and development federal awards** | | | 61,063,047 |
| Child Nutrition Cluster: | | | |
| Department of Agriculture: | | | |
| Food and Nutrition Services: | | | |
| Passed through: | | | |
| Rhode Island Department of Education | 10.553 | 10804 | 138,659 |
| Rhode Island Department of Education | 10.555 | 10804 | 81,041 |
| **Total expenditures of child nutrition federal awards** | | | 219,700 |
| Workforce Investment Act (WIA) Cluster: | | | |
| Department of Labor: | | | |
| Employment Training Administration: | | | |
| Passed through: | | | |
| Workforce Solutions of Providence/Cranston | 17.259 | WSPC-JDF-1112 | (6,873) |
| Workforce Solutions of Providence/Cranston | 17.259 | WSPC-JDF-1205 | 40,448 |
| **Total expenditures of WIA federal awards** | | | 33,575 |
| Other Federal Awards: | | | |
| Department of Education: | | | |
| Office of Special Education and Rehabilitative Services: | | | |
| Passed through: | | | |
| Rhode Island Department of Education | 10.582 | 10804 | 11,821 |
| Department of Health and Human Services: | | | |
| Centers for Disease Control: | | | |
| Passed through: | | | |
| University of Massachusetts | 93.184 | U27 DD000862 | 15,180 |
| Department of Health and Human Services: | | | |
| Passed through: | | | |
| State of Rhode Island | 93.UNKNOWN | 7011994 | (9,377) |
| Health Resources and Services Administration | 93.887 | | 57,545 |
| Health Resources and Services Administration | 93.918 | | 770,271 |
| Passed through: | | | |
| University of Massachusetts | 93.110 | H30 MC00037 | 27,090 |
| Rhode Island Department of Health | 93.917 | X07HA00011 | 122,763 |
| National Institutes of Health: | | | |
| Passed through: | | | |
| Rhode Island Department of Health | 93.242 | AACAP | 869,705 |
| Department of Homeland Security: | | | |
| Passed through: | | | |
| Rhode Island Emergency Management Agency | 97.UNKNOWN | 2009-UA-T9-0010 | 69,855 |
| **Total expenditures of other federal awards** | | | 1,934,853 |
| **Total expenditures of federal awards** | | | $ 63,251,175 |

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, 2012

**(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, 2012, Lifespan provided $8,671,253 to subrecipients as part of its research and development program.