



LIFESPAN CORPORATION AND AFFILIATES

Consolidated Financial Statements and Supplementary Information

September 30, 2013 and 2012

(With Independent Auditors' Reports Thereon)

LIFESPAN CORPORATION AND AFFILIATES
Consolidated Financial Statements and Supplementary Information
September 30, 2013 and 2012

Table of Contents

	Page(s)
Independent Auditors' Report	1
Consolidated Financial Statements:	
Consolidated Statements of Financial Position	2
Consolidated Statements of Operations and Changes in Net Assets	3 – 4
Consolidated Statements of Cash Flows	5
Notes to Consolidated Financial Statements	6 – 51
Independent Auditors' Report on Supplementary Information	52
Supplementary Information:	
Consolidating Statements of Financial Position	53 – 56
Consolidating Statements of Operations and Changes in Net Assets	57 – 60



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

Independent Auditors' Report

The Board of Directors
Lifespan Corporation:

We have audited the accompanying consolidated financial statements of Lifespan Corporation and Affiliates, which comprise the consolidated statements of financial position as of September 30, 2013 and 2012, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly in all material respects, the financial position of Lifespan Corporation and Affiliates as of September 30, 2013 and 2012, and the results of their operations and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP

Providence, Rhode Island
February 12, 2014

LIFESPAN CORPORATION AND AFFILIATES

Consolidated Statements of Financial Position

September 30, 2013 and 2012

(In thousands)

Assets	2013	2012	Liabilities and Net Assets	2013	2012
Current assets:			Current liabilities:		
Cash and cash equivalents	\$ 46,972	\$ 42,645	Accounts payable	\$ 85,413	\$ 68,974
Patient accounts receivable	314,356	272,745	Accrued employee benefits and compensation	66,160	58,297
Less allowance for doubtful accounts	<u>(81,534)</u>	<u>(67,302)</u>	Other accrued expenses	42,164	30,402
Net patient accounts receivable	232,822	205,443	Current portion of long-term debt	18,428	10,820
Other receivables	14,051	23,299	Current portion of estimated third-party payor settlements	13,359	10,678
Current portion of contributions receivable, net	<u>3,300</u>	<u>3,042</u>	Current portion of estimated malpractice and other self-insurance costs	<u>30,295</u>	<u>29,348</u>
Total receivables	250,173	231,784	Total current liabilities	255,819	208,519
Assets limited as to use	19,360	21,783	Long-term debt, net of current portion	389,616	353,041
Inventories	22,609	21,491	Estimated third-party payor settlements, net of current portion	38,573	39,236
Prepaid expenses and other current assets	<u>11,562</u>	<u>8,886</u>	Estimated malpractice self-insurance costs, net of current portion	81,709	74,061
Total current assets	350,676	326,589	Accrued pension liability	172,627	244,403
Assets limited as to use	1,248,005	1,198,447	Other liabilities	<u>32,237</u>	<u>39,666</u>
Less amount required to meet current obligations	<u>(19,360)</u>	<u>(21,783)</u>	Total liabilities	970,581	958,926
Noncurrent assets limited as to use	1,228,645	1,176,664	Net assets:		
Property and equipment, net	832,987	770,251	Unrestricted	975,275	861,763
Other assets:			Temporarily restricted	337,275	327,555
Contributions receivable, net	2,730	3,871	Permanently restricted	<u>156,434</u>	<u>149,158</u>
Deferred charges and financing costs, net	7,658	8,173	Total net assets	1,468,984	1,338,476
Other noncurrent assets	<u>16,869</u>	<u>11,854</u>			
Total other assets	<u>27,257</u>	<u>23,898</u>			
Total assets	<u>\$ 2,439,565</u>	<u>\$ 2,297,402</u>	Total liabilities and net assets	<u>\$ 2,439,565</u>	<u>\$ 2,297,402</u>

See accompanying notes to consolidated financial statements.

LIFESPAN CORPORATION AND AFFILIATES

Consolidated Statements of Operations and Changes in Net Assets

Years ended September 30, 2013 and 2012

(In thousands)

	<u>2013</u>	<u>2012</u>
Unrestricted revenues and other support:		
Patient service revenue, net of contractual allowances	\$ 1,631,869	\$ 1,554,915
Provision for bad debts	(110,982)	(90,204)
Net patient service revenue	1,520,887	1,464,711
Other revenue	59,489	60,967
Endowment earnings contributed toward community benefit	15,417	14,100
Net assets released from restrictions used for operations	27,441	23,974
Net assets released from restrictions used for research	82,439	80,866
Total unrestricted revenues and other support	1,705,673	1,644,618
Operating expenses:		
Compensation and benefits	1,070,777	1,001,375
Supplies and other expenses	390,993	374,553
Purchased services	112,343	104,394
Depreciation and amortization	60,395	57,345
Interest	19,782	19,992
License fees	70,701	69,058
Total operating expenses	1,724,991	1,626,717
(Loss) income from operations	(19,318)	17,901
Nonoperating gains and losses:		
Effects of affiliation with Gateway Healthcare, Inc. (note 5)	23,576	-
Unrestricted gifts and bequests	2,643	2,242
Unrestricted income from board-designated investments	1,243	1,217
Net realized gains on board-designated investments	12,608	24,387
Grants to outside agencies	(229)	(354)
Fundraising expenses	(3,620)	(3,625)
Other nonoperating gains (losses), net	85	(328)
Total nonoperating gains, net	36,306	23,539
Excess of revenues over expenses	\$ 16,988	\$ 41,440

LIFESPAN CORPORATION AND AFFILIATES

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

Years ended September 30, 2013 and 2012

(In thousands)

	<u>2013</u>	<u>2012</u>
Unrestricted net assets:		
Excess of revenues over expenses	\$ 16,988	\$ 41,440
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	85,848	(64,237)
Net change in unrealized gains on investments available for sale	1,419	16,970
Net assets released from restrictions used for purchase of property and equipment	9,890	15,088
Other (decreases) increases	(633)	337
Increase in unrestricted net assets	<u>113,512</u>	<u>9,598</u>
Temporarily restricted net assets:		
Gifts, grants, and bequests	106,339	110,041
Income from restricted endowment and other restricted investments	2,721	3,086
Net assets released from restrictions	(119,770)	(119,928)
Net realized and unrealized gains on investments	22,094	39,177
Effects of affiliation with Gateway Healthcare, Inc. (note 5)	847	-
Fundraising expenses	(1,842)	(1,701)
Grants to outside agencies	(680)	(646)
Other increases (decreases)	11	(784)
Increase in temporarily restricted net assets	<u>9,720</u>	<u>29,245</u>
Permanently restricted net assets:		
Gifts and bequests	5,446	837
Net change in unrealized gains on investments held in perpetual trusts by others	1,434	4,243
Effects of affiliation with Gateway Healthcare, Inc. (note 5)	53	-
Other increases	343	25
Increase in permanently restricted net assets	<u>7,276</u>	<u>5,105</u>
Increase in net assets	130,508	43,948
Net assets, beginning of year	<u>1,338,476</u>	<u>1,294,528</u>
Net assets, end of year	<u>\$ 1,468,984</u>	<u>\$ 1,338,476</u>

See accompanying notes to consolidated financial statements.

LIFESPAN CORPORATION AND AFFILIATES

Consolidated Statements of Cash Flows

Years ended September 30, 2013 and 2012

(In thousands)

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Increase in net assets	\$ 130,508	\$ 43,948
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Effects of affiliation with Gateway Healthcare, Inc.	(24,476)	-
Change in funded status of pension and other postretirement plans, other than net periodic pension and postretirement benefit costs	(85,848)	64,237
Net realized and unrealized gains on investments	(37,555)	(84,777)
Permanently restricted gifts and bequests	(5,446)	(837)
Depreciation and amortization	60,395	57,345
Provision for estimated self-insurance costs	132,928	129,427
Decrease in liabilities for estimated self-insurance costs resulting from claims paid	(124,333)	(139,936)
Net increase in patient accounts receivable	(17,327)	(20,353)
Increase in accounts payable	12,164	8,645
Increase in accrued employee benefits and compensation	5,463	3,153
Increase (decrease) in estimated third-party payor settlements	2,018	(6,916)
Increase (decrease) in all other current and noncurrent assets and liabilities, net	<u>20,895</u>	<u>(11,253)</u>
Net cash provided by operating activities	<u>69,386</u>	<u>42,683</u>
Cash flows from investing activities:		
Purchase of property and equipment	(97,420)	(64,113)
Net (increase) decrease in funds held by third parties under long-term debt agreements	(37,744)	8,182
Other net decreases in assets limited as to use	<u>25,544</u>	<u>8,126</u>
Net cash used in investing activities	<u>(109,620)</u>	<u>(47,805)</u>
Cash flows from financing activities:		
Proceeds from the issuance of long-term debt	50,000	-
Payments on long-term debt	(10,885)	(10,295)
Permanently restricted gifts and bequests	<u>5,446</u>	<u>837</u>
Net cash provided by (used in) financing activities	<u>44,561</u>	<u>(9,458)</u>
Net increase (decrease) in cash and cash equivalents	4,327	(14,580)
Cash and cash equivalents at:		
Beginning of year	<u>42,645</u>	<u>57,225</u>
End of year	<u>\$ 46,972</u>	<u>\$ 42,645</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	<u>\$ 20,274</u>	<u>\$ 20,829</u>

See accompanying notes to consolidated financial statements.

LIFESPAN CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2013 and 2012

(In thousands)

(1) Description of Organization

Lifespan Corporation and Affiliates (Lifespan) is an integrated regional health care delivery system of teaching hospitals, a community hospital, and other care givers established in August 1994, with hospitals located throughout Rhode Island. As a complement to its role in service and education, Lifespan actively supports research. Lifespan Corporation (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.

Through October 22, 2012, Lifespan Corp. was governed by a 17-member Board of Directors that included the chairs of the Boards of Trustees of its four hospital affiliates. Effective October 23, 2012, the Board of Directors of Lifespan Corp. and the Boards of Trustees of Rhode Island Hospital, The Miriam Hospital, Newport Health Care Corporation, Newport Hospital, and Emma Pendleton Bradley Hospital approved a restructuring of their governance. The restructuring has increased governance effectiveness and has streamlined governance operation, as well as provided 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 Newport Health Care Corporation is defined as those persons serving from time to time as the directors of Lifespan Corp. 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 Corp., and by extension, as trustees of each of the hospitals. Certain other affiliates of Lifespan Corp. are governed by Boards of Trustees, which are elected annually by Lifespan Corp.'s directors.

LIFESPAN CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2013 and 2012

(In thousands)

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 Hospital (NH) Newport Hospital Foundation, Inc. (NHF) 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) Gateway Healthcare, Inc. 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) Gateway Foundation (GF) Lifespan Management Services Organization, Inc. (MSO) Lifespan of Massachusetts, Inc. (Lifespan MA)
Rhode Island Hospital	Radiosurgery Center of Rhode Island, LLC (RCRI) Lifespan Pharmacy, LLC
Newport Health Care Corporation (NHCC)	NHCC Medical Associates, Inc. Newport Health Property Management, Inc.

LIFESPAN CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2013 and 2012

(In thousands)

Member, Shareholder, or Entity with Reserved Powers	Affiliate
Gateway Healthcare, Inc.	Pathways, Inc. Mill River Community Housing Corp. Obed Apartments, Inc. Wentworth Corporation LJR Corporation TLR Realty JM Apartments, Inc. Shore Courts, Inc. Westerly Courts, Inc. Bayberry Courts, Inc. JRR Housing Human Services Realty, Inc. Alternative Living Concepts Gateway Professional Group, Inc. Families Reaching into Each New Day, Inc., d/b/a FRIEND's Way The Autism Project Capital City Community Centers, Inc.
Lifespan Diversified Services, Inc. (LDS)	VNA Technicare, Inc., d/b/a Lifespan Home Medical

Under an affiliation agreement effective July 1, 2013, Lifespan Corp. became the sole corporate member of Gateway Healthcare, Inc. The consolidated financial statements include the accounts of Gateway Healthcare, Inc. as of July 1, 2013 (see note 5).

The consolidated financial statements include the financial information of LPG, a 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.

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 the 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 ambulatory care centers and two comprehensive cardiac centers. The activities of CVI are reflected primarily within LPG.

In 2009, Lifespan announced its intention to combine RIH and TMH into a single hospital with two campuses. RIHF and TMHF remain as separate entities. The hospitals continue to integrate clinical programs and services.

LIFESPAN CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2013 and 2012

(In thousands)

(2) Charity Care and Other Community Benefits

The total net cost of charity care and other community benefits provided by Lifespan for the years ended September 30, 2013 and 2012 is summarized in the following table:

	<u>2013</u>	<u>2012</u>
Charity care	\$ 71,316	\$ 65,689
Medical education, net	71,242	68,043
Research	16,763	15,939
Subsidized health services	27,868	21,176
Community health improvement services and community benefit operations	1,756	1,804
Unreimbursed Medicaid costs	<u>17,796</u>	<u>13,538</u>
Total	<u>\$ 206,741</u>	<u>\$ 186,189</u>

Charity Care

Lifespan provides full charity care for individuals at or below twice the federal poverty level, with a sliding scale for individuals up to four times the poverty level. In addition, a substantial 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 \$71,316 and \$65,689 in 2013 and 2012, respectively. Charges forgone, based on established rates, amounted to \$249,016 and \$227,829 in 2013 and 2012, 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 \$71,242 and \$68,043 in 2013 and 2012, respectively.

In 1969, RIH, TMH, Bradley, and certain other Rhode Island hospitals entered into an affiliation agreement to participate jointly in various clinical training programs and research activities with Brown Medical School, renamed The Warren Alpert Medical School of Brown University (Brown). In 2010, Brown named RIH its Principal Teaching Hospital. TMH and Bradley continue to be designated as major teaching affiliates. The goals of the partnership are to facilitate the expansion of joint educational and research programs in order to compete both clinically and academically. RIH currently sponsors 47 graduate medical education programs accredited by or under the auspices of the Accreditation Council for Graduate Medical Education (ACGME), while also sponsoring another 27 hospital-approved residency and fellowship programs. RIH serves as the principal setting for these clinical training programs, which encompass the following disciplines: internal medicine and medicine subspecialties, including hematology and oncology; orthopedics and orthopedic subspecialties; clinical neurosciences; general surgery and surgical specialties; pediatrics and pediatric specialties, including hematology and oncology; dermatology; radiology; pathology; child psychiatry; emergency medicine and emergency medicine specialties;

LIFESPAN CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2013 and 2012

(In thousands)

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

RIH and TMH are also participating clinical training sites for residents from other programs in anesthesiology, pediatric dentistry, family medicine, infectious disease, obstetrics/gynecology (OB/Gyn) and OB/Gyn subspecialties, otolaryngology, podiatry, psychiatry, geriatric psychiatry, orthopedics, rheumatology, and radiation oncology. 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; Northeastern University; 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. RIH has clinical training affiliations in respiratory therapy with local colleges as well as Independence University (Utah). 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. In addition, the RIH Pharmacy Department co-sponsors second-year postgraduate specialized pharmacy residency programs in oncology and ambulatory care. Lifespan pharmacists also participate in the education of nursing and pharmacy

LIFESPAN CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2013 and 2012

(In thousands)

students by providing didactic lectures at both Rhode Island College and the University of Rhode Island's College of Pharmacy.

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 9.

Federal support accounts for approximately 79% of all externally funded research at Lifespan. Researchers focus on clinical trials which investigate prevention and treatment of HIV/AIDS, obesity, cancer, diabetes, cardiac disease, neurological problems, orthopedic advancements, mental health concerns, and brain science. Researchers work in the laboratory or with patients, or both.

Subsidized Health Services

Lifespan substantially subsidizes various health services including the following programs: adult psychiatry, 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, which are prepared on the accrual basis of accounting, include the accounts of Lifespan Corp. and its affiliates after elimination of significant intercompany accounts and transactions.

LIFESPAN CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2013 and 2012

(In thousands)

Lifespan considers events and transactions that occur after the consolidated statement of financial position date, but before the consolidated financial statements are issued, to provide additional evidence relative to certain estimates or to identify matters that require additional disclosure. These consolidated financial statements were issued on February 12, 2014 and subsequent events have been evaluated through that date.

(b) *Use of Estimates*

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

(c) *Cash and Cash Equivalents*

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

(d) *Investments and Investment Income*

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

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

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

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

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

LIFESPAN CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2013 and 2012

(In thousands)

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 are excluded from the excess of revenues over expenses.

LIFESPAN CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2013 and 2012

(In thousands)

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 third parties under long-term debt agreements is recorded as other revenue. Lifespan maintains a spending policy for certain board-designated funds of its patient care affiliates, which provides that investment income from such funds is recorded within unrestricted revenues as endowment earnings contributed toward community benefit.

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

(e) *Assets Limited as to Use*

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

(f) *Property and Equipment*

Property and equipment acquisitions are recorded at cost. Depreciation is computed over the estimated useful life of each class of depreciable asset using the straight-line method. Buildings and improvements lives range from 5 to 40 years and equipment 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.

(g) *Deferred Financing Costs*

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

(h) *Goodwill and Indefinite-Lived Intangible Assets*

Goodwill and intangible assets determined to have indefinite lives are not subject to amortization. Goodwill and indefinite-lived intangible assets are reviewed for impairment on an annual basis or more frequently if circumstances indicate a potential impairment exists or has occurred.

LIFESPAN CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2013 and 2012

(In thousands)

(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 7 for more information about Lifespan's endowment.

(j) *Excess of Revenues over Expenses*

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

(k) *Net Patient Service Revenue*

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,

LIFESPAN CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2013 and 2012

(In thousands)

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 fixed fee arrangements, some of which follow a DRG-based approach, while others employ a combination of per diem rates and specific case rates 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.

(I) *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 increased from 79% of self-pay accounts receivable at September 30, 2012 to 80% of self-pay accounts receivable at September 30, 2013. Lifespan's self-pay writeoffs for the years ended September 30, 2013 and 2012 amounted to

LIFESPAN CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2013 and 2012

(In thousands)

\$90,758 and \$81,528, respectively. Lifespan did not change its charity care or uninsured discount policies during the years ended September 30, 2013 and 2012, 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 2013 or 2012.

(m) Charity Care

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 segregated certain investments included in assets limited as to use 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.

LIFESPAN CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2013 and 2012

(In thousands)

(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 7, 10, and 14, respectively.

(r) Reclassifications

Certain 2012 amounts have been reclassified to conform to the 2013 reporting format.

(4) Non-recurring Charges

Loss from operations for 2013 includes non-recurring charges of approximately \$6,000 related to streamlining initiatives resulting from Lifespan's review of its operating strategies. The charges include provisions for the severance costs of permanent management and supervisory workforce reductions. The liability related to the non-recurring charges was approximately \$4,485 at September 30, 2013 and is included in accrued employee benefits and compensation in the consolidated statement of financial position.

In July 2013, Lifespan announced a voluntary early retirement program (VERP), which was designed to provide salary and medical benefits continuation for eligible employees who wished to retire. The estimated costs of this program in 2013 amounted to \$5,264 and are 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 the estimated costs of Lifespan's 2011 VERP program were adjusted to account for updated information regarding employees who subsequently withdrew their VERP election. The liability related to Lifespan's VERP programs is approximately \$2,855 and \$2,841 as of September 30, 2013 and 2012, respectively, and is included in accrued employee benefits and compensation in the consolidated statements of financial position.

(5) Affiliation with Gateway Healthcare, Inc.

Under an affiliation agreement effective July 1, 2013, Lifespan Corp. became the sole corporate member of Gateway Healthcare, Inc. (Gateway), the largest community behavioral health care organization in Rhode Island. While Gateway continues to maintain its corporate identity, its Board of Directors is comprised of those persons serving as the directors of Lifespan Corp.

Gateway, established in 1995, provides integrated behavioral health care treatments and prevention through residential, outpatient, and community-based programs that reach more than 15,000 residents annually in 42 locations. No consideration was transferred in connection with the affiliation, which was consummated to improve coordination of mental health services between Lifespan hospitals and Gateway, as well as to further their common mission of promoting the health of the communities they serve.

LIFESPAN CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2013 and 2012

(In thousands)

The following table summarizes the value assigned to Gateway net assets recognized by Lifespan as of the affiliation date (July 1, 2013):

Assets:	
Current assets	\$12,532
Property and equipment	25,711
Other assets	<u>2,482</u>
Total assets	<u>40,725</u>
Liabilities:	
Current liabilities	11,212
Other liabilities	<u>5,037</u>
Total liabilities	<u>16,249</u>
Total net assets recognized	<u><u>\$24,476</u></u>

The following table presents unrestricted revenues and other support, (deficiency) excess of revenues over expenses, and net assets of Lifespan as if the Gateway affiliation had occurred on October 1, 2012 and October 1, 2011 (excluding the effects of the affiliation itself, which resulted in an increase in the excess of revenues over expenses amounting to \$23,576 in 2013):

	<u>Unrestricted revenues and other support</u>	<u>(Deficiency) excess of revenues over expenses</u>	<u>Unrestricted net assets</u>	<u>Temporarily restricted net assets</u>	<u>Permanently restricted net assets</u>
Supplemental pro forma from October 1, 2012 to September 30, 2013	\$1,742,449	\$(8,045)	\$975,275	\$337,275	\$156,434
Supplemental pro forma from October 1, 2011 to September 30, 2012	1,698,657	40,495	883,110	328,150	149,211

LIFESPAN CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2013 and 2012

(In thousands)

(6) 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 \$71,081 and \$65,273 in 2013 and 2012, respectively, and are reflected as part of net patient service revenue in the accompanying consolidated statements of operations and changes in net assets.

For periods beyond 2015, the federal government is scheduled to 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.

(7) Investments

The composition of assets limited as to use at September 30, 2013 and 2012 is set forth in the following table:

	2013	2012
Funds available for self-insurance liabilities	\$ 155,925	\$ 145,788
Unrestricted board-designated funds	541,825	557,664
Funds held by third parties under long-term debt agreements	67,141	29,397
Temporarily restricted funds	327,638	317,437
Permanently restricted funds	155,476	148,161
Total	<u>\$ 1,248,005</u>	<u>\$ 1,198,447</u>

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

	2013	2012
Available-for-sale	\$ 819,607	\$ 832,833
Trading	428,398	365,614
Total	<u>\$ 1,248,005</u>	<u>\$ 1,198,447</u>

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

LIFESPAN CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2013 and 2012

(In thousands)

Fair Value

The following tables summarize Lifespan's investments and assets held in trust by major category within the ASC 820-10 fair value hierarchy as of September 30, 2013 and 2012, as well as related strategy and liquidity/notice requirements:

	2013				Redemption or liquidation	Days' notice
	Level 1	Level 2	Level 3	Total		
U.S. equities:						
Large cap value	\$ 68,903	\$ —	\$ —	\$ 68,903	Daily	One
Mid-cap value	52,400	—	—	52,400	Daily	One
Large cap growth	51,665	—	—	51,665	Daily	One
Marketable alternatives:						
Multiple strategies	—	124,381	—	124,381	Quarterly-Annually	Sixty-Sixty-five
Absolute return strategies	—	61,639	—	61,639	Monthly	Five
International equities:						
Developed markets	35,767	108,200	—	143,967	Daily - Monthly	One - Ten
Emerging markets	17,512	42,673	—	60,185	Daily - Monthly	One - Ten
Commodities:						
Energy	10,515	—	—	10,515	Daily	One
Various	—	19,258	300	19,558	Daily - Illiquid	One - N/A
Real estate	17,711	—	—	17,711	Daily	Three - Five
Fixed income:						
U.S. Treasuries	37,350	—	—	37,350	Daily - Weekly	One - Five
U.S. Treasury inflation-protected	—	17,444	—	17,444	Daily	Two
U.S. Government and agency	—	28,423	—	28,423	Daily - Weekly	One
Domestic bonds	—	153,905	—	153,905	Daily - Weekly	One
Global bonds	25,462	98,434	—	123,896	Daily - Weekly	One - Five
Cash and short-term investments	28,340	—	—	28,340	Daily	One
	345,625	654,357	300	1,000,282		
Assets held in trust (note 8)	—	—	64,454	64,454		
Held by third parties under long-term debt agreements (note 14)	67,141	—	—	67,141		
Total	\$ 412,766	\$ 654,357	\$ 64,754	\$ 1,131,877		

LIFESPAN CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2013 and 2012

(In thousands)

	2012				Redemption or liquidation	Days' notice
	Level 1	Level 2	Level 3	Total		
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 - Three
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	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 8)	—	—	62,794	62,794		
Held by third parties under long-term debt agreements (note 14)	29,397	—	—	29,397		
Total	\$ 366,136	\$ 643,647	\$ 63,132	\$ 1,072,915		

Investments held by third parties under long-term debt agreements consist of money market funds invested in U.S. Government and agency obligations and other high-quality, short-term debt securities.

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 \$116,128 at September 30, 2013 and \$125,532 at September 30, 2012.

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 ninety days or less, 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, 2013 and 2012.

LIFESPAN CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2013 and 2012

(In thousands)

The following tables present Lifespan's activity for the years ended September 30, 2013 and 2012 for investments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) as defined in ASC 820-10:

	Commodities	Assets held in trust	2013 Total
Fair value at October 1, 2012	\$ 338	\$ 62,794	\$ 63,132
Net unrealized gains	—	1,660	1,660
Realized losses	(33)	—	(33)
Sales	(5)	—	(5)
Fair value at September 30, 2013	<u>\$ 300</u>	<u>\$ 64,454</u>	<u>\$ 64,754</u>

	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	<u>\$ 338</u>	<u>\$ —</u>	<u>\$ 62,794</u>	<u>\$ 63,132</u>

LIFESPAN CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2013 and 2012

(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:

	<u>2013</u>	<u>2012</u>
Other revenue:		
Investment income	\$ <u>3,437</u>	\$ <u>5,491</u>
Endowment earnings contributed toward community benefit:		
Interest and dividend income	\$ <u>15,417</u>	\$ <u>14,100</u>
Nonoperating gains and losses:		
Unrestricted income from board-designated investments	\$ 1,243	\$ 1,217
Net realized gains on board-designated investments	<u>12,608</u>	<u>24,387</u>
	\$ <u>13,851</u>	\$ <u>25,604</u>
Other changes in unrestricted net assets:		
Net change in unrealized gains on investments available for sale	\$ <u>1,419</u>	\$ <u>16,970</u>
Changes in temporarily restricted net assets:		
Income from restricted endowment and other restricted investments	\$ 2,721	\$ 3,086
Net realized and unrealized gains on investments	<u>22,094</u>	<u>39,177</u>
	<u>24,815</u>	\$ <u>42,263</u>
Changes in permanently restricted net assets:		
Net change in unrealized gains on investments held in perpetual trusts by others	\$ <u>1,434</u>	\$ <u>4,243</u>

LIFESPAN CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2013 and 2012

(In thousands)

Liquidity

Investments as of September 30, 2013 and 2012 are summarized below based on when they may be redeemed or sold:

	2013	2012
Investment redemption or sale period:		
Daily	\$ 621,544	\$ 653,900
Weekly	85,360	—
Monthly	222,955	232,020
Quarterly	124,381	110,978
One-to-five years	1,384	1,383
Locked-up until liquidation	76,253	74,634
Total	<u>\$ 1,131,877</u>	<u>\$ 1,072,915</u>

Locked-up until liquidation includes assets held in trust (note 8) and the trustee-held debt service reserve fund under the 2009A bond indenture agreement (note 14).

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, 2013 were \$13,534.

LIFESPAN CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2013 and 2012

(In thousands)

Investments With Unrealized Losses

Information regarding investments with unrealized losses at September 30, 2013 and 2012 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, 2013:						
Unrestricted board-designated and temporarily restricted funds:						
Collective investment funds \$	36,770	\$ 802	\$ 25,462	\$ 1,049	\$ 62,232	\$ 1,851
Total temporarily impaired securities \$	<u>36,770</u>	<u>\$ 802</u>	<u>\$ 25,462</u>	<u>\$ 1,049</u>	<u>\$ 62,232</u>	<u>\$ 1,851</u>
	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 \$	<u>—</u>	<u>\$ —</u>	<u>\$ 30,668</u>	<u>\$ 269</u>	<u>\$ 30,668</u>	<u>\$ 269</u>

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.

LIFESPAN CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2013 and 2012

(In thousands)

Endowments

Lifespan's endowment consists of approximately 478 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, 2013:

	Unrestricted board-designated	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	\$ —	\$ 327,638	\$ 155,476	\$ 483,114
Internally board-designated endowment funds	<u>541,825</u>	<u>—</u>	<u>—</u>	<u>541,825</u>
Total endowment funds	<u>\$ 541,825</u>	<u>\$ 327,638</u>	<u>\$ 155,476</u>	<u>\$ 1,024,939</u>

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	<u>557,664</u>	<u>—</u>	<u>—</u>	<u>557,664</u>
Total endowment funds	<u>\$ 557,664</u>	<u>\$ 317,437</u>	<u>\$ 148,161</u>	<u>\$ 1,023,262</u>

LIFESPAN CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2013 and 2012

(In thousands)

Endowments (continued)

Changes in endowment funds for the year ended September 30, 2013 are as follows:

	Unrestricted board-designated	Temporarily restricted	Permanently restricted	Total
Endowment funds, October 1, 2012	\$ 557,664	\$ 317,437	\$ 148,161	\$ 1,023,262
Interest and dividend income	14,555	2,721	—	17,276
Net realized and unrealized gains	12,541	22,094	1,434	36,069
Cash gifts, grants, and bequests	2,643	106,820	5,485	114,948
Net assets released from restrictions	—	(119,770)	—	(119,770)
Deposits	2,924	—	—	2,924
Withdrawals	(48,502)	—	—	(48,502)
Other (decreases) increases	—	(1,664)	396	(1,268)
Endowment funds, September 30, 2013	<u>\$ 541,825</u>	<u>\$ 327,638</u>	<u>\$ 155,476</u>	<u>\$ 1,024,939</u>

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	<u>\$ 557,664</u>	<u>\$ 317,437</u>	<u>\$ 148,161</u>	<u>\$ 1,023,262</u>

LIFESPAN CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2013 and 2012

(In thousands)

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.

LIFESPAN CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2013 and 2012

(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.

(8) 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, 2013 and 2012 was \$64,454 and \$62,794, respectively, and is reported as permanently restricted funds within assets limited as to use in the consolidated statements of financial position.

(9) Property and Equipment

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

	2013	2012
Land and improvements	\$ 36,370	\$ 32,299
Buildings and improvements	1,094,852	1,030,491
Equipment	558,767	551,694
	1,689,989	1,614,484
Less accumulated depreciation and amortization	926,619	881,148
	763,370	733,336
Construction in progress	69,617	36,915
Property and equipment, net	\$ 832,987	\$ 770,251

Depreciation and amortization expense for the years ended September 30, 2013 and 2012 amounted to \$60,395 and \$57,345, respectively.

LIFESPAN CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2013 and 2012

(In thousands)

The estimated cost of completion of Lifespan's multi-year information systems conversion project approximated \$71,910 at September 30, 2013, allocated to Lifespan's hospital affiliates as follows:

RIH	\$	44,512
TMH		16,827
EPBH		4,099
NH		6,472
Total	\$	<u>71,910</u>

The estimated cost of completion of construction in progress approximated \$11,700 at September 30, 2013, comprised principally of RIH (\$6,300) and TMH (\$5,100) projects. In addition, RIH and TMH have several building renovation projects pending contractual commitments with estimated costs of completion of approximately \$5,800 and \$5,300, respectively.

(10) Pension and Other Postretirement Benefits

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 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 Emma Pendleton 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

LIFESPAN CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2013 and 2012

(In thousands)

contributions to participant account balances included in Plan assets based on salary deferral elections of participants. No matching contributions were made in 2013, while matching contributions of \$6,201 were made in 2012.

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

The provisions of 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, 2013 and 2012 funded-status amounts for the Plan, Lifespan recorded an increase in unrestricted net assets of \$79,046 in 2013 and a decrease in unrestricted net assets of \$65,016 in 2012.

The estimated amounts that will be amortized from unrestricted net assets into net periodic pension cost in 2014 are as follows:

Net actuarial loss	\$	9,734
Prior service benefit		(541)
	\$	<u>9,193</u>

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

	<u>2013</u>	<u>2012</u>
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	\$ 638,739	\$ 537,664
Service cost	25,801	24,220
Interest cost	26,657	26,972
Actuarial (gain) loss	(66,235)	92,681
Benefits paid	(23,329)	(42,798)
Projected benefit obligation at end of year	\$ <u>601,633</u>	\$ <u>638,739</u>

LIFESPAN CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2013 and 2012

(In thousands)

The accumulated benefit obligation at the end of 2013 and 2012 was \$538,986 and \$561,362, respectively.

	<u>2013</u>	<u>2012</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	\$ 394,336	\$ 353,625
Actual return on plan assets	27,380	43,890
Employer contributions	30,619	39,619
Benefits paid	<u>(23,329)</u>	<u>(42,798)</u>
Fair value of plan assets at end of year	<u><u>\$ 429,006</u></u>	<u><u>\$ 394,336</u></u>

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

	<u>2013</u>	<u>2012</u>
Funded status, end of year:		
Fair value of plan assets	\$ 429,006	\$ 394,336
Projected benefit obligation	<u>601,633</u>	<u>638,739</u>
	<u><u>\$ (172,627)</u></u>	<u><u>\$ (244,403)</u></u>

Amounts recognized in the consolidated statements of financial position at September 30, 2013 and 2012 are as follows:

	<u>2013</u>	<u>2012</u>
Accrued pension liability	<u><u>\$ 172,627</u></u>	<u><u>\$ 244,403</u></u>
	<u>2013</u>	<u>2012</u>
Amounts not yet reflected in net periodic pension cost and included in unrestricted net assets:		
Prior service benefit	\$ 4,465	\$ 5,006
Accumulated net actuarial loss	<u>(133,360)</u>	<u>(212,947)</u>
Amounts not yet recognized as a component of net periodic pension cost	(128,895)	(207,941)
Accumulated net periodic pension cost in excess of employer contributions	<u>(43,732)</u>	<u>(36,462)</u>
Net amount recognized	<u><u>\$ (172,627)</u></u>	<u><u>\$ (244,403)</u></u>

LIFESPAN CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2013 and 2012

(In thousands)

	<u>2013</u>	<u>2012</u>
Sources of change in unrestricted net assets:		
Net gain (loss) arising during the year	\$ 64,043	\$ (75,393)
Amortizations:		
Net actuarial loss	15,544	10,918
Prior service benefit	<u>(541)</u>	<u>(541)</u>
Total unrestricted net asset gain (loss) recognized during the year	<u>\$ 79,046</u>	<u>\$ (65,016)</u>

Net Periodic Pension Cost

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

	<u>2013</u>	<u>2012</u>
Service cost	\$ 25,801	\$ 24,220
Interest cost	26,657	26,972
Expected return on plan assets	(29,571)	(26,585)
Amortization of net actuarial loss	15,544	10,918
Amortization of prior service benefit	<u>(541)</u>	<u>(541)</u>
Net periodic pension cost	<u>\$ 37,890</u>	<u>\$ 34,984</u>

Lifespan modified its discretionary matching contribution to participant account balances, reducing net periodic pension cost by \$2,349 and \$3,350 in 2013 and 2012, respectively.

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

	<u>2013</u>	<u>2012</u>
Discount rate for benefit obligations	4.88%	3.66%
Discount rate for net periodic pension cost	3.66%	4.70%
Rate of compensation increase	4.50%	4.50%
Expected long-term rate of return on Plan assets	7.75%	7.75%

LIFESPAN CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2013 and 2012

(In thousands)

The asset allocation for the Plan at September 30, 2013 and 2012, and the target allocation for 2014, by asset category, are as follows:

Asset category	Target allocation 2014	Percentage of plan assets September 30	
		2013	2012
U.S. equities	15-35%	15.7%	13.5%
Marketable alternatives	0-25%	14.5	13.6
International equities	10-35%	16.5	14.6
Venture capital	0-10%	0.8	1.1
Commodities	0-20%	6.2	7.5
Real estate	0-15%	2.0	2.3
Fixed income	10-50%	39.3	42.1
Cash and cash equivalents	0-10%	5.0	5.3
Total		100.0%	100.0%

The asset allocation table above does not include \$102,832 and \$93,409 of Plan assets at September 30, 2013 and 2012, 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. This estimate is 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

September 30, 2013 and 2012

(In thousands)

Fair Value

The following tables summarize the Plan's investments by major category within the ASC 820-10 fair value hierarchy as of September 30, 2013 and 2012, as well as related strategy and liquidity/notice requirements:

	2013				Redemption or liquidation	Days' notice
	Level 1	Level 2	Level 3	Total		
U.S. equities:						
Large cap value	\$ 17,349	\$ —	\$ —	\$ 17,349	Daily	One
Mid-cap value	17,239	—	—	17,239	Daily	Three
Large cap growth	16,381	—	—	16,381	Daily	One
Marketable alternatives:						
Multiple strategies	—	36,527	—	36,527	Qtrly-Annually	Ninety-Ninety-five
Absolute return strategies	—	10,844	—	10,844	Monthly	Five
International equities:						
Developed markets	—	39,060	—	39,060	Monthly	Five - Seven
Emerging markets	—	14,942	—	14,942	Daily	One
Venture capital	—	—	5,786	5,786	Illiquid	N/A
Commodities:						
Energy	10,653	—	—	10,653	Daily	One
Various	—	6,953	—	6,953	Daily	One
Real estate	4,925	—	—	4,925	Daily	Three
Fixed income:						
U.S. Treasuries	10,119	—	—	10,119	Daily	One
U.S. Treasury inflation-protected	—	14,347	—	14,347	Daily	Two
U.S. Government and agency	—	9,813	—	9,813	Daily	One
Domestic bonds	—	44,556	—	44,556	Daily	One
Global bonds	21,152	28,218	—	49,370	Daily - Monthly	One - Fifteen
Cash and cash equivalents	17,310	—	—	17,310	Daily	One
Fidelity mutual funds	102,832	—	—	102,832	Daily	One
Total	\$ 217,960	\$ 205,260	\$ 5,786	\$ 429,006		

LIFESPAN CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2013 and 2012

(In thousands)

	2012				Redemption or liquidation	Days' notice
	Level 1	Level 2	Level 3	Total		
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	Qtrly-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	Daily	One
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	Fifteen
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		

There were no transfers between Level 1 and Level 2 fair value measurements during the years ended September 30, 2013 and 2012.

The following tables set forth a summary of changes in the fair value of the Plan's Level 3 investments for the years ended September 30, 2013 and 2012:

	Venture capital
Fair value at October 1, 2012	\$ 7,889
Unrealized losses, net	(1,580)
Purchases	14
Sales/redemptions	(2,299)
Realized gains, net	1,762
Fair value at September 30, 2013	\$ 5,786

LIFESPAN CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2013 and 2012

(In thousands)

	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/redemptions	(2,793)	—	(2,793)
Realized gains, net	1,816	—	1,816
Fair value at September 30, 2012	<u>\$ 7,889</u>	<u>\$ —</u>	<u>\$ 7,889</u>

Expected Cash Flows

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

Employer contributions:	
2014 (required)	\$ 34,747
Expected benefit payments:	
2014	32,058
2015	27,904
2016	27,278
2017	31,411
2018	33,397
2019 through 2023	193,472

Management evaluates its Plan assumptions annually and the expected employer contributions in 2014 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, 2013 and 2012 funded-status amounts for the postretirement benefit plan, Lifespan recorded increases in unrestricted net

LIFESPAN CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2013 and 2012

(In thousands)

assets of \$6,802 in 2013 and \$779 in 2012, respectively. Approximately \$159 of prior service benefit will be amortized from unrestricted net assets into net periodic postretirement benefit cost in 2014.

Benefit Obligations

	<u>2013</u>	<u>2012</u>
Change in accumulated postretirement benefit obligation:		
Accumulated postretirement benefit obligation at beginning of year	\$ 25,069	\$ 25,858
Service cost	424	467
Interest cost	885	1,164
Benefits paid	(1,410)	(1,847)
Actuarial gain	(6,692)	(573)
Accumulated postretirement benefit obligation at end of year	\$ <u>18,276</u>	\$ <u>25,069</u>

Funded Status

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

	<u>2013</u>	<u>2012</u>
Benefit obligations	\$ <u>18,276</u>	\$ <u>25,069</u>
Funded status	\$ <u>(18,276)</u>	\$ <u>(25,069)</u>
Accrued postretirement benefit cost recognized in the consolidated statements of financial position	\$ <u>18,276</u>	\$ <u>25,069</u>

Amounts recognized in the consolidated statements of financial position at September 30, 2013 and 2012 consist of:

	<u>2013</u>	<u>2012</u>
Accrued postretirement benefit cost:		
Current (included in accrued employee benefits and compensation)	\$ 1,393	\$ 1,770
Noncurrent (included in other liabilities)	16,883	23,299
Total accrued postretirement benefit cost	\$ <u>18,276</u>	\$ <u>25,069</u>

LIFESPAN CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2013 and 2012

(In thousands)

	<u>2013</u>	<u>2012</u>
Amounts not yet reflected in net periodic postretirement benefit cost and included in unrestricted net assets:		
Prior service benefit	\$ 159	\$ 364
Accumulated net actuarial gain (loss)	<u>1,715</u>	<u>(5,282)</u>
Amounts not yet recognized as a component of net periodic postretirement benefit cost	1,874	(4,918)
Accumulated net periodic postretirement benefit cost	<u>(20,150)</u>	<u>(20,151)</u>
Net amount recognized	<u><u>\$ (18,276)</u></u>	<u><u>\$ (25,069)</u></u>
	<u>2013</u>	<u>2012</u>
Sources of change in unrestricted net assets:		
Net gain arising during the year	\$ 6,692	\$ 573
Amortizations:		
Net actuarial loss	314	410
Prior service benefit	<u>(204)</u>	<u>(204)</u>
Total unrestricted net asset gain recognized during the year	<u><u>\$ 6,802</u></u>	<u><u>\$ 779</u></u>

Net Periodic Postretirement Benefit Cost

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

	<u>2013</u>	<u>2012</u>
Service cost	\$ 424	\$ 467
Interest cost	885	1,164
Amortization of net actuarial loss	314	410
Amortization of prior service benefit	<u>(204)</u>	<u>(204)</u>
Net periodic postretirement benefit cost	<u><u>\$ 1,419</u></u>	<u><u>\$ 1,837</u></u>

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

	<u>2013</u>	<u>2012</u>
Discount rate for benefit obligations	4.88%	3.66%
Discount rate for net periodic postretirement benefit cost	3.66%	4.70%

LIFESPAN CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2013 and 2012

(In thousands)

Assumed Health Care Cost Trend Rates at September 30:

	<u>2013</u>	<u>2012</u>
Health care cost trend rate assumed for next year	7.66%	7.89%
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, 2013:

	<u>One-Percentage- Point Increase</u>	<u>One-Percentage- Point Decrease</u>
Effect on total of service cost and interest cost	\$ 97	\$ (88)
Effect on accumulated postretirement benefit obligation	1,038	(953)

Expected Cash Flows

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

Expected benefit payments:	
2014	\$ 1,393
2015	1,498
2016	1,584
2017	1,688
2018	1,871
2019 through 2023	8,923

Supplemental Executive Retirement Plan

Lifespan Corp. maintains a nonqualified supplemental executive retirement plan for executive management.

LIFESPAN CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2013 and 2012

(In thousands)

(11) 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 587 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, 2013 and 2012 have been discounted at 4%. Had Lifespan provided for losses at undiscounted levels, estimated self-insurance liabilities would have been increased by approximately \$7,689 and \$6,500 at September 30, 2013 and 2012, respectively.

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, 2013 and 2012 have been discounted at 4%. Had such losses been provided for at undiscounted levels, estimated self-insurance liabilities would have been increased by approximately \$700 and \$568 at September 30, 2013 and 2012, respectively. Lifespan has a standby letter of credit at September 30, 2013 in the amount of \$6,500 supporting the estimated unpaid liability.

LIFESPAN CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2013 and 2012

(In thousands)

(12) 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:

	2013	2012
Medicare and Senior Care	41%	40%
Blue Cross	18	18
Medicaid and RIte Care	15	16
Managed care	11	12
Commercial, self-pay, and other	15	14
	<u>100%</u>	<u>100%</u>

Lifespan grants credit to patients, most of whom are local residents. Lifespan generally does not require collateral or other security in extending credit to patients; however, it routinely obtains assignment of (or is otherwise entitled to receive) patients' benefits payable under their health insurance programs, plans or policies (e.g., Medicare, Medicaid, Blue Cross, managed care, or 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 2013 Medicare cost reports have not been filed and, therefore, are not 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.

In addition, the following cost reports have not been settled:

	RIH	TMH	Bradley	NH
Medicare 2012	X	X	N/A	X
Medicare 2011	X	X	N/A	X
Medicare 2010	X	X	N/A	X
Medicare 2009	X	X	N/A	
Medicare 2008	X	X	N/A	X
Medicare 2007	X	X	N/A	X

LIFESPAN CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2013 and 2012

(In thousands)

Regulations in effect require annual settlements based upon cost reports filed by the Lifespan hospitals. These settlements are estimated and recorded in the accompanying consolidated financial statements. Changes in these estimates are reflected in the consolidated financial statements in the year in which they occur. Net patient service revenue in the accompanying consolidated statements of operations and changes in net assets was increased by \$6,491 and \$9,274 in 2013 and 2012, respectively, to reflect changes in the estimated settlements for certain prior years.

Revenues from Medicare and Medicaid programs accounted for approximately 41% and 15%, respectively, of Lifespan's gross patient service revenue for the year ended September 30, 2013. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Lifespan believes that it is 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.

(13) 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, VNA Technicare, Inc., and Gateway Professional Group, Inc. are taxable corporations.

Lifespan recognizes the effect of income tax positions only if those positions are more likely than not to be 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 2013 or 2012.

LIFESPAN CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2013 and 2012

(In thousands)

(14) Long-Term Debt

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

	<u>2013</u>	<u>2012</u>
Hospital Financing Revenue fixed rate serial and term bonds due May 15, 2014 through 2032 in annual amounts ranging from \$9,725 to \$15,020 at rates ranging from 4% to 5% (2006A Series – Lifespan Obligated Group)	\$ 159,830	\$ 169,085
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, 2014 through 2026 in annual amounts ranging from \$770 to \$14,705 at rates ranging from 5.25% to 5.75% (1996 Series – Lifespan Obligated Group)	51,885	52,615
Master lease and loan and security agreement due December 14, 2013 through 2020 in semiannual amounts ranging from \$3,383 to \$3,766 at 1.66% (the 2013 Financing)	50,000	—
Hospital Financing Revenue fixed rate serial and term bonds due July 1, 2014 through 2029 in annual amounts ranging from \$835 to \$1,890 at rates ranging from 5.1% to 5.3% (1999 Series – NH)	21,150	21,985
Other (Gateway Healthcare, Inc.)	5,609	—
Unamortized premium – 2006A Series	4,415	5,013
Unamortized premium – 2009A Series	170	178
	<u>408,044</u>	<u>363,861</u>
Less current portion	<u>18,428</u>	<u>10,820</u>
Long-term debt, net of current portion	<u>\$ 389,616</u>	<u>\$ 353,041</u>

The estimated fair value of Lifespan's long-term debt at September 30, 2013 and 2012 approximates \$415,000 and \$385,000, respectively, and is estimated using discounted cash flow analyses, based on Lifespan's current incremental borrowing rates for similar types of borrowing arrangements. The fair value of long-term debt is based on significant observable inputs and is categorized as Level 2 for purposes of valuation disclosure.

On June 14, 2013, RIH, TMH, and Bradley entered into a tax-exempt \$50,000 master lease and loan and security agreement (the 2013 Financing) with a seven-year term, to partially fund the capital costs associated with Lifespan's multi-year information systems conversion project. The 2013 Financing is

LIFESPAN CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2013 and 2012

(In thousands)

secured by a first priority lien and security interest on the equipment (excluding intellectual property), goods, and other property financed with the proceeds of the 2013 Financing, as well as the unspent balance of the master lease obligation escrow fund (the Escrow Fund). RIH, TMH, and Bradley are jointly and severally liable for repayment of the 2013 Financing. NHCC indirectly participated in the 2013 Financing via an intercompany payable of \$4,500 to RIH in exchange for an equivalent interest in the Escrow Fund.

On July 8, 2008, the Board of Directors of Lifespan Corp., 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 (OG). The Bradley Board of Trustees, as well as the Boards of RIH and TMH, also authorized related resolutions.

On March 30, 2009, the Rhode Island Health and Educational Building Corporation (RIHEBC) issued, on behalf of the OG, 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 (OG – 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 OG, 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 OG 1996 Bonds and 2002 Bonds, respectively. On September 12, 2006, the Board of Directors of Lifespan Corp., acting as the sole corporate member of both The Miriam Hospital Foundation and Rhode Island Hospital Foundation (the Foundations), adopted resolutions authorizing the Foundations to become members of the OG. The Boards of Trustees of each of the Foundations, as well as the then existing members of the OG, 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 (OG – 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.

LIFESPAN CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2013 and 2012

(In thousands)

On December 1, 1996, RIHEBC issued, on behalf of the OG, \$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 (OG – RIH, TMH, Bradley, and the Foundations) are secured by a pledge of the gross receipts of RIH and TMH. The Obligated Group Hospitals and the Foundations are jointly and severally liable for repayment of the 1996 Bonds. Payment of the principal and interest on the 1996 Bonds when due is guaranteed by a financial guaranty insurance policy issued by National Public Finance Guarantee Corp.

Under the terms of the 2009A, 2006A 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, 2013, management believes the Obligated Group Hospitals were in compliance with all covenants of the 2009A and 1996 Bonds. As previously noted, the 2006A Bonds are insured by Assured Guaranty Corp. and the insurance policy requires the Obligated Group Hospitals to maintain a Debt Service Coverage Ratio (DSCR) of 2.0x or higher. The DSCR is 1.69x for the year ended September 30, 2013. Since this insurance covenant was not met, the Debt Service Reserve Fund (DSRF) associated with the Obligated Group Hospitals' 2006A Bonds will need to be funded in the approximate amount of \$14,900. In connection therewith, the OG has established a standby letter of credit which will provide for the availability of the DSRF requirement.

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, 2013, 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 2018 are as follows: 2014, \$18,428; 2015, \$19,128; 2016, \$19,845; 2017, \$20,581; and 2018, \$21,383.

Agreements underlying the various Hospital Financing Revenue Bonds and the 2013 Financing require that RIH, TMH, Bradley, and NH maintain certain 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.

LIFESPAN CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2013 and 2012

(In thousands)

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.

Master Lease Obligation Escrow Fund – unspent balance of the 2013 Financing.

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

	2013	2012
RIH, TMH, and Bradley:		
Project Fund – 2009A Series	\$ 13,399	\$ 16,510
Bond Fund – 1996 Series	886	885
Debt Service Reserve Fund – 2009A Series	11,499	11,504
Master Lease Obligation Escrow Fund – 2013 Financing	37,182	—
	<u>62,966</u>	<u>28,899</u>
Newport Hospital:		
Master Lease Obligation Escrow Fund – 2013 Financing	3,677	—
Bond Fund – 1999 Series	498	498
	<u>4,175</u>	<u>498</u>
Total	<u>\$ 67,141</u>	<u>\$ 29,397</u>

(15) Temporarily and Permanently Restricted Net Assets

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

	2013	2012
General health care service activities	\$ 275,756	\$ 268,826
Research	61,519	58,729
Total	<u>\$ 337,275</u>	<u>\$ 327,555</u>

Permanently restricted net assets at September 30 are restricted to:

	2013	2012
General health care service activities	\$ 151,973	\$ 144,697
Research	4,461	4,461
Total	<u>\$ 156,434</u>	<u>\$ 149,158</u>

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

LIFESPAN CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2013 and 2012

(In thousands)

(16) 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, 2013:

	<u>Amount</u>
Year ending September 30:	
2014	\$ 21,807
2015	15,727
2016	13,395
2017	10,831
2018	8,472
Thereafter	<u>14,971</u>
Total minimum lease payments	<u>\$ 85,203</u>

Rental expense, including rentals under leases with terms of less than one year, for the years ended September 30, 2013 and 2012 was \$20,022 and \$16,704, respectively.

(17) 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. Lifespan has not historically incurred any significant concentrated credit losses in the normal course of business.

(18) Malpractice and Other Litigation

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

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

LIFESPAN CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2013 and 2012

(In thousands)

(19) 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, 2013 and 2012 are \$3,739 and \$3,430, respectively.

(20) License Fees

In 2013 and 2012, the State of Rhode Island has assessed a license fee to all Rhode Island hospitals, based on each hospital's 2011 and 2010 net patient service revenue, respectively, as defined. The Hospitals' license fee expense was \$70,701 in 2013 and \$69,058 in 2012.

(21) Functional Expenses

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

	<u>2013</u>	<u>2012</u>
Health care services	\$ 1,395,314	\$ 1,295,284
Research	99,202	96,805
General and administrative:		
Depreciation and amortization	60,395	57,345
Interest	19,782	19,992
Other	150,298	157,291
	<u>230,475</u>	<u>234,628</u>
Total general and administrative	\$ <u>1,724,991</u>	\$ <u>1,626,717</u>

LIFESPAN CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2013 and 2012

(In thousands)

(22) Promises to Give

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

	2013	2012
Capital campaigns	\$ 3,575	\$ 4,284
Other restricted	3,172	3,927
Unconditional promises to give before unamortized discount and allowance for collectibles	6,747	8,211
Less: unamortized discount at rates ranging from 0.6% to 3.8%	(285)	(514)
Subtotal	6,462	7,697
Less: allowance for uncollectibles	(432)	(784)
Net unconditional promises to give	\$ 6,030	\$ 6,913
Amounts due in:		
Less than one year	\$ 3,337	\$ 3,075
One to five years	3,357	4,319
More than five years	53	817
Total	\$ 6,747	\$ 8,211



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

Independent Auditors' Report on Supplementary Information

The Board of Directors
Lifespan Corporation:

We have audited the consolidated financial statements of Lifespan Corporation and Affiliates as of and for the years ended September 30, 2013 and 2012, and have issued our report thereon dated February 12, 2014 which contained an unmodified opinion on those consolidated financial statements. Our audit was performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating financial information is presented for purposes of additional analysis 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 information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

KPMG LLP

Providence, Rhode Island
February 12, 2014

LIFESPAN CORPORATION AND AFFILIATES
Supplementary Consolidating Statement of Financial Position
September 30, 2013
(In thousands)

Assets	Lifespan Obligated Group							Lifespan Corporation *	Newport Health Care Corporation	Gateway Healthcare, Inc.	Lifespan Physician Group, Inc.	Lifespan Diversified Services, Inc.	Lifespan Foundations **	Lifespan MSO, Inc.	Hospital Properties, Inc.	Total	Eliminations	Consolidated total
	Rhode Island Hospital	The Miriam Hospital	Emma Pendleton Bradley Hospital	RIH Foundation	TMH Foundation	Eliminations	Subtotal											
Current assets:																		
Cash and cash equivalents	\$ 18,664	\$ 14,009	\$ 2,764	\$ 9	\$ 12		\$ 35,458	\$ 2,636	\$ 5,539	\$ 1,597	\$ 212	\$ 2	\$ 14	\$ 1,514		\$ 46,972		\$ 46,972
Patient accounts receivable	203,390	64,179	11,744	-	-		279,313	-	18,847	10,430	4,427	1,339	-	-		314,356		314,356
Less allowance for doubtful accounts	(54,084)	(17,943)	(657)	-	-		(72,684)	-	(4,667)	(2,000)	(1,336)	(847)	-	-		(81,534)		(81,534)
Net patient accounts receivable	149,306	46,236	11,087	-	-		206,629	-	14,180	8,430	3,091	492	-	-		232,822		232,822
Other receivables	10,288	2,431	909	-	-	\$ (303)	13,325	4,512	412	-	-	-	-	-	\$ 854	19,103	\$ (5,052)	14,051
Current portion of contributions receivable, net	-	-	-	1,675	1,334	-	3,009	-	184	-	-	-	107	-	-	3,300	-	3,300
Total receivables	159,594	48,667	11,996	1,675	1,334	(303)	222,963	4,512	14,776	8,430	3,091	492	107	-	854	255,225	(5,052)	250,173
Assets limited as to use	731	155	-	-	-	-	886	17,976	498	-	-	-	-	-	-	19,360	-	19,360
Inventories	16,019	4,851	154	-	-	-	21,024	-	1,371	-	-	214	-	-	-	22,609	-	22,609
Prepaid expenses and other current assets	2,400	362	73	-	-	-	2,835	7,844	533	170	28	-	-	89	63	11,562	-	11,562
Total current assets	197,408	68,044	14,987	1,684	1,346	(303)	283,166	32,968	22,717	10,197	3,331	708	121	1,603	917	355,728	(5,052)	350,676
Assets limited as to use	530,064	135,358	74,610	51,352	55,494	-	846,878	155,925	238,800	736	-	-	5,666	-	-	1,248,005	-	1,248,005
Less amount required to meet current obligations	(731)	(155)	-	-	-	-	(886)	(17,976)	(498)	-	-	-	-	-	-	(19,360)	-	(19,360)
Noncurrent assets limited as to use	529,333	135,203	74,610	51,352	55,494	-	845,992	137,949	238,302	736	-	-	5,666	-	-	1,228,645	-	1,228,645
Property and equipment, net	526,921	174,929	39,316	-	-	-	741,166	-	64,579	25,419	1,049	-	-	406	368	832,987		832,987
Other assets:																		
Interest in net assets of related Foundation	53,429	59,424	338	-	-	(113,191)	-	-	-	-	-	-	-	-	-	-	-	-
Contributions receivable, net	-	-	-	581	2,063	-	2,644	-	69	-	-	-	17	-	-	2,730	-	2,730
Deferred charges and financing costs, net	5,425	1,381	635	-	-	-	7,441	-	217	-	-	-	-	-	-	7,658	-	7,658
Other noncurrent assets	5,348	318	78	310	1,247	-	7,301	15,667	1,677	2,323	-	-	114	12	-	27,094	(10,225)	16,869
Total other assets	64,202	61,123	1,051	891	3,310	(113,191)	17,386	15,667	1,963	2,323	-	-	131	12	-	37,482	(10,225)	27,257
Total assets	\$ 1,317,864	\$ 439,299	\$ 129,964	\$ 53,927	\$ 60,150	\$ (113,494)	\$ 1,887,710	\$ 186,584	\$ 327,561	\$ 38,675	\$ 4,380	\$ 708	\$ 5,918	\$ 2,021	\$ 1,285	\$ 2,454,842	\$ (15,277)	\$ 2,439,565

LIFESPAN CORPORATION AND AFFILIATES
Supplementary Consolidating Statement of Financial Position
September 30, 2013
(In thousands)

	Lifespan Obligated Group								Newport Health Care Corporation		Lifespan Physician Group, Inc.	Lifespan Diversified Services, Inc.	Lifespan Foundations **	Lifespan MSO, Inc.	Hospital Properties, Inc.			
Liabilities and Net Assets (Deficit)	Rhode Island Hospital	The Miriam Hospital	Emma Pendleton Bradley Hospital	RH Foundation	TMH Foundation	Eliminations	Subtotal	Lifespan Corporation *		Gateway Healthcare, Inc.						Total	Eliminations	Consolidated total
Current liabilities:																		
Accounts payable	\$ 48,331	\$ 18,524	\$ 1,174	\$ 156	\$ 103	-	\$ 68,288	\$ 11,026	\$ 2,223	\$ 3,001	\$ 185	\$ 111	\$ 476	\$ 103	-	\$ 85,413	-	\$ 85,413
Accrued employee benefits and compensation	26,906	13,488	4,648	-	-	-	45,042	11,142	6,044	2,483	1,241	71	-	137	-	66,160	-	66,160
Other accrued expenses	32,233	4,594	1,226	341	279	(303)	38,370	1,602	1,501	3,107	1,159	-	1,350	546	\$ 917	48,552	\$ (6,388)	42,164
Current portion of long-term debt	13,212	3,689	387	-	-	-	17,288	-	875	265	-	-	-	-	-	18,428	-	18,428
Current portion of estimated third-party payor settlements	11,118	1,598	247	-	-	-	12,963	-	396	-	-	-	-	-	-	13,359	-	13,359
Current portion of estimated malpractice and other self-insurance costs	3,221	4,061	1,081	-	-	-	8,363	19,753	204	1,176	701	1	-	97	-	30,295	-	30,295
Total current liabilities	135,021	45,954	8,763	497	382	(303)	190,314	43,523	11,243	10,032	3,286	183	1,826	883	917	262,207	(6,388)	255,819
Long-term debt, net of current portion	268,658	69,845	25,494	-	-	-	363,997	-	20,275	5,344	-	-	-	-	-	389,616	-	389,616
Estimated third-party payor settlements, net of current portion	30,973	5,065	592	-	-	-	36,630	-	1,943	-	-	-	-	-	-	38,573	-	38,573
Estimated malpractice self-insurance costs, net of current portion	-	-	-	-	-	-	-	80,615	-	-	1,094	-	-	-	-	81,709	-	81,709
Accrued pension liability	118,163	24,714	7,971	-	-	-	150,848	15,899	5,497	-	-	121	-	262	-	172,627	-	172,627
Other liabilities	19,240	332	91	1	344	-	20,008	11,249	4,519	350	-	5,000	-	-	-	41,126	(8,889)	32,237
Total liabilities	572,055	145,910	42,911	498	726	(303)	761,797	151,286	43,477	15,726	4,380	5,304	1,826	1,145	917	985,858	(15,277)	970,581
Net assets (deficit):																		
Unrestricted	428,610	248,255	30,421	6,476	32,947	(39,618)	707,091	35,298	215,350	22,027	-	(4,596)	(1,139)	876	368	975,275	-	975,275
Temporarily restricted	242,517	27,475	6,426	11,937	8,818	(20,898)	276,275	-	57,922	869	-	-	2,209	-	-	337,275	-	337,275
Permanently restricted	74,682	17,659	50,206	35,016	17,659	(52,675)	142,547	-	10,812	53	-	-	3,022	-	-	156,434	-	156,434
Total net assets (deficit)	745,809	293,389	87,053	53,429	59,424	(113,191)	1,125,913	35,298	284,084	22,949	-	(4,596)	4,092	876	368	1,468,984	-	1,468,984
Total liabilities and net assets	\$ 1,317,864	\$ 439,299	\$ 129,964	\$ 53,927	\$ 60,150	\$ (113,494)	\$ 1,887,710	\$ 186,584	\$ 327,561	\$ 38,675	\$ 4,380	\$ 708	\$ 5,918	\$ 2,021	\$ 1,285	\$ 2,454,842	\$ (15,277)	\$ 2,439,565

* Includes Lifespan Corporation, R.I. Sound Enterprises Insurance Co. Ltd. and Lifespan Risk Services, Inc.

** Includes Bradley Hospital Foundation and Lifespan Foundation.

See accompanying independent auditors' report on supplementary information.

LIFESPAN CORPORATION AND AFFILIATES
Supplementary Consolidating Statement of Financial Position
September 30, 2012
(In thousands)

Assets	Lifespan Obligated Group							Lifespan Corporation *	Newport Health Care Corporation	Lifespan Physician Group, Inc.	Lifespan Diversified Services, Inc.	Lifespan Foundations **	Lifespan MSO, Inc.	Hospital Properties, Inc.	Total	Eliminations	Consolidated total
	Rhode Island Hospital	The Miriam Hospital	Emma Pendleton Bradley Hospital	RIH Foundation	TMH Foundation	Eliminations	Subtotal										
Current assets:																	
Cash and cash equivalents	\$ 8,025	\$ 14,068	\$ 4,763	\$ 9	\$ 10		\$ 26,875	\$ 9,573	\$ 4,637	\$ 29	\$ 1	\$ 19	\$ 1,511		\$ 42,645		\$ 42,645
Patient accounts receivable	184,653	56,185	10,448	-	-		251,286	-	18,755	1,178	1,526	-	-		272,745		272,745
Less allowance for doubtful accounts	(46,616)	(14,745)	(850)	-	-		(62,211)	-	(4,030)	(86)	(975)	-	-		(67,302)		(67,302)
Net patient accounts receivable	138,037	41,440	9,598	-	-		189,075	-	14,725	1,092	551	-	-		205,443		205,443
Other receivables	22,336	4,563	871	-	-	\$ (782)	26,988	2,241	728	-	-	-	-		29,957	\$ (6,658)	23,299
Current portion of contributions receivable, net	-	-	-	1,505	1,103		2,608	-	272	-	-	162	-		3,042	-	3,042
Total receivables	160,373	46,003	10,469	1,505	1,103	(782)	218,671	2,241	15,725	1,092	551	162	-		238,442	(6,658)	231,784
Assets limited as to use	730	155	-	-	-	-	885	20,400	498	-	-	-	-		21,783	-	21,783
Inventories	13,479	5,969	130	-	-	-	19,578	-	1,654	-	259	-	-		21,491	-	21,491
Prepaid expenses and other current assets	2,356	379	27	-	-	-	2,762	5,494	481	-	-	-	-	80	\$ 69	8,886	8,886
Total current assets	184,963	66,574	15,389	1,514	1,113	(782)	268,771	37,708	22,995	1,121	811	181	1,591	69	333,247	(6,658)	326,589
Assets limited as to use	525,468	119,989	68,240	50,676	50,148	-	814,521	145,788	231,830	-	-	6,308	-	-	1,198,447	-	1,198,447
Less amount required to meet current obligations	(730)	(155)	-	-	-	-	(885)	(20,400)	(498)	-	-	-	-	-	(21,783)	-	(21,783)
Noncurrent assets limited as to use	524,738	119,834	68,240	50,676	50,148	-	813,636	125,388	231,332	-	-	6,308	-	-	1,176,664	-	1,176,664
Property and equipment, net	504,929	158,860	38,874	-	-	-	702,663	-	66,710	-	1	-	395	482	770,251	-	770,251
Other assets:																	
Interest in net assets of related Foundation	53,892	53,385	453	-	-	(107,730)	-	-	-	-	-	-	-	-	-	-	-
Contributions receivable, net	-	-	-	1,091	2,572	-	3,663	-	154	-	-	54	-	-	3,871	-	3,871
Deferred charges and financing costs, net	5,833	1,470	654	-	-	-	7,957	-	216	-	-	-	-	-	8,173	-	8,173
Other noncurrent assets	173	483	78	924	422	-	2,080	14,430	671	-	-	117	20	-	17,318	(5,464)	11,854
Total other assets	59,898	55,338	1,185	2,015	2,994	(107,730)	13,700	14,430	1,041	-	-	171	20	-	29,362	(5,464)	23,898
Total assets	\$ 1,274,528	\$ 400,606	\$ 123,688	\$ 54,205	\$ 54,255	\$ (108,512)	\$ 1,798,770	\$ 177,526	\$ 322,078	\$ 1,121	\$ 812	\$ 6,660	\$ 2,006	\$ 551	\$ 2,309,524	\$ (12,122)	\$ 2,297,402

LIFESPAN CORPORATION AND AFFILIATES
Supplementary Consolidating Statement of Financial Position
September 30, 2012
(In thousands)

Liabilities and Net Assets (Deficit)	Lifespan Obligated Group							Lifespan Corporation *	Newport Health Care Corporation	Lifespan Physician Group, Inc.	Lifespan Diversified Services, Inc.	Lifespan Foundations **	Lifespan MSO, Inc.	Hospital Properties, Inc.	Total	Eliminations	Consolidated total
	Rhode Island Hospital	The Miriam Hospital	Emma Pendleton Bradley Hospital	RIH Foundation	TMH Foundation	Eliminations	Subtotal										
Current liabilities:																	
Accounts payable	\$ 38,867	\$ 15,332	\$ 979	\$ 136	\$ 160		\$ 55,474	\$ 10,148	\$ 2,757	\$	\$ 86	\$ 389	\$ 120	\$	\$ 68,974		\$ 68,974
Accrued employee benefits and compensation	25,298	11,358	3,465	-	-		40,121	13,003	5,001	20	34	-	118	-	58,297		58,297
Other accrued expenses	24,708	3,437	1,230	174	196	\$ (782)	28,963	5,714	529	1,101	-	1,343	673	\$ 69	38,392	\$ (7,990)	30,402
Current portion of long-term debt	7,988	1,997	-	-	-	-	9,985	-	835	-	-	-	-	-	10,820	-	10,820
Current portion of estimated third-party payor settlements	9,649	183	162	-	-	-	9,994	-	684	-	-	-	-	-	10,678	-	10,678
Current portion of estimated malpractice and other self-insurance costs	3,694	2,867	695	-	-	-	7,256	21,764	236	-	2	-	90	-	29,348	-	29,348
Total current liabilities	110,204	35,174	6,531	310	356	(782)	151,793	50,629	10,042	1,121	122	1,732	1,001	69	216,509	(7,990)	208,519
Long-term debt, net of current portion	246,902	61,956	23,033	-	-	-	331,891	-	21,150	-	-	-	-	-	353,041	-	353,041
Estimated third-party payor settlements, net of current portion	30,273	6,731	1,122	-	-	-	38,126	-	1,110	-	-	-	-	-	39,236	-	39,236
Estimated malpractice self-insurance costs, net of current portion	-	-	-	-	-	-	-	74,061	-	-	-	-	-	-	74,061	-	74,061
Accrued pension liability	164,351	33,697	11,143	-	-	-	209,191	21,714	12,979	-	179	-	340	-	244,403	-	244,403
Other liabilities	26,237	668	126	3	514	-	27,548	11,154	953	-	4,132	11	-	-	43,798	(4,132)	39,666
Total liabilities	577,967	138,226	41,955	313	870	(782)	758,549	157,558	46,234	1,121	4,433	1,743	1,341	69	971,048	(12,122)	958,926
Net assets (deficit):																	
Unrestricted	384,697	223,651	27,736	6,841	32,678	(39,716)	635,887	19,968	209,517	-	(3,621)	(1,135)	665	482	861,763	-	861,763
Temporarily restricted	238,461	25,772	4,948	12,851	7,750	(20,857)	268,925	-	55,598	-	-	3,032	-	-	327,555	-	327,555
Permanently restricted	73,403	12,957	49,049	34,200	12,957	(47,157)	135,409	-	10,729	-	-	3,020	-	-	149,158	-	149,158
Total net assets (deficit)	696,561	262,380	81,733	53,892	53,385	(107,730)	1,040,221	19,968	275,844	-	(3,621)	4,917	665	482	1,338,476	-	1,338,476
Total liabilities and net assets	\$ 1,274,528	\$ 400,606	\$ 123,688	\$ 54,205	\$ 54,255	\$ (108,512)	\$ 1,798,770	\$ 177,526	\$ 322,078	\$ 1,121	\$ 812	\$ 6,660	\$ 2,006	\$ 551	\$ 2,309,524	\$ (12,122)	\$ 2,297,402

* Includes Lifespan Corporation, R.I. Sound Enterprises Insurance Co. Ltd. and Lifespan Risk Services, Inc.
** Includes Bradley Hospital Foundation and Lifespan Foundation.

See accompanying independent auditors' report on supplementary information.

LIFESPAN CORPORATION AND AFFILIATES
Supplementary Consolidating Statement of Operations and Changes in Net Assets
Year ended September 30, 2013
(In thousands)

	Lifespan Obligated Group																	
	Rhode Island Hospital	The Miriam Hospital	Emma Pendleton Bradley Hospital	RIH Foundation	TMH Foundation	Eliminations	Subtotal	Lifespan Corporation*	Newport Health Care Corporation	Gateway Healthcare, Inc.	Lifespan Physician Group, Inc.	Lifespan Diversified Services, Inc.	Lifespan Foundations**	Lifespan MSO, Inc.	Hospital Properties, Inc.	Total	Eliminations	Consolidated total
Unrestricted revenues and other support:																		
Patient service revenue, net of contractual allowances	\$ 1,017,209	\$ 404,092	\$ 69,245			\$ (261)	\$ 1,490,285		\$ 115,023	\$ 10,587	\$ 14,155	\$ 1,819				\$ 1,631,869		\$ 1,631,869
Provision for bad debts	(73,093)	(27,557)	(174)			-	(100,824)		(8,371)	-	(1,269)	(518)				(110,982)		(110,982)
Net patient service revenue	944,116	376,535	69,071			(261)	1,389,461		106,652	10,587	12,886	1,301				1,520,887		1,520,887
Other revenue	21,355	15,456	1,400			(3,297)	34,914	\$ 123,278	1,982	656	12,412	-		\$ 5,140	\$ 1,616	179,998	\$ (120,509)	59,489
Endowment earnings contributed toward community benefit	9,453	3,391	1,575			-	14,419	-	998	-	-	-		-	-	15,417	-	15,417
Net assets released from restrictions used for operations	23,248	1,685	516			-	25,449	-	1,979	13	-	-		-	-	27,441	-	27,441
Net assets released from restrictions used for research	50,523	27,307	4,609			-	82,439	-	-	-	-	-		-	-	82,439	-	82,439
Total unrestricted revenues and other support	1,048,695	424,374	77,171			(3,558)	1,546,682	123,278	111,611	11,256	25,298	1,301		5,140	1,616	1,826,182	(120,509)	1,705,673
Operating expenses:																		
Compensation and benefits	615,487	219,513	61,701			-	896,701	73,100	71,343	10,020	21,880	722		3,165	-	1,076,931	(6,154)	1,070,777
Supplies and other expenses	220,796	113,415	6,282			(2,278)	338,215	11,189	19,944	2,081	2,966	1,073		1,050	1,534	378,052	12,941	390,993
Purchased services	132,472	50,326	7,516			(1,280)	189,034	31,718	17,009	216	429	543		690	-	239,639	(127,296)	112,343
Depreciation and amortization	38,821	11,948	2,124			-	52,893	-	6,902	403	23	-		92	82	60,395	-	60,395
Interest	13,491	3,435	1,602			-	18,528	-	1,169	85	-	-		-	-	19,782	-	19,782
License fees	47,451	18,045	-			-	65,496	-	5,205	-	-	-		-	-	70,701	-	70,701
Total operating expenses	1,068,518	416,682	79,225			(3,558)	1,560,867	116,007	121,572	12,805	25,298	2,338		4,997	1,616	1,845,500	(120,509)	1,724,991
(Loss) income from operations	(19,823)	7,692	(2,054)			-	(14,185)	7,271	(9,961)	(1,549)	-	(1,037)		143	-	(19,318)	-	(19,318)
Nonoperating gains and losses:																		
Effects of affiliation with Gateway Healthcare, Inc.	-	-	-			-	-	-	-	23,576	-	-		-	-	23,576	-	23,576
Unrestricted gifts and bequests	-	-	-	\$ 697	\$ 1,078	-	1,775	-	519	-	-	-	\$ 349	-	-	2,643	-	2,643
Unrestricted income (loss) from board-designated investments	-	-	-	120	138	-	258	(247)	1,223	-	-	-	9	-	-	1,243	-	1,243
Net realized gains on board-designated investments	2,435	1,838	553	294	660	-	5,780	-	6,828	-	-	-	-	-	-	12,608	-	12,608
Grants to outside agencies	-	-	-	-	(121)	-	(121)	-	(108)	-	-	-	-	-	-	(229)	-	(229)
Fundraising expenses	-	-	(228)	(1,477)	(1,021)	-	(2,726)	-	(540)	-	-	-	(354)	-	-	(3,620)	-	(3,620)
Other nonoperating gains (losses), net	(50)	(52)	16	-	-	-	(86)	-	203	-	-	-	-	(32)	-	85	-	85
Total nonoperating gains (losses), net	2,385	1,786	341	(366)	734	-	4,880	(247)	8,125	23,576	-	-	4	(32)	-	36,306	-	36,306
Excess (deficiency) of revenues over expenses	\$ (17,438)	\$ 9,478	\$ (1,713)	\$ (366)	\$ 734	\$ -	\$ (9,305)	\$ 7,024	\$ (1,836)	\$ 22,027	\$ -	\$ (1,037)	\$ 4	\$ 111	\$ -	\$ 16,988	\$ -	\$ 16,988

LIFESPAN CORPORATION AND AFFILIATES

Supplementary Consolidating Statement of Operations and Changes in Net Assets (Continued)

Year ended September 30, 2013

(In thousands)

[illegible]

* Includes Lifespan Corporation, R.I. Sound Enterprises Insurance Co. Ltd. and Lifespan Risk Services, Inc.

** Includes Bradley Hospital Foundation and Lifespan Foundation.

See accompanying independent auditors' report on supplementary information.

LIFESPAN CORPORATION AND AFFILIATES
Supplementary Consolidating Statement of Operations and Changes in Net Assets
Year ended September 30, 2012
(In thousands)

	Lifespan Obligated Group																
	Rhode Island Hospital	The Miriam Hospital	Emma Pendleton Bradley Hospital	RIH Foundation	TMH Foundation	Eliminations	Subtotal	Lifespan Corporation*	Newport Health Care Corporation	Lifespan Physician Group, Inc.	Lifespan Diversified Services, Inc.	Lifespan Foundations**	Lifespan MSO, Inc.	Hospital Properties, Inc.	Total	Eliminations	Consolidated total
Unrestricted revenues and other support:																	
Patient service revenue, net of contractual allowances	\$ 990,459	\$ 383,917	\$ 65,862			\$ (208)	\$ 1,440,030		\$ 111,964	\$ 1,207	\$ 1,714				\$ 1,554,915		\$ 1,554,915
(Provision for) recovery of bad debts	(62,074)	(24,013)	3,722			-	(82,365)		(7,152)	(86)	(601)				(90,204)		(90,204)
Net patient service revenue	928,385	359,904	69,584			(208)	1,357,665		104,812	1,121	1,113				1,464,711		1,464,711
Other revenue	25,378	17,401	1,388			(3,315)	40,852	\$ 118,984	1,943	838	-		\$ 5,069	\$ 698	168,384	(107,417)	60,967
Endowment earnings contributed toward community benefit	8,651	2,953	1,498			-	13,102	-	998	-	-		-	-	14,100	-	14,100
Net assets released from restrictions used for operations	19,611	1,717	278			-	21,606	-	2,368	-	-		-	-	23,974	-	23,974
Net assets released from restrictions used for research	50,481	26,198	4,187			-	80,866	-	-	-	-		-	-	80,866	-	80,866
Total unrestricted revenues and other support	1,032,506	408,173	76,935			(3,523)	1,514,091	118,984	110,121	1,959	1,113		5,069	698	1,752,035	(107,417)	1,644,618
Operating expenses:																	
Compensation and benefits	592,172	202,821	55,983			-	850,976	79,128	65,706	1,754	746		3,065	-	1,001,375	-	1,001,375
Supplies and other expenses	213,444	110,721	5,866			(2,383)	327,648	15,009	18,355	149	928		1,052	3	363,144	11,409	374,553
Purchased services	123,891	46,761	6,733			(1,140)	176,245	29,894	15,469	56	241		706	609	223,220	(118,826)	104,394
Depreciation and amortization	36,944	11,134	2,100			-	50,178	-	6,974	-	1		106	86	57,345	-	57,345
Interest	13,732	3,484	1,588			-	18,804	-	1,188	-	-		-	-	19,992	-	19,992
License fees	46,344	17,701	-			-	64,045	-	5,013	-	-		-	-	69,058	-	69,058
Total operating expenses	1,026,527	392,622	72,270			(3,523)	1,487,896	124,031	112,705	1,959	1,916		4,929	698	1,734,134	(107,417)	1,626,717
Income (loss) from operations	5,979	15,551	4,665			-	26,195	(5,047)	(2,584)	-	(803)		140	-	17,901	-	17,901
Nonoperating gains and losses:																	
Unrestricted gifts and bequests	-	-	-	\$ 781	\$ 551	-	1,332	-	603	-	-	\$ 307	-	-	2,242	-	2,242
Unrestricted income (loss) from board-designated investments	-	-	-	60	178	-	238	(451)	1,428	-	-	2	-	-	1,217	-	1,217
Net realized gains on board-designated investments	7,594	4,024	577	477	1,076	-	13,748	-	10,638	-	-	1	-	-	24,387	-	24,387
Grants to outside agencies	-	-	-	-	(121)	-	(121)	-	(233)	-	-	-	-	-	(354)	-	(354)
Fundraising expenses	-	-	(185)	(1,472)	(1,080)	-	(2,737)	-	(579)	-	-	(309)	-	-	(3,625)	-	(3,625)
Other nonoperating (losses) gains, net	(87)	(292)	31	-	-	-	(348)	-	60	-	-	-	(40)	-	(328)	-	(328)
Total nonoperating gains (losses), net	7,507	3,732	423	(154)	604	-	12,112	(451)	11,917	-	-	1	(40)	-	23,539	-	23,539
Excess (deficiency) of revenues over expenses	\$ 13,486	\$ 19,283	\$ 5,088	\$ (154)	\$ 604	\$ -	\$ 38,307	\$ (5,498)	\$ 9,333	\$ -	\$ (803)	\$ 1	\$ 100	\$ -	\$ 41,440	\$ -	\$ 41,440

LIFESPAN CORPORATION AND AFFILIATES
Supplementary Consolidating Statement of Operations and Changes in Net Assets (Continued)
Year ended September 30, 2012
(In thousands)

	Lifespan Obligated Group																	
	Rhode Island Hospital	The Miriam Hospital	Emma Pondent Bradley Hospital	RIH Foundation	TMH Foundation	Eliminations	Subtotal	Lifespan Corporation*	Newport Health Care Corporation	Lifespan Physician Group, Inc.	Lifespan Diversified Services, Inc.	Lifespan Foundations**	Lifespan MSO, Inc.	Hospital Properties, Inc.	Total	Eliminations	Consolidated total	
Unrestricted net assets:																		
Excess (deficiency) of revenues over expenses	\$ 13,486	\$ 19,283	\$ 5,088	\$ (154)	\$ 604		\$ 38,307	\$ (5,498)	\$ 9,333	\$ -	\$ (803)	\$ 1	\$ 100		\$ 41,440	\$ -	\$ 41,440	
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	(40,877)	(8,828)	(2,871)	-	-		(52,576)	(5,312)	(6,213)	-	(29)	-	(107)		(64,237)	-	(64,237)	
Net change in unrealized gains on investments	5,098	1,863	229	151	709		8,050	5,542	3,380	-	-	(2)	-		16,970	-	16,970	
Net assets released from restrictions used for purchase of property and equipment	6,998	4,691	625	-	-		12,314	-	2,774	-	-	-	-		15,088	-	15,088	
(Decrease) increase in net assets of related Foundation	(1)	1,289	2	-	-	\$ (1,290)	-	-	-	-	-	-	-	\$ 482	-	-	-	
Transfer (to) from affiliates	(482)	-	-	-	-	-	(482)	-	-	-	-	-	-	-	-	-	-	
Other increases (decreases)	(372)	-	-	2	(24)	-	(394)	-	729	-	-	2	-	-	337	-	337	
Increase (decrease) in unrestricted net assets	(16,150)	18,298	3,073	(1)	1,289	(1,290)	5,219	(5,268)	10,003	-	(832)	1	(7)	482	9,598	-	9,598	
Temporarily restricted net assets:																		
Gifts, grants, and bequests	59,762	27,880	4,809	7,725	7,724	-	107,900	-	1,414	-	-	727	-	-	110,041	-	110,041	
Income from restricted endowment and other restricted investments	1,895	121	39	289	130	-	2,474	-	558	-	-	54	-	-	3,086	-	3,086	
Net assets released from restrictions	(77,090)	(32,606)	(5,090)	-	-	-	(114,786)	-	(5,142)	-	-	-	-	-	(119,928)	-	(119,928)	
Net realized and unrealized gains on investments	26,084	1,429	305	3,397	1,534	-	32,749	-	5,881	-	-	547	-	-	39,177	-	39,177	
Transfers from (to) temporarily restricted net assets of affiliates	7,600	6,991	1,151	(7,523)	(6,885)	-	1,334	-	-	-	-	(1,334)	-	-	-	-	-	
Increase (decrease) in net assets of related Foundation	1,782	2,382	(493)	-	-	(3,671)	-	-	-	-	-	-	-	-	(1,701)	-	(1,701)	
Fundraising expenses	-	-	-	(1,683)	-	-	(1,683)	-	(18)	-	-	-	-	-	(646)	-	(646)	
Grants to outside agencies	-	-	-	(423)	(121)	-	(544)	-	-	-	-	(102)	-	-	(784)	-	(784)	
Other decreases	-	-	-	-	-	-	-	-	(779)	-	-	(5)	-	-	-	-	-	
Increase (decrease) in temporarily restricted net assets	20,033	6,197	721	1,782	2,382	(3,671)	27,444	-	1,914	-	-	(113)	-	-	29,245	-	29,245	
Permanently restricted net assets:																		
Gifts and bequests	-	-	-	487	302	-	789	-	48	-	-	-	-	-	837	-	837	
Net change in unrealized gains on investments held in perpetual trusts by others	1,286	-	3,026	(220)	5	-	4,097	-	145	-	-	1	-	-	4,243	-	4,243	
Increase in net assets of related Foundation	267	332	-	-	-	(599)	-	-	-	-	-	-	-	-	-	-	-	
Other increases	-	-	-	-	25	-	25	-	-	-	-	-	-	-	25	-	25	
Increase (decrease) in permanently restricted net assets	1,553	332	3,026	267	332	(599)	4,911	-	193	-	-	1	-	-	5,105	-	5,105	
Increase (decrease) in net assets	5,436	24,827	6,820	2,048	4,003	(5,560)	37,574	(5,268)	12,110	-	(832)	(111)	(7)	482	43,948	-	43,948	
Net assets (deficit), beginning of year	691,125	237,553	74,913	51,844	49,382	(102,170)	1,002,647	25,236	263,734	-	(2,789)	5,028	672	-	1,294,528	-	1,294,528	
Net assets (deficit), end of year	\$ 696,561	\$ 262,380	\$ 81,733	\$ 53,892	\$ 53,385	\$ (107,730)	\$ 1,040,221	\$ 19,968	\$ 275,844	\$ -	\$ (3,621)	\$ 4,917	\$ 665	\$ 482	\$ 1,338,476	\$ -	\$ 1,338,476	

* Includes Lifespan Corporation, R.I. Sound Enterprises Insurance Co. Ltd. and Lifespan Risk Services, Inc.

** Includes Bradley Hospital Foundation and Lifespan Foundation.
See accompanying independent auditors' report on supplementary information.