

**Lifespan Obligated Group
Quarterly Bond Reporting
December 31, 2022**

Lifespan Obligated Group Quarterly Bond Reporting December 31, 2022 Table of Contents

	Pages
<i>Management's Discussion of Recent Financial Performance</i>	3 - 6
<i>Combined Financial Statements</i>	7 - 10
<i>Notes to Interim Combined Financial Statements</i>	11
<i>Combined Utilization Statistics</i>	12

Management's Discussion of Recent Financial Performance – Lifespan Obligated Group

The Lifespan Obligated Group (the OG) is comprised of Rhode Island Hospital (RIH), The Miriam Hospital (TMH), and Emma Pendleton Bradley Hospital (EPBH), as well as Rhode Island Hospital Foundation and The Miriam Hospital Foundation.

COVID-19 Pandemic Impact.

During the quarters ended December 31, 2022 and 2021, the OG received, recognized, and repaid the following funds which provided resources needed to combat the COVID-19 Pandemic, as follows:

(1) During the quarter ended December 31, 2022, the OG recognized \$5.4 million from the Federal Emergency Management Agency (FEMA).

(2) During the quarter ended December 2021, the OG repaid \$20.2 million in funds received from the Centers for Medicare & Medicaid Services (CMS) under the expanded Accelerated/Advance Payments Program (the Program) for Medicare providers.

(3) During the quarter ended December 31, 2021, the OG received \$4.5 million from the Coronavirus Aid, Relief, and Economic Security (CARES) Act in the form of grants released by the U.S. Department of Health and Human Services (i.e., Provider Relief Funds).

Of the total FEMA, CARES, and Hospital Assistance Partnership Program (HAPP) funding received, \$5.4 million and \$1.4 million was recognized within operating revenues in the quarters ended December 31, 2022 and 2021, respectively.

The CARES Act also provided for deferred deposits of the employer portion of Social Security taxes (FICA) applicable to wages paid from March 27, 2020 through December 31, 2020. The OG implemented this deferral in April 2020. Payments of \$15.8 million each were made to the Internal Revenue Service in December 2022 and 2021.

The Pandemic's ultimate effect on the OG's financial condition will depend on the duration and severity of the Pandemic and the negative economic conditions arising from the broad impact of the Pandemic.

Quarter Ended December 31, 2022 compared to Quarter Ended December 31, 2021.

For the quarter ended December 31, 2022, the OG reflected operating income of \$6.9 million, compared to an operating loss of \$7.5 million for the quarter ended December 31, 2021.

Excess of revenues over expenses was \$13.2 million for the quarter ended December 31, 2022, compared to a deficiency of revenues over expenses of \$5.1 million for the quarter ended December 31, 2021.

(Continued)

Management's Discussion of Recent Financial Performance – Lifespan Obligated Group (Continued)

Patient service revenue increased by \$38.4 million (7.8%) in the quarter ended December 31, 2022, compared to the same period in 2021. Discharges and adjusted patient days increased by 4.3% and 4.8%, respectively, resulting in an increase in patient service revenue of \$29.8 million. Changes in payor mix and rates resulted in net growth in patient service revenue of \$10.6 million. Total uncompensated care increased by \$2.3 million in the 2022 quarter and State disproportionate share revenue was higher by \$0.3 million.

The provision for bad debts increased by \$2.5 million while charity care decreased \$0.2 million in the quarter ended December 31, 2022, compared to the quarter ended December 31, 2021. Charity care amounted to \$22.9 million and \$23.1 million for the quarters ended December 31, 2022 and 2021, respectively. As a percentage of the OG's gross patient service revenue, total uncompensated care, which includes the provision for bad debts as well as charity care, was 2.6% in the quarters ended December 31, 2022 and 2021.

Other revenues increased by \$11.6 million (22.8%) in the quarter ended December 31, 2022 compared to the quarter ended December 31, 2021. Revenues from the Lifespan Retail Pharmacy and Contract Pharmacy were higher by \$9.6 million compared to the same period in 2021.

During the quarter ended December 31, 2022, the OG recognized \$5.4 million in FEMA funds obligated during the quarter while \$1.4 million in RI HAPP grant funds were released from restrictions into operations during the same period in 2021.

Total operating expenses grew by \$46.0 million (7.8%) in the quarter ended December 31, 2022 compared to the same period in 2021, due primarily to increases in compensation and benefits, which were higher by \$27.8 million (9.2%), supplies and other expenses, which increased by \$13.0 million (8.0%), and purchased services which grew by \$3.8 million (4.8%).

Compensation and benefits increased by \$27.8 million in the quarter ended December 31, 2022 compared to the quarter ended December 31, 2021. Paid full-time equivalents (FTEs) increased by 283 in the 2022 quarter compared to the 2021 quarter, causing an increase in compensation and benefits of approximately \$7.5 million. Additionally, compensation costs increased \$6.0 million due to increases in overtime and various temporary incentive pay programs implemented to offset staffing shortages, as well as the fiscal year 2023 salary program, which included a 4.0% average pay increase for nonunion employees effective October 23 2022. Contract labor increased by 111 FTEs and \$6.7 million compared to the same period in 2021.

With respect to fringe benefits, the OG's self-insurance health care benefit expenses increased \$1.5 million (6.1%) in the quarter ended December 31, 2022 compared to the same period in 2021.

Growth in physician support (\$4.9 million), as well as all other changes in fringe benefits (\$1.2 million) resulted in a net increase in compensation and benefits of \$6.1 million in the quarter ended December 31, 2022 compared to the same period in 2021.

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Management's Discussion of Recent Financial Performance – Lifespan Obligated Group (Continued)

Supplies and other expenses increased by \$13.0 million in the quarter ended December 31, 2022 contrasted with the same period in 2021. Drug costs within the Lifespan Retail Pharmacy and Contract Pharmacy increased by \$5.7 million, associated with higher revenues noted above, while all other medical/surgical supplies and drugs increased \$4.5 million, associated with global supply chain challenges and general inflation. Plant supplies and repairs increased \$1.0 million while rental expenses increased \$0.8 million in the quarter ended December 31, 2022 compared to the quarter ended 2021.

License fees increased by \$1.0 million (4.1%) in the quarter ended December 31, 2022 compared to the same period in 2021, per the State of Rhode Island.

Nonoperating gains amounted to \$6.3 million for the quarter ended December 31, 2022 compared to \$2.4 million for the same period in 2021. The following is a summary comparison of nonoperating performance:

	Quarters Ended December 31	
	2022	2021
	(In thousands)	
Investment income, including gains on board-designated investments	\$ 10,459	\$ 3,482
Net unrestricted performance of Foundations	(45)	(346)
Non-service periodic pension costs	(4,004)	(686)
Other nonoperating losses, net	<u>(63)</u>	<u>(51)</u>
Total nonoperating gains, net	<u>\$ 6,347</u>	<u>\$ 2,399</u>

Changes in Net Assets. Total net assets of the OG increased by \$26.0 million in the quarter ended December 31, 2022, compared to a decrease in net assets of \$0.1 million in the quarter ended December 31, 2021.

The improvement in operating performance resulted in an increase in net assets of \$14.4 million. Net realized gains for the quarter ended December 31, 2022 totaled \$26.6 million, compared with \$12.1 million for the quarter ended December 31, 2021, an improvement in investment performance of \$14.5 million. The investment portfolio returned a gain of 4.5% in the quarter ended December 31, 2022, compared to 2.6% in the quarter ended December 31, 2021. Gifts, grants, and bequests with donor restrictions increased \$9.4 million in the quarter ended December 31, 2022 compared to 2021.

Balance Sheet Discussion. Cash and cash equivalents declined to \$82.9 million at December 31, 2022 compared to \$204.5 million at December 31, 2021 due primarily to the repayment of CMS advances (\$97.7 million) and deferred FICA (\$31.6 million). Accounts receivable performance improved, with 40 days of net revenue as of December 31, 2022 compared to 42 days as of September 30, 2022, and 41 days at December 31, 2021.

(Continued)

Management's Discussion of Recent Financial Performance – Lifespan Obligated Group (Continued)

Volume Statistics Discussion. For the quarter ended December 31, 2022, volume levels were consistent with the same period in 2021, with the following highlights and exceptions:

For the quarter ended December 31, 2022 compared to the same period in 2021, discharges increased by 506 (4.3%) and patient days were higher by 1,072 (1.4%). Average length of stay decreased to 6.19 days for the 2022 quarter compared to 6.36 days in the 2021 quarter. Inpatient surgical cases declined by 118 (3.7%), while occupancy rates increased to 94.5% from 92.8%. Observation days increased by 762 (15.8%). The Medicare case mix index decreased to 1.987 in the 2022 quarter from 1.991 in the 2021 quarter.

In the quarter ended December 31, 2022 compared to the quarter ended December 31, 2021, the OG's clinic visits increased by 5,748 (5.2%), emergency department visits increased by 2,227 (4.8%) and ambulatory surgeries increased by 421 (8.7%).

The Lifespan Obligated Group provides the information in these reports in accordance with the terms of the Continuing Disclosure Agreement dated August 11, 2016, which grants discretion to the Lifespan Obligated Group to determine the details of the quarterly information that it will provide if it is based upon the unaudited consolidated financial statements of Lifespan Corporation and its Affiliates as well as those of the Lifespan Obligated Group. Accordingly, the Lifespan Obligated Group advises the recipients and users of this information that in the future it may change the level of detail, combine information, and make other changes in the format and scope of the quarterly information presented.

LIFESPAN OBLIGATED GROUP

Combined Statements of Financial Position

December 31, 2022 and 2021

(In thousands)

Assets	2022	2021	Liabilities and Net Assets	2022	2021
Current assets:			Current liabilities:		
Cash and cash equivalents	\$ 82,905	\$ 204,549	Accounts payable	\$ 122,325	\$ 111,851
Patient accounts receivable	232,832	219,112	Accrued employee benefits and compensation	63,386	79,229
Other receivables	94,958	57,969	Other accrued expenses	88,533	58,815
Current portion of contributions receivable, net	4,548	4,531	Current portion of long-term debt	17,274	16,529
Total receivables	332,338	281,612	Current portion of estimated third-party payor settlements	23,295	154,610
Inventories	42,333	34,805	Estimated health care benefit self-insurance costs	8,504	9,924
Prepaid expenses and other current assets	5,061	4,867	Operating lease liabilities, current portion	13,506	10,305
Total current assets	462,637	525,833	Total current liabilities	336,823	441,263
Assets limited as to use	1,030,066	1,272,657	Long-term debt, net of current portion	401,078	421,178
Right-of-use assets, net - operating leases	49,156	44,512	Estimated third-party payor settlements, net of current portion	25,238	29,138
Property and equipment, net	693,019	719,727	Accrued pension liability	106,902	136,387
Other assets:			Operating lease liabilities, noncurrent portion	35,970	34,532
Contributions receivable, net	11,054	2,619	Other liabilities	6,828	8,589
Other noncurrent assets	4,646	4,432	Total liabilities	912,839	1,071,087
Total other assets	15,700	7,051	Net assets:		
Total assets	\$ 2,250,578	\$ 2,569,780	Net assets without donor restrictions	781,274	874,086
			Net assets with donor restrictions	556,465	624,607
			Total net assets	1,337,739	1,498,693
			Total liabilities and net assets	\$ 2,250,578	\$ 2,569,780

See accompanying notes to interim combined financial statements (unaudited).

LIFESPAN OBLIGATED GROUP

Combined Statements of Operations and Changes in Net Assets

(In thousands)

	Three Months Ended December 31	
	2022	2021
Revenues and other support without donor restrictions:		
Patient service revenue	\$ 529,923	\$ 491,538
Other revenues	62,316	50,744
Endowment earnings contributed toward community benefit	4,367	4,406
Net assets released from restrictions used for operations	11,442	6,050
Net assets released from restrictions used for research	34,184	29,133
Total revenues and other support without donor restrictions	<u>642,232</u>	<u>581,871</u>
Operating expenses:		
Compensation and benefits	330,475	302,690
Supplies and other expenses	175,310	162,287
Purchased services	81,471	77,720
Depreciation and amortization	20,878	20,297
Interest	3,196	3,324
License fees	24,045	23,092
Total operating expenses	<u>635,375</u>	<u>589,410</u>
Operating Income (Loss)	<u>6,857</u>	<u>(7,539)</u>
Nonoperating gains and losses:		
Gifts and bequests without donor restrictions	726	481
Income from board-designated investments	302	432
Net realized and unrealized gains on board-designated investments	10,157	3,050
Non-service periodic pension costs	(4,004)	(686)
Fundraising expenses	(771)	(827)
Other nonoperating losses, net	(63)	(51)
Total nonoperating gains	<u>6,347</u>	<u>2,399</u>
Excess (deficiency) of revenues over expenses	<u>\$ 13,204</u>	<u>\$ (5,140)</u>

LIFESPAN OBLIGATED GROUP

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

(In thousands)

	Three Months Ended December 31	
	2022	2021
Changes in net assets without donor restrictions:		
Excess (deficiency) of revenues over expenses	\$ 13,204	\$ (5,140)
Equity transfers to affiliates	(12,792)	(12,769)
Other changes in net assets without donor restrictions:		
Net assets released from restrictions used for purchase of property and equipment	1,029	4,366
Other decreases	(2)	(7)
	<u>1,439</u>	<u>(13,550)</u>
Increase (decrease) in net assets without donor restrictions		
Changes in net assets with donor restrictions:		
Gifts, grants, and bequests	48,367	38,965
Income from restricted endowment and other restricted investments	3,871	5,232
Transfers from affiliates	2,930	183
Net assets released from restrictions	(46,655)	(39,549)
Net realized and unrealized gains on investments	16,478	9,046
Fundraising expenses	(274)	(260)
Grants to outside agencies	(195)	(183)
	<u>24,522</u>	<u>13,434</u>
Increase in net assets with donor restrictions		
Increase (decrease) in net assets	25,961	(116)
Net assets, beginning of period	<u>1,311,778</u>	<u>1,498,809</u>
Net assets, end of period	<u>\$ 1,337,739</u>	<u>\$ 1,498,693</u>

See accompanying notes to interim combined financial statements (unaudited).

LIFESPAN OBLIGATED GROUP

Combined Statements of Cash Flows

(In thousands)

	Three Months Ended December 31	
	<u>2022</u>	<u>2021</u>
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ 25,961	\$ (116)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:		
Net realized and unrealized gains on investments	(26,635)	(12,096)
Changes in operating right-of-use assets and lease liabilities, net	271	(325)
Contributions restricted for purchase of property and equipment	(2,713)	(1,195)
Depreciation and amortization	20,878	20,297
Provision for estimated health care benefit self-insurance costs	28,652	24,774
Decrease in liabilities for estimated health care benefit self-insurance costs resulting from claims paid	(29,322)	(24,522)
Increase in patient accounts receivable	(6,667)	(12,874)
Decrease in accounts payable	(2,380)	(4,433)
Decrease in accrued employee benefits and compensation	(6,188)	(24,769)
Decrease in estimated third-party payor settlements	(2,008)	(887)
Increase in CARES Act deferred revenue	—	5,781
Increase (decrease) in all other current and noncurrent assets and liabilities, net	<u>13,989</u>	<u>(23,548)</u>
Net cash provided by (used in) operating activities	<u>13,838</u>	<u>(53,913)</u>
Cash flows from investing activities:		
Purchase of property and equipment	(8,987)	(18,375)
Contributions restricted for purchase of property and equipment	2,713	1,195
Purchases of assets limited as to use	(99,694)	(267,823)
Proceeds from sales of assets limited as to use	109,763	274,168
Sinking fund payments on 2021 bond issuance	(10,000)	(10,000)
Other net increases in assets limited as to use	<u>(2,849)</u>	<u>(13,594)</u>
Net cash used in investing activities	<u>(9,054)</u>	<u>(34,429)</u>
Cash flows from financing activities:		
Proceeds from mortgage note payable	—	16,193
Payments on mortgage note payable	<u>(405)</u>	<u>(270)</u>
Net cash (used in) provided by financing activities	<u>(405)</u>	<u>15,923</u>
Net increase (decrease) in cash and cash equivalents	4,379	(72,419)
Cash and cash equivalents, beginning of period	<u>78,526</u>	<u>276,968</u>
Cash and cash equivalents, end of period	<u>\$ 82,905</u>	<u>\$ 204,549</u>

See accompanying notes to interim combined financial statements (unaudited).

The Lifespan Obligated Group
Notes to Interim Combined Financial Statements (Unaudited)
(In thousands)

Note 1: The interim combined financial information furnished herein is unaudited; however, in the opinion of management, the information reflects all adjustments that are necessary to fairly state the combined financial position of Rhode Island Hospital and Affiliates (RIH), The Miriam Hospital (TMH), Emma Pendleton Bradley Hospital (EPBH) (together “the Hospitals”), and Rhode Island Hospital Foundation (RIHF) and The Miriam Hospital Foundation (TMHF) (together “the Foundations”), the combined results of their operations, and their cash flows for the interim periods indicated on the same basis as the audited financial statements of the Hospitals. All the adjustments are of a normal recurring nature. These interim combined financial statements do not include all the information and footnote disclosures required by generally accepted accounting principles. The interim combined financial statements include financial information of certain affiliates of RIH, which represent less than one percent (1%) of its consolidated operating revenues and are not part of the Lifespan Obligated Group (the OG).

The OG’s management presumes that users of this interim combined financial information have read or have access to the Hospitals’ audited financial statements for the preceding fiscal year, and that the adequacy of additional disclosure needed for a fair presentation may be determined in that context. Accordingly, footnotes and other disclosures that would substantially duplicate the disclosures contained in the Hospitals’ most recent audited financial statements have been omitted.

All significant intercompany accounts and transactions have been eliminated in the combination of the Lifespan Obligated Group financial statements.

Note 2: The composition of assets limited as to use on December 31 is set forth in the following table:

	2022	2021
Unrestricted (internally board-designated)	\$ 503,291	\$ 667,754
Temporarily restricted funds	368,560	436,587
Permanently restricted funds	158,215	168,316
Total	<u>\$ 1,030,066</u>	<u>\$ 1,272,657</u>

LIFESPAN OBLIGATED GROUP

Utilization Statistics

	Three Months Ended December 31	
	2022	2021
Inpatient Statistics:		
Licensed Beds -- Adult	879	879
Licensed Beds -- Pediatrics	157	157
Total Licensed Beds	<u>1,036</u>	<u>1,036</u>
Beds in Service -- Adult	795	790
Beds in Service -- Pediatrics	152	153
Total Staffed Beds	<u>947</u>	<u>943</u>
Discharges:		
Adult	10,732	10,287
Pediatrics	1,667	1,606
Total	<u>12,399</u>	<u>11,893</u>
Patient Days:		
Adult	63,097	62,076
Pediatrics	13,672	13,621
Total	<u>76,769</u>	<u>75,697</u>
Observation Days:		
Adult	5,110	4,417
Pediatrics	471	402
Total	<u>5,581</u>	<u>4,819</u>
Total Inpatient Activity:		
Adult	68,207	66,493
Pediatrics	14,143	14,023
Total	<u>82,350</u>	<u>80,516</u>
Average Length of Stay:		
Adult	5.88	6.03
Pediatrics	8.20	8.48
Total	6.19	6.36
Percent of Total Occupancy of Beds in Service:		
Adult	93.3%	91.5%
Pediatrics	101.1%	99.6%
Total	94.5%	92.8%
Medicare Case Mix Index	1.987	1.991
Inpatient Surgeries	3,070	3,188
Outpatient Statistics:		
Emergency Department Visits	48,276	46,049
Clinic Visits	115,633	109,885
Ambulatory Surgeries	5,284	4,863

Lifespan Corporation and Affiliates
Quarterly Bond Reporting
December 31, 2022

Lifespan Corporation and Affiliates

Quarterly Bond Reporting

December 31, 2022

Table of Contents

	Pages
<i>Management's Discussion of Recent Financial Performance</i>	15 - 18
<i>Consolidated Financial Statements</i>	19 - 22
<i>Notes to Interim Consolidated Financial Statements</i>	23
<i>Consolidated Utilization Statistics</i>	24

Management's Discussion of Recent Financial Performance – Lifespan Corporation and Affiliates

COVID-19 Pandemic Impact.

During the quarters ended December 31, 2022 and 2021, Lifespan received, recognized, and repaid the following funds which provided resources needed to combat the COVID-19 Pandemic, as follows:

- (1) During the quarter ended December 31, 2022, Lifespan recognized \$6.5 million from the Federal Emergency Management Agency (FEMA).
- (2) During the quarter ended December 31, 2021, Lifespan repaid \$21.5 million in funds received from the Centers for Medicare & Medicaid Services (CMS) under the expanded Accelerated/Advance Payments Program (the Program) for Medicare providers.
- (3) During the quarter ended December 31, 2021, Lifespan received \$8.3 million from the Coronavirus Aid, Relief, and Economic Security (CARES) Act in the form of grants released by the Department of Health and Human Services (i.e., Provider Relief Funds).

Of the total FEMA, CARES, and RI Hospital Assistance Partnership Program (HAPP) funding received, \$6.5 million and \$1.9 million was recognized within operating revenues in the quarters ended December 31, 2022 and 2021, respectively.

The CARES Act also provided for deferred deposits of the employer portion of Social Security taxes (FICA) applicable to wages paid from March 27, 2020 through December 31, 2020. Lifespan implemented this deferral in April 2020 and remitted payments to the Internal Revenue Service of \$21.8 million each during the quarters ended December 2022 and 2021.

The Pandemic's ultimate effect on Lifespan's financial condition will depend on the duration and severity of the Pandemic and the negative economic conditions arising from the broad impact of the Pandemic.

Quarter Ended December 31, 2022 compared to Quarter Ended December 31, 2021.

For the quarter ended December 31, 2022, Lifespan reflected operating income of \$4.9 million compared to an operating loss of \$18.6 million for the quarter ended December 31, 2021.

Excess of revenues over expenses was \$15.3 million for the quarter ended December 31, 2022 compared to a deficiency of revenues over expense of \$13.0 million for the quarter ended December 31, 2021.

Patient service revenue increased by \$45.0 million (7.7%) in the quarter ended December 31, 2022 compared to the same period in 2021. Discharges and adjusted patient days increased by 3.9% and 4.7%, respectively, resulting in \$34.8 million revenue of patient service revenue. Changes in payor mix and rates caused a net increase of \$13.2 million. Total uncompensated care increased by \$2.9 million, while State disproportionate share revenue was lower by \$0.1 million.

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Management's Discussion of Recent Financial Performance – Lifespan Corporation and Affiliates (Continued)

The provision for bad debts increased by \$2.7 million while charity care increased by \$0.2 million in the quarter ended December 31, 2022, compared to the same period in 2021. Charity care amounted to \$25.7 million and \$25.5 million for the quarters ended December 31, 2022 and 2021. As a percentage of Lifespan's gross patient service revenue, total uncompensated care, which includes the provision for bad debts as well as charity care, was 2.6% in both the quarters ended December 31, 2022 and 2021.

Other revenues increased by \$19.7 million (31.9%) in the quarter ended December 31, 2022. Revenues from the Lifespan Retail Pharmacy and Contract Pharmacy were higher by \$9.6 million compared to the same period in 2021. Investment income associated with Lifespan's self-insured programs improved in the quarter ended December 31, 2022 by \$5.6 million compared to the same period in 2021.

During the quarter ended December 31, 2022, Lifespan recognized \$6.5 million in FEMA funds obligated during the quarter while \$1.9 million in RI HAPP funds were released from restriction into operations during the same period in 2021.

Total operating expenses increased by \$52.3 million (7.4%) in the quarter ended December 31, 2022 compared to the same period in 2021, due primarily to increases in compensation and benefits of \$38.7 million (9.1%) and supplies and other expenses of \$12.5 million (6.7%).

Compensation and benefits increased \$38.7 million in the quarter ended December 31, 2022 compared to the quarter ended December 31, 2021. Operating FTEs increased by 483 resulting in an additional expense of \$18.7 million due to increases in overtime and various temporary incentive pay programs implemented to offset the staffing shortages at the Hospitals as well as the fiscal year 2023 salary program, which included a 4.0% average pay increase for nonunion employees effective October 23, 2022. Contract labor FTEs increased by 118 FTEs and \$7.3 million compared to the same period in 2022 due to national staffing shortages driving inflation.

Within fringe benefits, higher utilization resulted in an increase of \$2.4 million (7.0%) in Lifespan's self-insurance health care benefit expenses in the 2022 quarter contrasted with the 2021 quarter.

Growth in physician support (\$5.0 million), changes in fringe benefits (\$2.2 million) and all other changes in compensation (\$3.1 million), resulted in an increase in compensation and benefits of \$10.3 million in the quarter ended December 31, 2022 compared to the same period in 2021.

Supplies and other expenses increased by \$12.5 million in the quarter ended December 31, 2022 contrasted with the same period in 2021. Drug costs associated with the Lifespan Retail Pharmacy and Contract Pharmacy increased by \$5.7 million, associated with higher revenues noted above, while all other medical/surgical supplies and drug costs increased by \$4.3 million associated global supply chain challenges and general inflation. Plant supplies & repairs increased \$1.1 million.

(Continued)

Management's Discussion of Recent Financial Performance – Lifespan Corporation and Affiliates (Continued)

License fees increased by \$1.0 million (4.0%) in the quarter ended December 31, 2022 compared to the same period in 2021, per the State of Rhode Island.

Nonoperating gains amounted to \$10.5 million for the quarter ended December 31, 2022 compared to \$5.6 million for the same period in 2021. The following is a summary comparison of nonoperating performance:

	Quarters Ended December 31	
	2022	2021
	(In thousands)	
Investment income, including gains on board-designated investments	\$ 15,450	\$ 6,901
Net unrestricted performance of Foundations	93	(234)
Non-service periodic pension costs	(5,004)	(1,030)
Other nonoperating losses, net	<u>(84)</u>	<u>(49)</u>
Total nonoperating gains, net	<u>\$ 10,455</u>	<u>\$ 5,588</u>

Changes in Net Assets. Total net assets of Lifespan increased by \$42.6 million in the quarter ended December 31, 2022 compared to an increase of \$6.2 million for the quarter ended December 31, 2021.

The improvement in operating performance resulted in an increase in net assets of \$23.5 million. Net realized and unrealized gains in the quarter ended December 31, 2022 totaled \$33.6 million, compared with \$15.3 million for the 2021 quarter, an increase in investment performance of \$18.3 million. The investment portfolio returned a gain of 4.5% in the quarter ended December 31, 2022 compared to 2.6% in the quarter ended December 31, 2021. Gifts, grants, and bequests with donor restrictions increased by \$11.1 million in the 2022 quarter, while net assets released from restriction increased \$7.7 million during the quarter ended December 31, 2022 compared to the 2021 quarter and non-service periodic pension costs were \$5.0 million in the quarter ended December 31, 2022 compared with \$1.0 million in the quarter ended December 31, 2021.

Balance Sheet Discussion. Cash and cash equivalents declined to \$141.8 million at December 31, 2022 compared to \$294.1 million at December 31, 2021 due primarily to the repayment of CMS advances (\$103.9 million) and deferred FICA (\$43.6 million). Accounts receivable performance improved with 40.6 days of net revenue as of December 31, 2022 compared to 41.3 days as of September 30, 2022 yet declined slightly compared to 40.3 days as of December 31, 2021.

(Continued)

Management's Discussion of Recent Financial Performance – Lifespan Corporation and Affiliates (Continued)

Volume Statistics Discussion. For the quarter ended December 31, 2022, volume levels were consistent with the same period in 2021, with the following highlights and exceptions:

For the quarter ended December 31, 2022 compared to the same period in 2021, discharges increased by 475 (3.6%) while patient days increased by 572 (0.7%), resulting in a slight decrease in average length of stay to 6.18 days in the 2022 quarter from 6.36 days in the 2021 quarter. Inpatient surgeries declined by 135 (4.1%) while the Medicare Case Mix Index improved slightly to 1.931 as of December 31, 2022 from 1.930 as of December 31, 2021.

Occupancy rates increased to 92.6% from 91.5% while observation days increased to 5,925 in the quarter ended December 31, 2022 from 5,137 for the quarter ended December 31, 2021, an increase of 788 days (15.3%).

In the quarter ended December 31, 2022 compared to the quarter ended December 31, 2021, Lifespan's clinic visits increased by 14,618 (7.6%), emergency department visits increased by 2,778 (5.2%), ambulatory surgeries were higher by 436 (8.0%), and CMPI office visits increased by 3,288 (3.6%).

The Lifespan Obligated Group provides the information in these reports in accordance with the terms of the Continuing Disclosure Agreement dated August 11, 2016, which grants discretion to the Lifespan Obligated Group to determine the details of the quarterly information that it will provide if it is based upon the unaudited consolidated financial statements of Lifespan Corporation and its Affiliates as well as those of the Lifespan Obligated Group. Accordingly, the Lifespan Obligated Group advises the recipients and users of this information that in the future it may change the level of detail, combine information, and make other changes in the format and scope of the quarterly information presented.

LIFESPAN CORPORATION AND AFFILIATES

Consolidated Statements of Financial Position

December 31, 2022 and 2021

(In thousands)

Assets	2022	2021	Liabilities and Net Assets	2022	2021
Current assets:			Current liabilities:		
Cash and cash equivalents	\$ 141,816	\$ 294,087	Accounts payable	\$ 169,698	\$ 154,853
Patient accounts receivable	278,983	257,264	Accrued employee benefits and compensation	121,615	135,510
Other receivables	76,220	57,502	Other accrued expenses	33,588	45,195
Current portion of contributions receivable, net	11,875	8,776	Current portion of long-term debt	18,792	18,022
Total receivables	367,078	323,542	Current portion of estimated third-party payor settlements	25,905	163,643
Assets limited as to use	64,602	53,618	Current portion of estimated malpractice and other self-insurance costs	78,269	68,314
Inventories	44,907	37,477	Operating lease liabilities, current portion	24,352	21,170
Prepaid expenses and other current assets	34,192	31,539	Total current liabilities	472,219	606,707
Total current assets	652,595	740,263	Long-term debt, net of current portion	412,307	433,921
Assets limited as to use	1,454,096	1,731,883	Estimated third-party payor settlements, net of current portion	26,093	30,013
Less amount required to meet current obligations	(64,602)	(53,618)	Estimated malpractice self-insurance costs, net of current portion	157,002	149,408
Noncurrent assets limited as to use	1,389,494	1,678,265	Accrued pension liability	131,007	165,659
Right-of-use assets, net - operating leases	105,630	103,418	Operating lease liabilities, noncurrent	83,361	84,204
Property and equipment, net	793,561	819,915	Other liabilities	59,828	77,002
Other assets:			Total liabilities	1,341,817	1,546,914
Contributions receivable, net	11,423	8,155	Net assets:		
Other noncurrent assets	106,520	113,041	Net assets without donor restrictions	1,058,538	1,171,968
Total other assets	117,943	121,196	Net assets with donor restrictions	658,868	744,175
Total assets	\$ 3,059,223	\$ 3,463,057	Total net assets	1,717,406	1,916,143
			Total liabilities and net assets	\$ 3,059,223	\$ 3,463,057

See accompanying notes to interim consolidated financial statements (unaudited).

LIFESPAN CORPORATION AND AFFILIATES

Consolidated Statements of Operations and Changes in Net Assets

(In thousands)

	Three Months Ended December 31	
	2022	2021
Revenues and other support without donor restrictions:		
Patient service revenue	\$ 632,623	\$ 587,597
Other revenues	81,599	61,878
Endowment earnings contributed toward community benefit	4,617	4,656
Net assets released from restrictions used for operations	13,019	6,992
Net assets released from restrictions used for research	34,184	29,133
Total revenues and other support without donor restrictions	<u>766,042</u>	<u>690,256</u>
Operating expenses:		
Compensation and benefits	465,281	426,614
Supplies and other expenses	197,760	185,278
Purchased services	45,435	45,857
Depreciation and amortization	23,722	22,997
Interest	3,299	3,438
License fees	25,657	24,665
Total operating expenses	<u>761,154</u>	<u>708,849</u>
Income (loss) from operations	<u>4,888</u>	<u>(18,593)</u>
Nonoperating gains and losses:		
Gifts and bequests without donor restrictions	1,184	988
Income from board-designated investments	1,236	2,117
Net realized and unrealized gains on board-designated investments	14,214	4,784
Non-service periodic pension costs	(5,004)	(1,030)
Fundraising expenses	(1,091)	(1,222)
Other nonoperating losses, net	(84)	(49)
Total nonoperating gains, net	<u>10,455</u>	<u>5,588</u>
Excess (deficiency) of revenues over expenses	<u>\$ 15,343</u>	<u>\$ (13,005)</u>

(Continued)

LIFESPAN CORPORATION AND AFFILIATES

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

(In thousands)

	Three Months Ended December 31	
	2022	2021
Changes in net assets without donor restrictions:		
Excess (deficiency) of revenues over expenses	\$ 15,343	\$ (13,005)
Other changes in net assets without donor restrictions:		
Net assets released from restrictions used for purchase of property and equipment	1,029	4,417
Other decreases	(20)	(28)
Increase (decrease) in net assets without donor restrictions	<u>16,352</u>	<u>(8,616)</u>
Changes in net assets with donor restrictions:		
Gifts, grants, and bequests	50,915	39,824
Income from restricted endowment and other restricted investments	4,695	6,385
Net assets released from restrictions	(48,232)	(40,542)
Net realized and unrealized gains on investments	19,385	10,511
Fundraising expenses	(275)	(257)
Grants to outside agencies	(217)	(206)
Other decreases	(53)	(886)
Increase in net assets with donor restrictions	<u>26,218</u>	<u>14,829</u>
Increase in Net Assets	42,570	6,213
Net assets, beginning of period	<u>1,674,836</u>	<u>1,909,930</u>
Net assets, end of period	<u>\$ 1,717,406</u>	<u>\$ 1,916,143</u>

See accompanying notes to interim consolidated financial statements (unaudited).

LIFESPAN CORPORATION AND AFFILIATES

Consolidated Statements of Cash Flows

(In thousands)

	Three Months Ended December 31	
	2022	2021
Cash flows from operating activities:		
Increase in net assets	\$ 42,570	\$ 6,213
Adjustments to reconcile increase in net assets to net cash used in operating activities:		
Net realized and unrealized gains on investments	(33,599)	(15,295)
Contributions restricted for purchase of property and equipment	(3,465)	(1,577)
Changes in operating right-of-use assets and lease liabilities, net	(210)	108
Depreciation and amortization	23,722	22,997
Provision for estimated self-insurance costs	63,471	50,865
Decrease in liabilities for estimated self-insurance costs resulting from claims paid	(58,961)	(43,793)
Increase in patient accounts receivable	(9,548)	(15,558)
(Decrease) increase in accounts payable	(483)	2,228
Decrease in accrued employee benefits and compensation	(2,361)	(42,672)
Decrease in estimated third-party payor settlements	(2,399)	(1,518)
Increase in CARES Act deferred revenue	—	8,249
Decrease in all other current and noncurrent assets and liabilities, net	(26,136)	(23,552)
Net cash used in operating activities	(7,399)	(53,305)
Cash flows from investing activities:		
Purchases of property and equipment	(10,348)	(20,522)
Contributions restricted for purchase of property and equipment	3,465	1,577
Purchases of assets limited as to use	(162,388)	(398,866)
Proceeds from sales of assets limited as to use	165,426	389,009
Sinking fund payments on 2021 bond issuance	(10,000)	(10,000)
Other net increases in assets limited as to use	(3,269)	(4,630)
Net cash used in investing activities	(17,114)	(43,432)
Cash flows from financing activities:		
Proceeds from mortgage issuance	16,193	16,193
Payments on long-term debt	(16,632)	(196)
Net cash (used in) provided by financing activities	(439)	15,997
Net decrease in cash and cash equivalents	(24,952)	(80,740)
Cash and cash equivalents at:		
Beginning of period	166,768	374,827
End of period	\$ 141,816	\$ 294,087

See accompanying notes to interim consolidated financial statements (unaudited).

Lifespan Corporation and Affiliates
Notes to Interim Consolidated Financial Statements (Unaudited)
(In thousands)

Note 1: The interim consolidated financial information furnished herein is unaudited; however, in the opinion of management, the information reflects all adjustments that are necessary to fairly state the consolidated financial position of Lifespan Corporation and Affiliates (Lifespan), the results of their operations, and their cash flows for the interim periods indicated on the same basis as Lifespan's audited consolidated financial statements. All the adjustments are of a normal recurring nature. These interim consolidated financial statements do not include all the information and footnote disclosures required by generally accepted accounting principles.

Lifespan presumes that users of this interim consolidated financial information have read or have access to Lifespan's audited consolidated financial statements for the preceding fiscal year, and that the adequacy of additional disclosure needed for a fair presentation may be determined in that context. Accordingly, footnotes and other disclosures that would substantially duplicate the disclosures contained in Lifespan's most recent audited consolidated financial statements have been omitted.

Note 2: The composition of assets limited as to use on December 31 is set forth in the following table:

	<u>2022</u>	<u>2021</u>
Funds available for self-insurance liabilities	\$ 202,885	\$ 198,676
Investments without donor restrictions	630,258	818,458
Temporarily restricted funds	448,562	531,889
Permanently restricted funds	<u>172,391</u>	<u>182,860</u>
Total	1,454,096	1,731,883
Less amount required to meet current obligations	<u>(64,602)</u>	<u>(53,618)</u>
Noncurrent assets limited as to use	<u>\$1,389,494</u>	<u>\$1,678,265</u>

**Lifespan Corporation and Affiliates
Consolidated Statistics**

	Three Months Ended December 31	
	2022	2021
Inpatient Statistics:		
Licensed Beds -- Adult	1,008	1,008
Licensed Beds -- Pediatrics	157	157
Total Licensed Beds	1,165	1,165
Beds in Service -- Adult	904	899
Beds in Service -- Pediatrics	152	153
Total Staffed Beds	1,056	1,052
Discharges:		
Adult	11,936	11,522
Pediatrics	1,667	1,606
Total	13,603	13,128
Patient Days:		
Adult	70,340	69,819
Pediatrics	13,672	13,621
Total	84,012	83,440
Observation Days:		
Adult	5,454	4,735
Pediatrics	471	402
Total	5,925	5,137
Total Inpatient Activity:		
Adult	75,794	74,554
Pediatrics	14,143	14,023
Total	89,937	88,577
Average Length of Stay:		
Adult	5.89	6.06
Pediatrics	8.20	8.48
Total	6.18	6.36
Percent of Total Occupancy of Beds in Service:		
Adult	91.1%	90.1%
Pediatrics	101.1%	99.6%
Total	92.6%	91.5%
Medicare Case Mix Index	1.931	1.930
Inpatient Surgeries	3,168	3,303
Outpatient Statistics:		
Emergency Department Visits	55,979	53,201
Clinic Visits	207,816	193,198
Office Visits	94,361	91,073
Ambulatory Surgeries	5,880	5,444