KPMG

LIFESPAN CORPORATION AND AFFILIATES

Consolidated Financial Statements

September 30, 2009 and 2008

(With Independent Auditors' Report Thereon)

LIFESPAN CORPORATION AND AFFILIATES

Consolidated Financial Statements

September 30, 2009 and 2008

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KPMG LLP
50 Kennedy Plaza
Providence, RI 02903

Independent Auditors' Report

The Board of Directors
Lifespan Corporation:

We have audited the accompanying consolidated statements of financial position of Lifespan Corporation and Affiliates (Lifespan) as of September 30, 2009 and 2008, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended. These consolidated financial statements are the responsibility of Lifespan's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Lifespan's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Lifespan as of September 30, 2009 and 2008, and the results of their operations and changes in net assets, and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

As described in note 3 to the consolidated financial statements, in 2009 Lifespan adopted the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Subtopic 820-10, *Fair Value Measurements and Disclosures*, and ASC Subtopic 958-250, *Classification of Donor-Restricted Endowment Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act*.

KPMG LLP

February 3, 2010

LIFESPAN CORPORATION AND AFFILIATES

Consolidated Statements of Financial Position

September 30, 2009 and 2008

(In thousands)

Assets	**2009**	**2008**
Current assets:		
Cash and cash equivalents	$ 125,487	$ 60,284
Patient accounts receivable	218,011	206,462
Less allowance for doubtful accounts	(45,363)	(44,719)
Net patient accounts receivable	172,648	161,743
Other receivables	13,939	14,328
Current portion of contributions receivable, net	4,506	6,391
Total receivables	191,093	182,462
Assets limited as to use	20,310	18,394
Inventories	17,087	14,580
Prepaid expenses and other current assets	8,214	6,508
Total current assets	362,191	282,228
Assets limited as to use	1,014,916	971,662
Less amount required to meet current obligations	(20,310)	(18,394)
Noncurrent assets limited as to use	994,606	953,268
Property and equipment, net	758,859	740,946
Other assets:		
Contributions receivable, net	6,697	8,855
Deferred charges and financing costs, net	10,354	7,281
Other noncurrent assets	16,767	24,958
Total other assets	33,818	41,094
Total assets	$ 2,149,474	$ 2,017,536

Liabilities and Net Assets	**2009**	**2008**
Current liabilities:		
Accounts payable	$ 54,097	$ 59,897
Accrued employee benefits and compensation	76,931	60,558
Other accrued expenses	17,519	13,385
Current portion of long-term debt	9,370	5,975
Current portion of estimated third-party payor settlements	31,437	21,263
Current portion of estimated malpractice and other self-insurance costs	27,651	22,291
Total current liabilities	217,005	183,369
Long-term debt, net of current portion	385,877	285,723
Estimated third-party payor settlements, net of current portion	60,534	62,320
Estimated malpractice self-insurance costs, net of current portion	79,809	82,856
Accrued pension liability	145,201	38,196
Other liabilities	36,333	42,672
Total liabilities	924,759	695,136
Net assets:		
Unrestricted	823,063	900,297
Temporarily restricted	283,301	172,773
Permanently restricted	118,351	249,330
Total net assets	1,224,715	1,322,400
Total liabilities and net assets	$ 2,149,474	$ 2,017,536

See accompanying notes to consolidated financial statements.

LIFESPAN CORPORATION AND AFFILIATES

Consolidated Statements of Operations and Changes in Net Assets

Years ended September 30, 2009 and 2008

(In thousands)

	2009	2008
Unrestricted revenues and other support:		
Net patient service revenue	$ 1,376,405	$ 1,307,222
Other revenue	68,819	61,893
Endowment earnings contributed toward community benefit	10,480	11,008
Net assets released from restrictions used for operations	18,554	19,185
Net assets released from restrictions used for research	67,916	73,839
Total unrestricted revenues and other support	1,542,174	1,473,147
Operating expenses:		
Compensation and benefits	875,280	831,450
Supplies and other expenses	347,733	345,272
Purchased services	82,940	87,836
Provision for bad debts	74,315	76,811
Depreciation and amortization	52,187	50,057
Interest	17,260	13,599
License fees	60,095	36,141
Total operating expenses	1,509,810	1,441,166
Income from operations	32,364	31,981
Nonoperating gains and losses:		
Unrestricted gifts and bequests	1,441	1,604
Unrestricted income from board-designated investments	2,064	5,970
Net realized (losses) gains on board-designated investments	(20,858)	2,792
Grants to outside agencies	(234)	(867)
Fundraising expenses	(4,763)	(5,050)
Other nonoperating losses, net	(54)	(43)
Total nonoperating (losses) gains, net	(22,404)	4,406
Excess of revenues over expenses	$ 9,960	$ 36,387

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LIFESPAN CORPORATION AND AFFILIATES

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

Years ended September 30, 2009 and 2008

(In thousands)

	2009	2008
Unrestricted net assets:		
Excess of revenues over expenses	$ 9,960	$ 36,387
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	(100,225)	(10,856)
Effect of changing pension and other postretirement plans' measurement date pursuant to ASC Topic 715	(5,957)	—
Net change in unrealized gains on investments	1,511	(115,090)
Net assets released from restrictions used for purchase of property and equipment	15,433	18,881
Other increases	2,044	512
Decrease in unrestricted net assets	(77,234)	(70,166)
Temporarily restricted net assets:		
Reclassification from adoption of UPMIFA (note 3(j))	128,677	—
Gifts, grants, and bequests	87,850	93,075
Income from restricted endowment and other restricted investments	3,793	5,909
Net assets released from restrictions	(101,903)	(111,905)
Net realized and unrealized losses on investments	(8,102)	(31,534)
Appropriations from permanently restricted net assets	—	2,022
Other increases	213	—
Increase (decrease) in temporarily restricted net assets	110,528	(42,433)
Permanently restricted net assets:		
Reclassification from adoption of UPMIFA (note 3(j))	(128,677)	—
Gifts and bequests	1,243	1,687
Net unrealized losses on investments	(3,798)	(36,953)
Net realized gains on permanently restricted investments	—	4,787
Appropriations to temporarily restricted net assets	—	(2,022)
Other increases	253	—
Decrease in permanently restricted net assets	(130,979)	(32,501)
Decrease in net assets	(97,685)	(145,100)
Net assets, beginning of year	1,322,400	1,467,500
Net assets, end of year	$ 1,224,715	$ 1,322,400

See accompanying notes to consolidated financial statements.

LIFESPAN CORPORATION AND AFFILIATES

Consolidated Statements of Cash Flows

Years ended September 30, 2009 and 2008

(In thousands)

	2009	2008
Cash flows from operating activities:		
Decrease in net assets	$ (97,685)	$ (145,100)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:		
Change in funded status of pension and other postretirement plans, other than net periodic pension and postretirement benefit costs	100,225	10,856
Effect of changing pension and other postretirement plans' measurement date pursuant to ASC Topic 715	5,957	—
Net realized and unrealized losses on investments	31,247	175,998
Permanently restricted gifts and bequests	(1,243)	(1,687)
Depreciation and amortization	52,187	50,057
Provision for estimated self-insurance costs	127,243	115,269
Decrease in liabilities for estimated self-insurance costs resulting from claims paid	(124,930)	(103,492)
Net increase in patient accounts receivable	(10,905)	(4,733)
(Decrease) increase in accounts payable	(5,800)	5,248
Increase in accrued employee benefits and compensation	16,373	3,125
Increase (decrease) in estimated third-party payor settlements	8,388	(7,806)
Increase in all other current and noncurrent assets and liabilities, net	3,494	5,324
Net cash provided by operating activities	104,551	103,059
Cash flows from investing activities:		
Purchase of property and equipment	(70,100)	(109,405)
Net (increase) decrease in trustee-held bond funds	(66,800)	1,193
Other net increases in assets limited as to use	(7,701)	(10,156)
Net cash used in investing activities	(144,601)	(118,368)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	114,985	—
Payments on long-term debt	(10,975)	(3,495)
Permanently restricted gifts and bequests	1,243	1,687
Net cash provided by (used in) financing activities	105,253	(1,808)
Net increase (decrease) in cash and cash equivalents	65,203	(17,117)
Cash and cash equivalents at:		
Beginning of year	60,284	77,401
End of year	$ 125,487	$ 60,284
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 15,099	$ 14,338

See accompanying notes to consolidated financial statements.

(1) Description of Organization

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

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

Affiliated corporations of Lifespan Corp. are as follows:

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

(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, 2009 and 2008 is summarized in the following table:

		2009		2008
Charity care	$	40,922	$	36,417
Medical education, net		50,508		50,103
Research		13,468		14,121
Subsidized health services		13,559		12,725
Community health improvement services and community benefit operations		1,888		1,464
Unreimbursed Medicaid costs		896		354
Total	$	121,241	$	115,184

Charity Care

Lifespan provides full charity care for individuals at or below twice the federal poverty level, with a sliding scale for individuals up to four times the poverty level. In addition, a substantial charity allowance is offered to all other uninsured patients. Lifespan maintains records to identify and monitor the level of charity care it provides. The total cost incurred by Lifespan to provide charity care amounted to $40,922 and $36,417 in 2009 and 2008, respectively. Charges forgone, based on established rates, amounted to $157,582 and $137,401 in 2009 and 2008, 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 $50,508 and $50,103 in 2009 and 2008, 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 2004, Brown and Lifespan created the Brown-Lifespan Partnership to expand their affiliation agreement. The goals of the partnership are: to bring together essential resources of Brown and Lifespan, including faculty appointments; to enhance the strategic focus on and opportunities in clinical programs, teaching and research; and to ensure the excellence of academic and clinical programs. RIH sponsors 44 graduate medical education programs accredited by or under the auspices of the Accreditation Council for Graduate Medical Education (ACGME), while also sponsoring another 24 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.

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RIH is also a participating clinical training site for residents in anesthesiology, emergency medicine, family medicine, infectious disease, obstetrics/gynecology (OB/Gyn) and OB/Gyn subspecialties, otolaryngology, podiatry, psychiatry, orthopedics, pulmonary medicine, colorectal surgery, and radiation oncology programs. 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.

In addition, TMH Behavioral Medicine, in collaboration with Brown, sponsors research and clinical psychology training programs for interns, postdoctoral fellows and faculty trainees.

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

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

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

Research

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

Federal support accounts for approximately 78% of all externally funded research at Lifespan. Researchers focus on clinical trials which investigate prevention and treatment of HIV/AIDS, obesity, cancer, diabetes, cardiac disease, neurological problems and mental health concerns. Researchers may work in the laboratory or with patients, or both.

Subsidized Health Services

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

Community Health Improvement Services and Community Benefit Operations

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

Unreimbursed Medicaid Costs

Lifespan subsidizes the cost of treating patients who receive government assistance where reimbursement is below cost. Medicaid is a means-tested health insurance program, jointly funded by state and federal governments. States administer the program and set rules for eligibility, benefits and provider payments within broad federal guidelines. The program provides health care coverage to low-income children and families, pregnant women, long-term unemployed adults, seniors and persons with disabilities. Eligibility is determined by a variety of factors, which include income relative to the federal poverty line, age and immigration status, and assets.

(3) Summary of Significant Accounting Policies

(a) Basis of Presentation

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

Lifespan considers events and transactions that occur after the 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 3, 2010 and subsequent events have been evaluated through that date.

(b) Use of Estimates

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

(c) Accounting Pronouncements Adopted in 2009

On October 1, 2008 Lifespan adopted the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Subtopic 820-10, *Fair Value Measurements and Disclosures* (ASC 820-10). ASC 820-10 establishes an authoritative definition of fair value, sets out a framework for measuring fair value, and requires additional disclosures about fair value measurements. See note 5 for disclosures of fair value required by ASC 820-10.

Effective October 1, 2008, Lifespan adopted the provisions of FASB ASC Subtopic 958-250, *Classification of Donor-Restricted Endowment Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act* (ASC 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, both donor-restricted endowment funds and board-designated endowment funds. See note 5 for disclosures of endowment funds required by ASC 958-250.

Effective September 30, 2009, Lifespan adopted the provisions of FASB ASC Subtopic 855-10, *Subsequent Events* (ASC 855-10). ASC 855-10 defines subsequent events and transaction periods, those circumstances under which the events or transactions should be recognized, and disclosures regarding subsequent events or transactions. ASC 855-10 is effective for annual periods ending after June 15, 2009. Although the adoption of ASC 855-10 did not affect Lifespan's consolidated financial statements, additional disclosures are now included under *Basis of Presentation* above.

In June 2009, the FASB issued Accounting Standards Update (ASU) 2009-1 (Codification). The Codification does not change U.S. generally accepted accounting principles, but combines all authoritative standards issued by organizations that are in levels A through D of the generally accepted accounting principles hierarchy, such as the FASB, American Institute of Certified Public Accountants, and Emerging Issues Task Force, into a comprehensive, topically organized online database. No accounting impact occurred since this is an accumulation of existing guidance. The Codification became effective for reporting periods that end after September 15, 2009.

(d) Accounting Pronouncements Not Yet Adopted

In December 2008, the FASB issued ASC Sections 715-20-50 and 55, *Employers' Disclosures about Postretirement Benefit Plan Assets,* which require additional disclosures for employers' pension and other postretirement benefit plan assets. The guidance requires employers to disclose information about fair value measurements of plan assets similar to the disclosures required under ASC Subtopic 820-10. Those disclosures will include the investment policies and strategies for the major categories of plan assets, as well as significant concentrations of risk within plan assets. ASC Sections 715-20-50 and 55 are effective for annual periods ending after December 15, 2009. Lifespan does not believe the adoption of ASC Sections 715-20-50 and 55 will have a material impact on its consolidated financial position, results of operations or cash flows since their requirements are limited to additional disclosures.

(e) 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.

(f) Investments and Investment Income

As noted above, effective October 1, 2008, Lifespan adopted the recognition and disclosure provisions of ASC 820-10. 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 Subtopic 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 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. The adoption of ASC 820-10 did not have an impact on Lifespan's consolidated financial position, changes in net assets, or cash flows, but did significantly expand fair value disclosures.

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

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

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

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

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

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

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

Effective October 1, 2008, Lifespan reclassified $418,775 of its assets limited as to use from available-for-sale securities to trading securities. Investments designated by Lifespan as trading assets are reported at fair value, with gains or losses resulting from changes in fair value recognized in the consolidated statement of operations and changes in net assets as realized gains or losses on investments.

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

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

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

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

(g) Assets Limited as to Use

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

(h) Property and Equipment

Property and equipment acquisitions are recorded at cost. Depreciation is computed over the estimated useful life of each class of depreciable asset using the straight-line method. Buildings and improvements lives range from 5 to 40 years and equipment from 3 to 20 years. Certain software development costs are amortized using the straight-line method over a period of five years. Net interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

(i) 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.

(j) Classification of Net Assets

As noted above, effective October 1, 2008, Lifespan adopted the provisions of ASC 958-250, which provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and also requires disclosures about endowment funds, including donor-restricted endowment funds and board-designated endowment funds.

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

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by UPMIFA. As a result of this new law and the adoption of ASC 958-250, Lifespan has classified its September 30, 2009 net assets as follows:

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

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

(k) Excess of Revenues over Expenses

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

(l) Net Patient Service Revenue

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

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

Most hospital services to Rhode Island Medicaid patients are reimbursed based on negotiated costs under a prospective cost arrangement. The tentative hospital reimbursement rates are determined by certain negotiated budgeted expenditures and budgeted volume. Variances from budgeted volume are reimbursable at rates which may differ from the budgeted rate.

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

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

(m) Provision for Bad Debts

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

(n) Charity Care

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

(o) Donor-Restricted Gifts

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Amounts received that are restricted by the donor for specific purposes are reported as temporarily

(Continued)

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.

(p) Inventories

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

(q) Estimated Self-Insurance Costs

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

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

(r) Fair Value of Financial Instruments

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

(s) Reclassifications

Certain 2008 amounts have been reclassified to conform with the 2009 reporting format.

(4) Disproportionate Share

RIH, TMH, Bradley, and NH (the Hospitals) are participants in the State of Rhode Island's Disproportionate Share Program, established in 1995 to assist hospitals which provide a disproportionate amount of uncompensated care. Under the program, Rhode Island hospitals, including the Hospitals, receive federal and state Medicaid funds as additional reimbursement for treating a disproportionate share of low income patients. Total payments to the Hospitals under the Disproportionate Share Program aggregated $57,016 and $48,776 in 2009 and 2008, respectively, and are reflected as part of net patient service revenue in the accompanying consolidated statements of operations and changes in net assets.

The State of Rhode Island has assessed a license fee to all Rhode Island hospitals, based on each hospital's 2007 net patient service revenue as defined. The Hospitals' license fee expense was $60,095 and $36,141, in 2009 and 2008, respectively. The hospitals in the State of Rhode Island accepted the fee as part of an agreement with the State's Department of Health and Human Services in return for an equitable distribution of funds to those hospitals meeting certain criteria in providing services to the Medicaid population.

For periods beyond 2009, the federal government could change the level of federal matching funds for the Disproportionate Share Program. Accordingly, it may be necessary for the State of Rhode Island to modify the program and the reimbursement to Rhode Island hospitals under the program. At this time, the scope of such modifications or their effect on the Hospitals cannot be reasonably determined.

(In thousands)

(5) Investments

The composition of assets limited as to use at September 30, 2009 and 2008 is set forth in the following table.

	2009	2008
Funds available for self-insurance liabilities:		
Cash and short-term investments	$ 19,734	$ 8,358
U.S. government and agency obligations	16,451	22,477
Corporate equity securities	5,340	5,906
Corporate obligations	73,291	77,113
Collective investment funds	22,044	13,343
	136,860	127,197
Unrestricted board-designated funds:		
Cash and short-term investments	2,062	—
U.S. government and agency obligations	33,827	17,555
Corporate equity securities	47,440	98,058
Corporate obligations	27,225	25,692
Collective investment funds	314,603	299,274
Other investments	890	1,071
	426,047	441,650
Held by trustee under bond indenture agreements:		
Cash and short-term investments	58,495	2,057
U.S. government and agency obligations	10,362	—
	68,857	2,057
Temporarily restricted funds:		
Cash and short-term investments	1,691	413
U.S. government and agency obligations	20,843	5,636
Corporate equity securities	29,231	31,478
Corporate obligations	16,777	8,248
Collective investment funds	198,820	108,479
Other investments	171	106
	267,533	154,360

(Continued)

(In thousands)

	2009	2008
Permanently restricted funds:		
Cash and short-term investments	$ 1,088	$ 660
U.S. government and agency obligations	5,880	9,884
Corporate equity securities	20,825	57,707
Corporate obligations	10,630	16,847
Collective investment funds	58,547	142,159
Other investments	18,649	19,141
	115,619	246,398
Total	$ 1,014,916	$ 971,662

Trading Securities

Effective October 1, 2008, Lifespan reclassified certain of its assets limited as to use from available-for-sale securities to trading securities. The gains recognized as a result of this transfer amounted to $30,870.

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

	2009	2008
Available-for-sale	$ 635,810	$ 971,662
Trading	379,106	—
Total	$ 1,014,916	$ 971,662

Fair Value

The following table summarizes Lifespan’s investments and assets held in trust in the ASC 820-10 fair value hierarchy as of September 30, 2009:

	Level 1	Level 2	Level 3	Total
Investments:				
Cash and short-term investments	$ 95,338	$ —	$ —	$ 95,338
U.S. government and agency obligations	34,945	10,305	—	45,250
Corporate equity securities	88,213	—	—	88,213
Corporate obligations	—	147,511	—	147,511
Collective investment funds	102,105	374,663	3,975	480,743
	320,601	532,479	3,975	857,055
Assets held in trust (Note 6)	—	—	59,371	59,371
Total	$ 320,601	$ 532,479	$ 63,346	$ 916,426

(In thousands)

Investments in collective investment funds which do not have monthly pricing and 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 $98,490 at September 30, 2009. During 2009 and 2008 there were no declines in market values of any of these investments below their cost which were designated to be other than temporary.

Most investments classified in Levels 2 and 3 consist of shares or units in investment funds as opposed to direct interests in the funds' underlying holdings, which may be marketable. Because the NAV reported by each fund is used as a practical expedient to estimate the fair value of Lifespan's interest therein, its classification in Level 2 or 3 is based on Lifespan's ability to redeem its interest at or near the date of the consolidated statement of financial position. If the interest can be redeemed in the near term, the investment is 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.

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

	Collective investment funds	Assets held in trust	Total
Fair value at October 1, 2008	$ 4,164	$ 62,818	$ 66,982
Net realized and unrealized	(189)	(3,447)	(3,636)
Fair value at September 30, 2009	$ 3,975	$ 59,371	$ 63,346

(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:

		2009		2008
Other revenue:				
Investment income	$	12,915	$	4,740
Endowment earnings contributed toward community benefit:				
Dividend and interest income	$	10,480	$	11,008
Nonoperating gains and losses:				
Unrestricted income from board-designated investments	$	2,064	$	5,970
Net realized (losses) gains on board-designated investments		(20,858)		2,792
	$	(18,794)	$	8,762
Other changes in unrestricted net assets:				
Net change in unrealized gains on investments	$	1,511	$	(115,090)
Changes in temporarily restricted net assets:				
Income from restricted endowment and other restricted investments	$	3,793	$	5,909
Net realized and unrealized losses on investments		(8,102)		(31,534)
	$	(4,309)	$	(25,625)
Changes in permanently restricted net assets:				
Net unrealized losses on investments	$	(3,798)	$	(36,953)
Net realized gains on permanently restricted investments		—		4,787
	$	(3,798)	$	(32,166)

(In thousands)

Liquidity

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

Investment redemption or sale period:		
Daily	$	655,683
Monthly		94,271
Quarterly		90,472
One-to-five years		4,995
Locked-up until liquidation		11,634
Total	$	857,055

Locked-up until liquidation includes trustee-held debt service reserve funds under bond indenture agreements.

Commitments

Energy, venture capital, private equity and certain real estate investments are generally 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, 2009 was $15,898.

(In thousands)

Investments With Unrealized Losses

Information regarding investments with unrealized losses at September 30, 2009 and 2008 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, 2009:						
Internally board-designated, temporarily restricted and permanently restricted funds:						
Collective investment funds	$ —	$ —	$ 52,004	$ 9,498	$ 52,004	$ 9,498
Total temporarily impaired securities	$ —	$ —	$ 52,004	$ 9,498	$ 52,004	$ 9,498

	Less than 12 months		12 months or longer		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
September 30, 2008:						
Funds available for self-insurance liabilities	$ 2,118	$ 843	$ —	$ —	$ 2,118	$ 843
Internally board-designated, temporarily restricted and permanently restricted funds:						
Collective investment funds	234,381	38,326	—	—	234,381	38,326
Total temporarily impaired securities	$ 236,499	$ 39,169	$ —	$ —	$ 236,499	$ 39,169

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

Securities Lending

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

(In thousands)

Endowments

Lifespan's endowment consists of approximately 461 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, 2009:

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

Endowment funds consist of the following at September 30, 2008:

	Unrestricted board-designated	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$ —	$ 154,360	$ 246,398	$ 400,758
Internally board-designated endowment funds	441,650	—	—	441,650
Total endowment funds	$ 441,650	$ 154,360	$ 246,398	$ 842,408

(In thousands)

Endowments (continued)

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

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

Changes in endowment funds for the year ended September 30, 2008 are as follows:

	Unrestricted board-designated	Temporarily restricted	Permanently restricted	Total
Endowment funds, October 1, 2007	$ 553,275	$ 186,681	$ 278,899	$ 1,018,855
Interest and dividend income	14,110	5,909	—	20,019
Net realized and unrealized losses	(106,827)	(31,534)	(32,166)	(170,527)
Cash gifts, grants and bequests	1,604	103,187	1,687	106,478
Net assets released from restrictions	—	(111,905)	—	(111,905)
Deposits	3,273	—	—	3,273
Withdrawals	(23,785)	—	—	(23,785)
Appropriations from permanently restricted net assets	—	2,022	(2,022)	—
Endowment funds, September 30, 2008	$ 441,650	$ 154,360	$ 246,398	$ 842,408

(Continued)

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 5.5% plus inflation annually. Actual returns in any given year or period of years may vary from this amount.

(c) Strategies Employed for Achieving Objectives

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

(In thousands)

Endowments (continued)

(d) Spending Policy

As noted, 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 applicable Lifespan affiliates will be formalizing an endowment spending rate determination in 2010 based on all of the above factors. This spending rate will be applied to the average fair value of the applicable endowments for the immediately preceding three years.

(6) Assets Held in Trust

Certain Lifespan affiliates (Bradley, RIH, and NH) are beneficiaries of various irrevocable charitable and split-interest trusts. The fair market value of these investments at September 30, 2009 and 2008 was approximately $59,371 and $62,818, respectively, and is reported as permanently restricted funds within assets limited as to use in the consolidated statements of financial position.

(7) Property and Equipment

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

	2009	2008
Land and improvements	$ 31,948	$ 31,938
Buildings and improvements	953,301	840,106
Equipment	486,181	470,016
	1,471,430	1,342,060
Less accumulated depreciation and amortization	743,323	692,023
	728,107	650,037
Construction in progress	30,752	90,909
Property and equipment, net	$ 758,859	$ 740,946

Depreciation and amortization expense for the years ended September 30, 2009 and 2008 amounted to $52,187 and $50,057, respectively.

The estimated cost of completion of construction in progress approximated $10,900 at September 30, 2009, comprised principally of RIH ($8,000) and Bradley ($2,100) projects. In addition, RIH and TMH have several building renovation projects pending contractual commitments with estimated costs of completion of approximately $6,000 and $1,600, respectively.

(In thousands)

It is Lifespan's policy to capitalize the net amount of interest cost associated with significant capital additions as a component of the cost of such assets, which is amortized over the asset's estimated useful life. Capitalized interest amounted to $161 in 2009. No interest was capitalized in 2008.

(8) Pension and Other Postretirement Benefits

Change in Measurement Date of Pension and Other Postretirement Benefit Plans

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

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

Pension Benefits – Lifespan Corporation Retirement Plan

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

(In thousands)

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

The Plan is intended to constitute a plan described in Section 414(k) of the Internal Revenue Code, under which benefits are derived from employer contributions based on the separate account balances of participants in addition to the defined benefits provided under the Plan, which are based on an employee's years of credited service and annual compensation. Lifespan's funding policy is to contribute amounts to the Plan sufficient to meet minimum funding requirements set forth in the Employee Retirement Income Security Act of 1974 (ERISA) and the Internal Revenue Code as amended, plus such additional amounts as may be determined to be appropriate by Lifespan.

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

The provisions of ASC 715 require an employer to recognize in its statement of financial position an asset for a benefit plan's overfunded status or a liability for a plan's underfunded status, and to recognize changes in that funded status in the year in which the changes occur through changes in unrestricted net assets. The funded-status amount is measured as the difference between the fair value of plan assets and the benefit obligation including all actuarial gains and losses and prior service cost. Based on September 30, 2009 funded-status amounts for the Plan, Lifespan recorded a decrease in unrestricted net assets of $101,621.

The estimated amounts that will be amortized from unrestricted net assets into net periodic pension cost in 2010 are as follows:

Net actuarial loss	$	7,940
Prior service cost		801
	$	8,741

(In thousands)

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

		2009		2008
Change in projected benefit obligation:				
Projected benefit obligation at beginning of year	$	389,966	$	382,309
Effects of changing the Plan's measurement date:				
Service cost and interest cost for July 1 - September 30, 2008		11,001		—
Benefits paid for July 1 - September 30, 2008		(3,716)		—
Service cost		22,237		21,052
Interest cost		21,769		24,904
Actuarial loss (gain)		26,505		(21,619)
Benefits paid		(13,858)		(15,844)
Administrative expenses		(928)		(836)
Projected benefit obligation at end of year	$	452,976	$	389,966

The accumulated benefit obligation at the end of 2009 and 2008 was $387,586 and $339,725, respectively.

		2009		2008
Change in plan assets:				
Fair value of plan assets at beginning of year	$	351,770	$	357,548
Effects of changing the Plan's measurement date:				
Benefits paid for July 1 - September 30, 2008		(3,716)		—
Administrative expenses paid for July 1 - September 30, 2008		(322)		—
Actual return on plan assets		(47,725)		(7,217)
Employer contributions		22,554		18,119
Benefits paid		(13,858)		(15,844)
Administrative expenses		(928)		(836)
Fair value of plan assets at end of year	$	307,775	$	351,770

(In thousands)

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

	2009	2008
Funded status, end of year:		
Fair value of plan assets	$ 307,775	$ 351,770
Projected benefit obligation	452,976	389,966
	$ (145,201)	$ (38,196)

Amounts recognized in the consolidated statements of financial position at September 30, 2009 and 2008 are as follows:

	2009	2008
Accrued pension liability	$ 145,201	$ 38,196

	2009	2008
Amounts not yet reflected in net periodic pension cost and included in unrestricted net assets:		
Prior service cost	$ (2,477)	$ (3,698)
Accumulated net actuarial loss	(105,606)	(2,764)
Amounts not yet recognized as a component of net periodic pension cost	(108,083)	(6,462)
Accumulated net periodic pension cost in excess of employer contributions	(37,118)	(31,734)
Net amount recognized	$ (145,201)	$ (38,196)

	2009	2008
Sources of change in unrestricted net assets:		
Net loss arising during the year	$ (103,127)	$ (12,744)
Amortizations:		
Net actuarial loss (gain)	285	(798)
Prior service cost	1,221	997
Total unrestricted net asset loss recognized during the year	$ (101,621)	$ (12,545)

(In thousands)

Net Periodic Pension Cost

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

	2009	2008
Service cost	$ 22,237	$ 21,052
Interest cost	21,769	24,904
Expected return on plan assets	(22,861)	(27,144)
Amortization of net actuarial loss (gain)	208	(798)
Amortization of prior service cost	997	997
Net periodic pension cost	$ 22,350	$ 19,011

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

	2009	2008
Discount rate for benefit obligations	5.74%	6.92%
Discount rate for net periodic pension cost	6.92	6.25
Rate of compensation increase	4.50	4.50
Expected long-term rate of return on Plan assets	8.00	8.00

The asset allocation for the Plan at September 30, 2009 and June 30, 2008, and the target allocation for 2010, by asset category, are as follows:

	Target	Percentage of plan assets	
Asset category	allocation 2010	September 30, 2009	June 30, 2008
U.S. equity	15 - 35%	13.6%	18.8%
Absolute return	0 - 25%	18.4	10.5
International equity	10 - 35%	19.0	23.0
Venture capital	0 - 10%	1.7	1.7
Commodities	0 - 20%	6.9	14.9
Real estate	0 - 15%	4.8	6.8
Fixed income	10 - 50%	33.5	21.8
Cash and cash equivalents	0 - 10%	2.1	2.5
Total		100.0%	100.0%

The above table does not include $63,508 and $68,862 of Plan assets at September 30, 2009 and June 30, 2008, respectively, attributable to the separate savings account balances of participants which are managed in various mutual funds by Fidelity Investments.

(Continued)

(In thousands)

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 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 5% over the long term (rolling five-year periods). Real total return is the sum of capital appreciation (or loss) and current income (dividends and interest) adjusted for inflation by the Consumer Price Index.

Lifespan employs a rigorous process to annually determine the expected long-term rate of return on Plan assets which is only changed based on significant shifts in economic and financial market conditions. These estimates are primarily driven by actual historical asset-class returns along with our long-term outlook for a globally diversified portfolio. Asset allocations are regularly updated based on evaluations of future market returns for each asset class.

Expected Cash Flows

Information about the expected cash flows for the Plan follows:

Employer contributions:		
2010 (expected)	$	25,727
Expected benefit payments:		
2010		23,065
2011		22,233
2012		23,889
2013		26,738
2014		27,766
2015 through 2019		167,108

Management evaluates its Plan assumptions annually and the expected contribution in 2010 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.

(In thousands)

Lifespan recognizes 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 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, 2009 funded-status amounts for the postretirement benefit plan, Lifespan recorded an increase in unrestricted net assets of $1,396 in 2009.

The estimated amounts that will be amortized from unrestricted net assets into net periodic postretirement benefit cost in 2010 are as follows:

Net actuarial loss	$	209
Prior service benefit		(1,056)
	$	(847)

Benefit Obligations

		2009		2008
Change in benefit obligation:				
Accumulated postretirement benefit obligation at beginning of year	$	23,285	$	24,978
Service cost and interest cost for July 1 - September 30, 2008		519		—
Service cost		486		567
Interest cost		1,587		1,538
Benefits paid		(1,421)		(1,484)
Actuarial gain		(1,987)		(2,314)
Accumulated postretirement benefit obligation at end of year	$	22,469	$	23,285

(In thousands)

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:

	2009	2008
Benefit obligations	$ 22,469	$ 23,285
Funded status	(22,469)	(23,285)
Accrued postretirement benefit cost recognized in the consolidated statements of financial position	$ (22,469)	$ (23,285)

Amounts recognized in the consolidated statements of financial position at September 30, 2009 and 2008 consist of:

	2009	2008
Accrued postretirement benefit cost:		
Current (included in accrued employee benefits and compensation)	$ 1,400	$ 1,700
Noncurrent (included in other liabilities)	21,069	21,585
Total accrued postretirement benefit cost	$ 22,469	$ 23,285

	2009	2008
Amounts not yet reflected in net periodic postretirement benefit cost and included in unrestricted net assets:		
Prior service benefit	$ 2,468	$ 3,788
Accumulated net actuarial loss	(3,899)	(6,413)
Amounts not yet recognized as a component of net periodic postretirement benefit cost	(1,431)	(2,625)
Accumulated net periodic postretirement benefit cost	(21,038)	(20,660)
Net amount recognized	$ (22,469)	$ (23,285)

(In thousands)

	2009	2008
Sources of change in unrestricted net assets:		
Net gain arising during the year	$ 2,030	$ 2,089
Amortizations:		
Net actuarial loss	422	656
Prior service benefit	(1,056)	(1,056)
Total unrestricted net asset gain recognized during the year	$ 1,396	$ 1,689

Net Periodic Postretirement Benefit Cost

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

	2009	2008
Service cost	$ 486	$ 567
Interest cost	1,587	1,538
Amortization of prior service benefit	(1,056)	(1,056)
Amortization of net actuarial loss	422	656
Net periodic postretirement benefit cost	$ 1,439	$ 1,705

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

	2009	2008
Discount rate for benefit obligations	5.74%	6.92%
Discount rate for net periodic postretirement benefit cost	6.92	6.25

Assumed Health Care Cost Trend Rates at September 30:

	2009	2008
Health care cost trend rate assumed for next year	9%	9%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	5%	5%
Year that the rate reaches the ultimate trend rate	2015	2015

(In thousands)

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, 2009:

	1-Percentage-Point Increase	1-Percentage-Point Decrease
Effect on total of service cost and interest cost	$ 169	$ (152)
Effect on accumulated postretirement benefit obligation	1,686	(1,522)

Expected Cash Flows

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

Expected benefit payments:	
2010	$ 1,400
2011	1,700
2012	1,800
2013	2,000
2014	2,100
2015 through 2019	11,300

Supplemental Executive Retirement Plans

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

(9) Estimated Self-Insurance Costs

Professional Liability/Medical Malpractice and General Liability

Professional liability/medical malpractice coverage for RIH, TMH, Bradley, NHCC and all other Lifespan affiliates is supplied on a claims-made basis by RISE, Lifespan's affiliated captive insurance company, which underwrites the medical malpractice risk of Lifespan (including a contractual commitment to indemnify certain eligible non-employed 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 $22,000 per claim. Also covered under the Lifespan professional liability/medical malpractice policy are 514 non-employed physicians. Each of these physicians is provided with a $2,000 indemnification per claim and a $6,000 annual indemnification aggregate.

(In thousands)

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 amounts accrued for estimated professional liability/medical malpractice and general liability self-insurance costs at September 30, 2009 and 2008 have been discounted at 4% and 5%, respectively. Had Lifespan provided for losses at undiscounted levels, estimated self-insurance liabilities would have been increased by approximately $7,300 and $9,000 at September 30, 2009 and 2008, respectively.

Workers' Compensation

Lifespan has recorded a provision for workers' compensation losses, based on actuarial studies and its own experience. The amount accrued for estimated workers' compensation self-insurance costs at September 30, 2009 and 2008 has been discounted at 4% and 5%, respectively. Had such losses been provided for at undiscounted levels, estimated self-insurance liabilities would have been increased by approximately $655 and $829 at September 30, 2009 and 2008, respectively. Lifespan has a standby letter of credit at September 30, 2009 in the amount of $3,000 supporting the estimated unpaid liability.

(10) Patient Service Revenue and Related Reimbursement

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

	2009	2008
Medicare and Senior Care	39%	38%
Blue Cross	20	21
Medicaid and RIte Care	15	16
Managed care	13	13
Commercial, self-pay, and other	13	12
	100%	100%

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

(Continued)

(In thousands)

Cost reports filed annually with third-party payors are subject to audit prior to final settlement. The 2009 Medicare and Medicaid cost reports have not been filed and therefore are not settled. In addition, the following cost reports have not been settled:

	RIH	TMH	Bradley	NH
Medicare 2008	X	X		X
Medicare 2007	X	X		X
Medicare 2006	X	X		
Medicaid 2008	X	X	X	X
Medicaid 2007	X	X	X	X
Medicaid 2006	X	X	X	X
Medicaid 2005	X	X	X	X
Medicaid 2004		X	X	X

Regulations in effect require annual settlements based upon cost reports filed by the 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 $2,283 and $5,751 in 2009 and 2008, respectively, to reflect changes in the estimated settlements for certain prior years.

Revenues from Medicare and Medicaid programs accounted for approximately 39% and 15%, respectively, of Lifespan's gross patient service revenue for the year ended September 30, 2009. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Lifespan believes that they are in compliance with all applicable laws and regulations. Lifespan is responding to a recent investigation by the United States Department of Health and Human Services, Office of the Inspector General, dealing with the medical necessity of a limited number of Medicare inpatient claims. It is not possible to state at this time whether and to what extent liability will be imposed or a settlement will be reached. While Lifespan intends to continue to defend the matter vigorously, the Civil False Claims Act (the Act) contains provisions for the imposition of double and treble damages and civil penalties upon finding that the Act was violated, which could result in material liability. Compliance with laws and regulations can be subject to future government review and interpretation as well as significant regulatory action; failure to comply with such laws and regulations can result in fines, penalties, and exclusion from Medicare and Medicaid programs.

(11) Income Tax Status

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

(Continued)

(In thousands)

(12) Long-Term Debt

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

		2009		2008
Hospital Financing Revenue fixed rate serial and term bonds due May 15, 2010 through 2032 in annual amounts ranging from $6,605 to $15,020 at rates ranging from 4% to 5% (2006A Series – Lifespan Obligated Group)	$	189,780	$	192,135
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		—
Hospital Financing Revenue fixed rate serial and term bonds due May 15, 2010 through 2026 in annual amounts ranging from $625 to $14,705 at rates ranging from 5.3% to 5.75% (1996 Series – Lifespan Obligated Group)		54,585		55,175
Hospital Financing Revenue fixed rate serial and term bonds due July 1, 2010 through 2029 in annual amounts ranging from $720 to $1,890 at rates ranging from 4.75% to 5.3% (1999 Series – NH)		24,255		24,945
Hospital Financing Revenue fixed rate serial and term bonds due August 15, 2010 through 2012 in annual amounts ranging from $1,420 to $1,595 at rates ranging from 5.75% to 6.375% (2002 Series – Lifespan Obligated Group)		4,515		5,855
Hospital Financing Revenue variable rate bonds due each March 1 in an annual amount of $1,000 (2004 Series – NH)		—		6,000
Unamortized premium – 2006A Series		6,965		7,655
Unamortized premium – 2009A Series		202		—
Unamortized discount – 1996 and 2002 Series		(40)		(67)
	$	395,247	$	291,698
Less current portion		9,370		5,975
Long-term debt, excluding current portion	$	385,877	$	285,723

The estimated fair value of Lifespan's long-term debt at September 30, 2009 amounts to $395,172 and is estimated using discounted cash flow analyses, based on Lifespan's current incremental borrowing rates for similar types of borrowing arrangements.

(Continued)

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

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

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

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

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

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

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

(Continued)

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

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

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

On March 1, 2004, RIHEBC issued, on behalf of Newport Hospital (NH), $10,000 of tax-exempt bonds (the 2004 Bonds) to finance the renovation of an inpatient medical/surgical unit as well as the purchase of CT Scan equipment and new beds.

On September 30, 2009, NH defeased the remaining $5,000 outstanding principal amount of the 2004 Bonds. NH elected, pursuant to Section 310(d) of the Indenture, to redeem the Bonds on October 1, 2009 (the Redemption Date) using proceeds from the Credit Facility furnished for the Bonds. On September 30, 2009, the trustee drew on the Credit Facility provided for the Bonds an amount equal to the outstanding principal of and accrued but unpaid interest on the Bonds due on the Redemption Date (the Purchase Price) and the trustee deposited such funds in the Bond Fund for application on the Redemption Date (October 1, 2009) to the payment of the Purchase Price. Also on September 30, 2009, NH reimbursed the provider of the Credit Facility, Bank of America, N.A., in full for the trustee's draw on the Credit Facility.

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, 2009, management believes NH was in compliance with all covenants of the bonds.

Lifespan's aggregate maturities of long-term debt for the five fiscal years ending in September 2014 are as follows: 2010, $9,370; 2011, $9,785; 2012, $10,295, 2013, $10,820, and 2014, $11,370.

(In thousands)

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

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

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

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

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

	2009	2008
RIH, TMH and Bradley:		
Project Fund – 2009 Series	$ 56,336	$ —
Bond Funds	2	1,041
Debt Service Reserve Fund – 2009 Series	11,502	—
Debt Service Reserve Fund – 2002 Series	520	518
	68,360	1,559
Newport Hospital Bond Fund – 1999 Series	497	498
Total	$ 68,857	$ 2,057

(13) Temporarily and Permanently Restricted Net Assets

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

	2009	2008
General health care service activities	$ 221,110	$ 126,596
Research	62,191	46,177
Total	$ 283,301	$ 172,773

(In thousands)

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

	2009	2008
General health care service activities	$ 113,356	$ 226,807
Research	4,995	22,523
Total	$ 118,351	$ 249,330

(14) Leases

Lifespan leases building space and equipment under various noncancelable operating lease agreements. Future minimum lease payments, by year and in the aggregate, under noncancelable operating leases with terms of one year or more consist of the following at September 30, 2009:

	Amount
Year ending September 30:	
2010	$ 15,917
2011	11,365
2012	9,424
2013	6,598
2014	3,732
Total minimum lease payments	$ 47,036

Rental expense, including rentals under leases with terms of less than one year, for the years ended September 30, 2009 and 2008 was $16,311 and $14,588, respectively.

(15) Concentrations of Credit Risk

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

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

(In thousands)

(16) Malpractice and Other Litigation

Certain Lifespan hospitals or their indemnified physicians have been named as defendants in a number of pending actions seeking damages for alleged general or 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.

(17) Related-Party Transactions

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

The amounts included in operating expenses in the consolidated statements of operations and changes in net assets related to services provided to Lifespan by the PSO for the years ended September 30, 2009 and 2008 are $3,001 and $3,048, respectively.

(18) Functional Expenses

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

	2009	2008
Health care services	$ 1,228,778	$ 1,160,557
Research	81,384	87,960
General and administrative:		
Depreciation and amortization	52,187	50,057
Interest	17,260	13,599
Other	130,201	128,993
Total general and administrative	199,648	192,649
	$ 1,509,810	$ 1,441,166

(In thousands)

(19) Promises to Give

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

	2009	2008
Capital campaigns	$ 7,441	$ 10,791
Other restricted	5,399	7,102
Unconditional promises to give before unamortized discount and allowance for uncollectibles	12,840	17,893
Less unamortized discount at rates ranging from 2.3% to 4.6%	(1,238)	(1,777)
Subtotal	11,602	16,116
Less allowance for uncollectibles	(399)	(870)
Net unconditional promises to give	$ 11,203	$ 15,246
Amounts due in:		
Less than one year	$ 5,151	7,499
One to five years	6,804	9,281
More than five years	885	1,113
Total	$ 12,840	$ 17,893

(20) Affiliation with Care New England Health System

On July 26, 2007, Lifespan Corporation and Care New England Health System (the Parties) entered into a Master Affiliation Agreement. Under this Agreement, Lifespan Corporation would become the sole corporate member of Care New England Health System. Care New England Health System is an integrated delivery network established in February 1996 which includes Butler Hospital, Kent County Memorial Hospital, Women & Infants Hospital of Rhode Island and their related affiliates. The Federal Trade Commission (FTC) reviewed the transaction in the fourth quarter of calendar years 2007, 2008 and 2009. In each instance, the FTC did not issue a second request for additional information and did not take action to oppose the transaction. Approval is currently being sought from the Rhode Island Attorney General's Office and the Rhode Island Department of Health.

(21) Combination of RIH and TMH

On July 21, 2009, Lifespan announced its intention to combine RIH and TMH into a single hospital with two campuses. Rhode Island Hospital Foundation and The Miriam Hospital Foundation will remain as separate entities. The hospitals do not expect the elimination of services or a significant loss of jobs. The plan will be subject to applicable State regulatory approvals.