



LIFESPAN CORPORATION AND AFFILIATES

Consolidated Financial Statements and Supplementary Information

September 30, 2008 and 2007

(With Independent Auditors' Report Thereon)

LIFESPAN CORPORATION AND AFFILIATES
Consolidated Financial Statements and Supplementary Information
September 30, 2008 and 2007

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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, 2008 and 2007, 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, 2008 and 2007, 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 8 to the consolidated financial statements, Lifespan adopted the provisions of Financial Accounting Standards Board (FASB) Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132(R)*, in 2007.

KPMG LLP

January 23, 2009

LIFESPAN CORPORATION AND AFFILIATES

Consolidated Statements of Financial Position

September 30, 2008 and 2007

(In thousands)

Assets	2008	2007	Liabilities and Net Assets	2008	2007
Current assets:			Current liabilities:		
Cash and cash equivalents	\$ 60,284	\$ 77,401	Accounts payable	\$ 59,897	\$ 54,649
Patient accounts receivable	206,462	200,666	Accrued employee benefits and compensation	60,558	57,433
Less allowance for doubtful accounts	<u>(44,719)</u>	<u>(43,656)</u>	Other accrued expenses	13,385	14,185
Net patient accounts receivable	161,743	157,010	Current portion of long-term debt	5,975	3,495
Other receivables	14,328	19,850	Current portion of estimated third-party payor settlements	21,263	26,342
Current portion of contributions receivable, net	<u>6,391</u>	<u>6,711</u>	Current portion of estimated malpractice and other self-insurance costs	<u>22,291</u>	<u>26,105</u>
Total receivables	182,462	183,571	Total current liabilities	183,369	182,209
Assets limited as to use	18,394	21,894	Long-term debt, net of current portion	285,723	292,359
Inventories	14,580	12,023	Estimated third-party payor settlements, net of current portion	62,320	65,047
Prepaid expenses and other current assets	<u>6,508</u>	<u>5,509</u>	Estimated malpractice self-insurance costs, net of current portion	82,856	67,265
Total current assets	282,228	300,398	Other liabilities	<u>80,868</u>	<u>66,642</u>
Assets limited as to use	971,662	1,138,697	Total liabilities	695,136	673,522
Less amount required to meet current obligations	<u>(18,394)</u>	<u>(21,894)</u>	Net assets:		
Noncurrent assets limited as to use	953,268	1,116,803	Unrestricted	900,297	970,463
Property and equipment, net	740,946	681,598	Temporarily restricted	172,773	215,206
Other assets:			Permanently restricted	<u>249,330</u>	<u>281,831</u>
Contributions receivable, net	8,855	11,212	Total net assets	1,322,400	1,467,500
Deferred charges and financing costs, net	7,281	7,911			
Other noncurrent assets	<u>24,958</u>	<u>23,100</u>	Total liabilities and net assets	\$ 2,017,536	\$ 2,141,022
Total other assets	<u>41,094</u>	<u>42,223</u>			
Total assets	\$ <u>2,017,536</u>	\$ <u>2,141,022</u>			

See accompanying notes to consolidated financial statements.

LIFESPAN CORPORATION AND AFFILIATES

Consolidated Statements of Operations and Changes in Net Assets

Years ended September 30, 2008 and 2007

(In thousands)

	2008	2007
Unrestricted revenues and other support:		
Net patient service revenue	\$ 1,307,222	\$ 1,244,132
Other revenue	61,893	61,546
Endowment earnings contributed toward community benefit	11,008	10,401
Net assets released from restrictions used for operations	19,185	15,059
Net assets released from restrictions used for research	73,839	66,477
	1,473,147	1,397,615
Operating expenses:		
Compensation and benefits	831,450	783,000
Supplies and other expenses	345,272	319,936
Purchased services	87,836	75,055
Provision for bad debts	76,811	78,827
Depreciation and amortization	50,057	47,068
Interest	13,599	13,988
License fees	36,141	31,545
	1,441,166	1,349,419
Total operating expenses		
Income from operations	31,981	48,196
Nonoperating gains and losses:		
Unrestricted gifts and bequests	1,604	3,052
Unrestricted income from board-designated investments	5,970	5,845
Net realized gains on sales of board-designated investments	2,792	50,529
Grants to outside agencies	(867)	(766)
Fundraising expenses	(5,050)	(4,591)
Other nonoperating losses, net	(43)	(41)
	4,406	54,028
Total nonoperating gains, net		
Excess of revenues over expenses	\$ 36,387	\$ 102,224

LIFESPAN CORPORATION AND AFFILIATES

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

Years ended September 30, 2008 and 2007

(In thousands)

	2008	2007
Unrestricted net assets:		
Excess of revenues over expenses	\$ 36,387	\$ 102,224
Other changes in unrestricted net assets:		
Net change in unrealized gains on investments	(115,090)	35,900
Net assets released from restrictions used for purchase of property and equipment	18,881	15,265
Change in funded status of pension and other postretirement plans, other than net periodic pension and postretirement benefit costs	(10,856)	—
Effect of adoption of provisions of FASB Statement No. 158	—	1,543
Other increases	512	431
(Decrease) increase in unrestricted net assets	(70,166)	155,363
Temporarily restricted net assets:		
Gifts, grants, and bequests	93,075	92,554
Income from restricted endowment and other restricted investments	5,909	5,297
Net assets released from restrictions	(111,905)	(96,801)
Net realized and unrealized (losses) gains on investments	(31,534)	30,559
Appropriations from permanently restricted net assets	2,022	3,256
(Decrease) increase in temporarily restricted net assets	(42,433)	34,865
Permanently restricted net assets:		
Gifts and bequests	1,687	2,341
Net realized gains on sales of permanently restricted investments	4,787	15,112
Net unrealized (losses) gains on investments	(36,953)	29,044
Appropriations to temporarily restricted net assets	(2,022)	(3,256)
(Decrease) increase in permanently restricted net assets	(32,501)	43,241
(Decrease) increase in net assets	(145,100)	233,469
Net assets, beginning of year	1,467,500	1,234,031
Net assets, end of year	\$ 1,322,400	\$ 1,467,500

See accompanying notes to consolidated financial statements.

LIFESPAN CORPORATION AND AFFILIATES

Consolidated Statements of Cash Flows

Years ended September 30, 2008 and 2007

(In thousands)

	2008	2007
Cash flows from operating activities:		
(Decrease) increase in net assets	\$ (145,100)	\$ 233,469
Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities:		
Change in funded status of pension and other postretirement plans, other than net periodic pension and postretirement benefit costs	10,856	—
Effect of adoption of provisions of FASB Statement No. 158	—	(1,543)
Net realized and unrealized losses (gains) on investments	175,998	(161,144)
Permanently restricted gifts and bequests	(1,687)	(2,341)
Depreciation and amortization	50,057	47,068
Provision for estimated self-insurance costs	115,269	103,464
Increase in liabilities for estimated self-insurance costs resulting from claims paid	(103,492)	(94,696)
Net increase in patient accounts receivable	(4,733)	(7,572)
Increase in accounts payable	5,248	3,949
Increase (decrease) in accrued employee benefits and compensation	3,125	(17,322)
Decrease in estimated third-party payor settlements	(7,806)	(19,447)
Increase in all other current and noncurrent assets and liabilities, net	5,324	16,095
Net cash provided by operating activities	103,059	99,980
Cash flows from investing activities:		
Purchase of property and equipment	(109,405)	(113,188)
Net decrease (increase) in trustee-held bond funds	1,193	(948)
Other net (increases) decreases in assets limited as to use	(10,156)	1,729
Net cash used in investing activities	(118,368)	(112,407)
Cash flows from financing activities:		
Payments on long-term debt	(3,495)	(8,095)
Permanently restricted gifts and bequests	1,687	2,341
Net cash used in financing activities	(1,808)	(5,754)
Net decrease in cash and cash equivalents	(17,117)	(18,181)
Cash and cash equivalents at:		
Beginning of year	77,401	95,582
End of year	\$ 60,284	\$ 77,401
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 14,338	\$ 14,839

See accompanying notes to consolidated financial statements.

LIFESPAN CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2008 and 2007

(In thousands)

(1) Description of Organization

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

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

Affiliated corporations of Lifespan Corp. are as follows:

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

LIFESPAN CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2008 and 2007

(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, 2008 and 2007 is summarized in the following table:

	2008	2007
Charity care	\$ 36,222	\$ 27,783
Medical education, net	45,665	43,380
Research	13,954	13,664
Subsidized health services	8,136	7,258
Community health improvement services and community benefit operations	6,116	3,956
Unreimbursed Medicaid costs	372	300
Total	\$ 110,465	\$ 96,341

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 \$36,222 and \$27,783 in 2008 and 2007, 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 \$45,665 and \$43,380 in 2008 and 2007, 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, recently 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 45 graduate medical education programs accredited by or under the auspices of the Accreditation Council for Graduate Medical Education (ACGME) while also sponsoring another 16 hospital-approved 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; and emergency medicine.

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(In thousands)

RIH is also a participating site for clinical training for residents in anesthesiology, family medicine, obstetrics/gynecology (OB/Gyn) and OB/Gyn subspecialties, otolaryngology, podiatry, psychiatry, and radiation oncology programs. TMH participates in Brown programs in internal medicine and medicine subspecialties, general surgery and surgical subspecialties, psychiatry, emergency medicine, orthopedics, radiology and dermatology. RIH and TMH provide stipends to residents and physician fellows while in training. Bradley participates in the Brown teaching 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 and TMH 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 and TMH. RIH and TMH 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; ultrasound technology; nuclear medical technology; radiologic technology, including mammography, CT and MRI; and pharmacy technician. RIH also provides the clinical setting for numerous training programs in health care and related fields including occupational therapy, child development, physical therapy, social work, and speech pathology and audiology.

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 and laboratory medicine 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 above.

Federal support accounts for approximately 75% of all externally funded research at Lifespan. Researchers focus on clinical trials which investigate prevention and treatment of HIV/AIDS, obesity, cancer, diabetes, cardiac disease, neurological problems and mental health concerns. Researchers may work in the laboratory or with patients, or both.

Subsidized Health Services

Lifespan subsidizes various health services including surgical, Alzheimer's, tuberculosis and adolescent clinics, the Center for Special Children, early intervention, Vanderbilt Rehab, and occupational health.

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(In thousands)

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.

(b) *Use of Estimates*

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

(c) *Cash and Cash Equivalents*

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

(d) *Investments and Investment Income*

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 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

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September 30, 2008 and 2007

(In thousands)

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.

The aggregate amount of the fair value of permanently restricted investments complies with the inflation protection requirements of the General Laws of the State of Rhode Island. Prudent appropriations of permanently restricted investments are periodically made to support operating activities and property and equipment acquisitions.

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 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 restricted fund when restricted by donor.

(e) *Assets Limited as to Use*

Assets limited as to use primarily include designated assets set aside by Lifespan's Board for future capital improvements, over which the Board retains control and may at its discretion subsequently use for other purposes, and assets whose use by Lifespan has been permanently restricted by donors or limited by grantors or donors to a specific purpose, as well as assets held by 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.

(f) *Property and Equipment*

Property and equipment acquisitions are recorded at cost. Depreciation is computed over the estimated useful life of each class of depreciable asset using the straight-line method. Buildings and

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(In thousands)

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.

(g) *Deferred Financing Costs*

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

(h) *Temporarily Restricted Net Assets*

Temporarily restricted net assets are those whose use by Lifespan has been limited by grantors or donors to a specific purpose, including research activities.

(i) *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 unrealized gains and losses on investments, net assets released from restrictions used for purchase of property and equipment, the change in the funded status of pension and other postretirement plans, and the effect of adoption of provisions of FASB Statement No. 158.

(j) *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.

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(In thousands)

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.

(k) *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.

(l) *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.

(m) *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 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.

(n) *Inventories*

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

(o) *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 self-insured losses includes estimates of the ultimate costs for both reported claims and claims incurred but not reported. RISE, Lifespan's

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(In thousands)

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 self-insured losses includes estimates of the ultimate costs for both reported claims and claims incurred but not reported.

(p) *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 value of Lifespan's long-term debt is disclosed in note 12.

(q) *Reclassifications*

Certain 2007 amounts have been reclassified to conform with the 2008 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 \$48,776 and \$46,744 in 2008 and 2007, 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 2006 net patient service revenue as defined. The Hospitals' license fee expense was \$36,141 and \$31,545, in 2008 and 2007, 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 2008, 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.

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September 30, 2008 and 2007

(In thousands)

(5) Investments

The composition of assets limited as to use at September 30, 2008 and 2007 is set forth in the following table.

	2008	2007
Funds available for self-insurance liabilities:		
Cash and short-term investments	\$ 8,358	\$ 3,719
U.S. government and agency obligations	22,477	11,816
Corporate equity securities	5,906	7,211
Corporate obligations	77,113	79,901
Collective investment funds	13,343	13,845
	127,197	116,492
Internally board-designated:		
U.S. government and agency obligations	17,555	18,775
Corporate equity securities	98,058	167,905
Corporate obligations	25,692	28,968
Collective investment funds	299,274	334,478
Other investments	1,071	3,149
	441,650	553,275
Held by trustee under bond indenture agreements:		
Cash and short-term investments	1,559	2,428
U.S. government and agency obligations	498	822
	2,057	3,250
Temporarily restricted funds:		
Cash and short-term investments	413	1,476
U.S. government and agency obligations	5,636	5,856
Corporate equity securities	31,478	52,353
Corporate obligations	8,248	9,031
Collective investment funds	108,479	117,648
Other investments	106	317
	154,360	186,681

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(In thousands)

	2008	2007
Permanently restricted funds:		
Cash and short-term investments	\$ 660	\$ 377
U.S. government and agency obligations	9,884	9,379
Corporate equity securities	57,707	99,380
Corporate obligations	16,847	18,535
Collective investment funds	142,159	131,028
Other investments	19,141	20,300
	246,398	278,999
Total	\$ 971,662	\$ 1,138,697

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:

	2008	2007
Other revenue:		
Investment income	\$ 4,748	\$ 8,320
Endowment earnings contributed toward community benefit:		
Dividend and interest income	\$ 11,008	\$ 10,401
Nonoperating gains and losses:		
Net unrestricted income from board-designated investments	\$ 5,970	\$ 5,845
Net realized gains on sales of securities	2,792	50,529
	\$ 8,762	\$ 56,374
Other changes in unrestricted net assets:		
Net change in unrealized gains on investments	\$ (115,090)	\$ 35,900
Changes in temporarily restricted net assets:		
Income from restricted endowment and other restricted investments	\$ 5,909	\$ 5,297
Net realized and unrealized (losses) gains on investments	(31,534)	30,559
	\$ (25,625)	\$ 35,856
Changes in permanently restricted net assets:		
Net realized gains on sales of investments	\$ 4,787	\$ 15,112
Net unrealized (losses) gains on investments	(36,953)	29,044
	\$ (32,166)	\$ 44,156

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Included in the above net realized gains in 2008 and 2007 are investment impairment charges totaling \$51,528 and \$9,802, respectively, to reflect other than temporary declines in the fair market value of certain equity and debt securities.

Information regarding investments with unrealized losses at September 30, 2008 and 2007 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, 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
	Less than 12 months		12 months or longer		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
September 30, 2007:						
Internally board-designated, temporarily restricted and permanently restricted funds:						
Collective investment funds	\$ 2,216	\$ 276	\$ 25,582	\$ 133	\$ 27,798	\$ 409
Total temporarily impaired securities	\$ 2,216	\$ 276	\$ 25,582	\$ 133	\$ 27,798	\$ 409

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.

Since June 30, 2008, the global markets have experienced a severe downturn which has resulted in decreases in the fair value of Lifespan's investment portfolio. The current market volatility continues to affect the portfolio. It is unclear how long this downward pressure on investment values might continue.

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The following table sets forth changes in internally board-designated investments for the years ended September 30, 2008 and 2007:

	2008	2007
Internally board-designated investments at beginning of year	\$ 553,275	\$ 478,770
Investment income:		
Dividend and interest income	14,110	13,419
Net realized gains on sales of securities	3,403	51,321
Net unrealized (losses) gains on investments	(110,230)	34,374
Unrestricted gifts and bequests	1,604	3,052
Deposits	3,273	13,913
Withdrawals	(23,785)	(41,574)
Internally board-designated investments at end of year	\$ 441,650	\$ 553,275

(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, 2008 and 2007 was approximately \$62,818 and \$72,113, respectively, and is reported as permanently restricted funds within assets limited as to use in the consolidated statements of financial position.

Included in permanently restricted funds is real estate held in trust for the benefit of Bradley. During 2007 the Bradley trustee employed property valuation consultants to conduct an independent appraisal of the real estate, which resulted in an unrealized gain of \$15,531.

(7) Property and Equipment

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

	2008	2007
Land and improvements	\$ 31,938	\$ 29,781
Buildings and improvements	840,106	796,106
Equipment	470,016	455,923
	1,342,060	1,281,810
Less accumulated depreciation and amortization	692,023	648,793
	650,037	633,017
Construction in progress	90,909	48,581
Property and equipment, net	\$ 740,946	\$ 681,598

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Depreciation and amortization expense for the years ended September 30, 2008 and 2007 amounted to \$50,057 and \$47,068, respectively.

The estimated cost of completion of construction in progress approximated \$38,100 at September 30, 2008, comprised principally of Bradley (\$16,400) and RIH (\$16,000) projects. In addition, RIH and TMH have several building renovation projects pending contractual commitments with estimated costs of completion of approximately \$17,000 and \$25,000, respectively.

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. No interest was capitalized in 2008 and 2007.

(8) Pension and Other Postretirement Benefits

Pension Benefits – Lifespan Corporation Retirement Plan

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

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

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, 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. Lifespan uses a measurement date of June 30 for the Plan.

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As of September 30, 2007, Lifespan adopted the provisions of FASB Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* (FAS 158). FAS 158 requires 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. The adjustment to unrestricted net assets represents the net unrecognized actuarial loss and prior service cost, both of which were previously netted in prior periods against the Plan's funded status in the consolidated statements of financial position, pursuant to the provisions of FASB Statement No. 87, *Employers' Accounting for Pensions* (FAS 87). These amounts will be recognized in future periods as net periodic pension cost, as required by FAS 87.

Based on June 30, 2008 funded-status amounts for the Plan, Lifespan recorded a decrease in unrestricted net assets of \$12,545.

The estimated amounts that will be amortized from unrestricted net assets into net periodic pension cost in 2009 are as follows:

Net actuarial loss	\$	208
Prior service cost		997
		1,205
	\$	1,205

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

	2008	2007
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	\$ 382,309	\$ 348,112
Service cost	21,052	19,181
Interest cost	24,904	22,437
Actuarial (gain) loss	(21,619)	10,087
Benefits paid	(15,844)	(16,333)
Administrative expenses	(836)	(1,175)
Projected benefit obligation at end of year	\$ 389,966	\$ 382,309

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The accumulated benefit obligation at the end of 2008 and 2007 was \$339,725 and \$331,011, respectively.

	<u>2008</u>		<u>2007</u>
Change in plan assets:			
Fair value of plan assets at beginning of year	\$ 357,548	\$	298,116
Actual return on plan assets	(7,217)		51,271
Employer contributions	18,119		25,669
Benefits paid	(15,844)		(16,333)
Administrative expenses	(836)		(1,175)
Fair value of plan assets at end of year	\$ <u>351,770</u>	\$	<u>357,548</u>

The funded status of the Plan and amounts recognized in the consolidated statement of financial position at September 30, pursuant to FAS 158, are as follows:

	<u>2008</u>		<u>2007</u>
Funded status, end of year:			
Fair value of plan assets	\$ 351,770	\$	357,548
Projected benefit obligation	389,966		382,309
	\$ <u>(38,196)</u>	\$	<u>(24,761)</u>

Amounts recognized in the consolidated statements of financial position at September 30, 2008 and 2007 are as follows:

	<u>2008</u>		<u>2007</u>
Pension liability:			
Noncurrent (included in other liabilities)	\$ <u>38,196</u>	\$	<u>24,761</u>

	<u>2008</u>		<u>2007</u>
Amounts not yet reflected in net periodic pension cost and included in unrestricted net assets:			
Prior service cost	\$ (3,698)	\$	(4,696)
Accumulated (loss) gain	(2,764)		10,778
Amounts not yet recognized as a component of net periodic pension cost	(6,462)		6,082
Accumulated net periodic pension cost in excess of employer contributions	(31,734)		(30,843)
Net amount recognized	\$ <u>(38,196)</u>	\$	<u>(24,761)</u>

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	2008	2007
Sources of change in unrestricted net assets:		
Net loss arising during the year	\$ (12,744)	\$ —
Amortizations:		
Prior service cost	997	—
Net actuarial gain	(798)	—
Total unrestricted net asset loss recognized during the year	\$ (12,545)	\$ —
Increase in unrestricted net assets due to adoption of provisions of FAS 158	\$ —	\$ 6,082

Net Periodic Pension Cost

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

	2008	2007
Service cost	\$ 21,052	\$ 19,181
Interest cost	24,904	22,437
Expected return on plan assets	(27,144)	(22,312)
Amortization of net actuarial (gain) loss	(798)	639
Amortization of prior service cost	997	997
Net periodic pension cost	\$ 19,011	\$ 20,942

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

	2008	2007
Discount rate for benefit obligations	6.92%	6.25%
Discount rate for net periodic pension cost	6.25	6.25
Rate of compensation increase	4.50	4.50
Expected long-term rate of return on plan assets	8.00	8.00

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The asset allocation for the Plan at June 30, 2008 and 2007, and the target allocation for 2009, by asset category, are as follows:

Asset category	Target allocation 2009	Percentage of plan assets at June 30	
		2008	2007
U.S. equity	15 - 40%	18.8%	24.0%
Absolute return	0 - 20%	10.5	9.4
International equity	10 - 40%	23.0	30.5
Venture capital	0 - 10%	1.7	1.7
Commodities	0 - 20%	14.9	11.0
Real estate	0 - 15%	6.8	8.2
Fixed income	15 - 30%	21.8	15.2
Cash and cash equivalents	0 - 10%	2.5	—
Total		100.0%	100.0%

The above table does not include \$68,862 and \$69,121 of Plan assets at June 30, 2008 and 2007, respectively, attributable to the separate savings account balances of participants which are managed in various mutual funds by Fidelity Investments.

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 provide a satisfactory return on investment 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.

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Expected Cash Flows

Information about the expected cash flows for the Plan follows:

Employer contributions:		
2009 (expected)	\$	28,300
Expected benefit payments:		
2009	\$	20,900
2010		19,800
2011		20,400
2012		20,800
2013		22,600
2014 through 2018		107,300

Management evaluates its Plan assumptions annually and the expected contribution in 2009 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.

As of September 30, 2007, Lifespan adopted the provisions of FASB Statement No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* (FAS 158). FAS 158 requires 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. The adjustment to unrestricted net assets represents the net unrecognized actuarial loss and prior service benefit, both of which were previously netted in prior periods against the plan's funded status in the consolidated statements of financial position, pursuant to the provisions of FASB Statement No. 106, *Employers' Accounting for Postretirement Benefits Other than Pensions* (FAS 106). These amounts will be recognized in future periods as net periodic postretirement benefit cost, as required by FAS 106.

Based on June 30, 2008 funded-status amounts for the postretirement benefit plan, Lifespan recorded an increase in unrestricted net assets of \$1,689 in 2008.

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The estimated amounts that will be amortized from unrestricted net assets into net periodic postretirement benefit cost in 2009 are as follows:

Net actuarial loss	\$	422
Prior service benefit		(1,056)
		(634)
	\$	(634)

Benefit Obligations

		<u>2008</u>		<u>2007</u>
Change in benefit obligation:				
Accumulated postretirement benefit obligation at beginning of year	\$	24,978	\$	25,042
Service cost		567		584
Interest cost		1,538		1,542
Benefits paid		(1,484)		(1,484)
Actuarial gain		(2,314)		(706)
Accumulated postretirement benefit obligation at end of year	\$	23,285	\$	24,978

Funded Status

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

		<u>2008</u>		<u>2007</u>
Benefit obligations	\$	23,285	\$	24,978
Funded status		(23,285)		(24,978)
Accrued postretirement benefit cost recognized in the consolidated statements of financial position	\$	(23,285)	\$	(24,978)

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Amounts recognized in the consolidated statements of financial position at September 30, 2008 and 2007 consist of:

	<u>2008</u>	<u>2007</u>
Accrued postretirement benefit cost:		
Current (included in accrued employee benefits and compensation)	\$ 1,700	\$ 1,700
Noncurrent (included in other liabilities)	<u>21,585</u>	<u>23,278</u>
Total accrued postretirement benefit cost	\$ <u>23,285</u>	\$ <u>24,978</u>
	<u>2008</u>	<u>2007</u>
Amounts not yet reflected in net periodic postretirement benefit cost and included in unrestricted net assets:		
Prior service credit	\$ 3,788	\$ 4,844
Accumulated loss	<u>(6,413)</u>	<u>(9,383)</u>
Amounts not yet recognized as a component of net periodic postretirement benefit cost	(2,625)	(4,539)
Accumulated net periodic postretirement benefit cost	<u>(20,660)</u>	<u>(20,439)</u>
Net amount recognized	\$ <u>(23,285)</u>	\$ <u>(24,978)</u>
	<u>2008</u>	<u>2007</u>
Sources of change in unrestricted net assets:		
Net gain arising during the year	\$ 2,089	\$ —
Amortizations:		
Prior service benefit	(1,056)	—
Net actuarial loss	<u>656</u>	<u>—</u>
Total unrestricted net asset gain recognized during the year	\$ <u>1,689</u>	\$ <u>—</u>
Decrease in unrestricted net assets due to adoption of provisions of FAS 158	\$ <u>—</u>	\$ <u>(4,539)</u>

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Net Periodic Postretirement Benefit Cost

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

	<u>2008</u>	<u>2007</u>
Service cost	\$ 567	\$ 584
Interest cost	1,538	1,542
Amortization of prior service benefit	(1,056)	(1,056)
Amortization of net actuarial loss	656	801
Net periodic postretirement benefit cost	<u>\$ 1,705</u>	<u>\$ 1,871</u>

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

	<u>2008</u>	<u>2007</u>
Discount rate for benefit obligations	6.92%	6.25%
Discount rate for net periodic postretirement benefit cost	6.25	6.25

Assumed Health Care Cost Trend Rates at September 30:

	<u>2008</u>	<u>2007</u>
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	2014

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, 2008:

	<u>1-Percentage- Point Increase</u>	<u>1-Percentage- Point Decrease</u>
Effect on total of service cost and interest cost	\$ 182	\$ (162)
Effect on accumulated postretirement benefit obligation	1,762	(1,399)

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Expected Cash Flows

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

Expected benefit payments:		
2009	\$	1,700
2010		2,000
2011		2,200
2012		2,300
2013		2,500
2014 through 2018		12,800

The effects of adopting the provisions of FAS 158 on the consolidated statement of financial position at September 30, 2007 are presented in the following table:

	Prior to adopting FAS 158	Effect of adopting FAS 158	As reported at September 30, 2007
Noncurrent pension liability	\$ 30,843	\$ (6,082)	\$ 24,761
Noncurrent accrued postretirement benefit cost	18,739	4,539	23,278
Total liabilities	675,065	(1,543)	673,522
Unrestricted net assets	968,920	1,543	970,463

Beginning in fiscal 2009, FASB Statement No. 158 requires Lifespan to measure the funded status of its benefit plans as of September 30. Implementation of this change is expected to reduce Lifespan's unrestricted net assets by \$5,956 in the first quarter of fiscal 2009.

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

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 RIH's contractual commitment to indemnify certain eligible physicians on its medical staff). 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

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obtained to increase the professional liability limits to \$22,000 per claim. Also covered under the Lifespan professional liability/medical malpractice policy are 495 physicians not employed by RIH. Each of these physicians is provided with a \$2,000 indemnification per claim and a \$6,000 annual indemnification aggregate.

General Liability

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, 2008 and 2007 have been discounted at 5%. Had Lifespan provided for losses at undiscounted levels, estimated self-insurance liabilities would have been increased by approximately \$9,000 and \$8,000 at September 30, 2008 and 2007, 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, 2008 and 2007 has been discounted at 5%. Had such losses been provided for at undiscounted levels, estimated self-insurance liabilities would have been increased by approximately \$829 and \$648 at September 30, 2008 and 2007, respectively.

(10) Patient Service Revenue and Related Reimbursement

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

	<u>2008</u>	<u>2007</u>
Medicare and Senior Care	38%	38%
Blue Cross	21	21
Medicaid and RItE Care	16	16
Managed care	13	14
Commercial, self-pay, and other	12	11
	<u>100%</u>	<u>100%</u>

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

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Cost reports filed annually with third-party payors are subject to audit prior to final settlement. The 2008 Medicare and Medicaid cost reports have not been filed and therefore are not settled. In addition, the following cost reports have not been settled:

	<u>RIH</u>	<u>TMH</u>	<u>Bradley</u>	<u>NH</u>
Medicare 2007	X	X		X
Medicare 2006	X	X		X
Medicare 2005				
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 \$5,751 and \$23,586 in 2008 and 2007, respectively, to reflect changes in the estimated settlements for certain prior years.

Revenues from Medicare and Medicaid programs accounted for approximately 38% and 16%, respectively, of Lifespan's gross patient service revenue for the year ended September 30, 2008. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Lifespan believes that they are in compliance with all applicable laws and regulations. Compliance with laws and regulations can be subject to future government review and interpretation as well as significant regulatory action; failure to comply with such laws and regulations can result in fines, penalties, and exclusion from Medicare and Medicaid programs.

(11) Income Tax Status

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

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(12) Long-Term Debt

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

	2008	2007
Hospital Financing Revenue fixed rate serial and term bonds due May 15, 2009 through 2032 in annual amounts ranging from \$2,355 to \$15,020 at rates ranging from 4% to 5% (2006 A Series – Lifespan Obligated Group)	\$ 192,135	\$ 192,135
Hospital Financing Revenue fixed rate serial and term bonds due May 15, 2009 through 2026 in annual amounts ranging from \$5,880 to \$14,705 at rates ranging from 5.2% to 5.75% (1996 Series-Lifespan Obligated Group)	55,175	55,735
Hospital Financing Revenue fixed rate serial and term bonds due July 1, 2009 through 2029 in annual amounts ranging from \$690 to \$1,890 at rates ranging from 4.625% to 5.3% (1999 Series – NH)	24,945	25,605
Hospital Financing Revenue fixed rate serial and term bonds due August 15, 2009 through 2012 in annual amounts ranging from \$1,340 to \$1,595 at rates ranging from 5.75% to 6.375% (2002 Series-Lifespan Obligated Group)	5,855	7,130
Hospital Financing Revenue variable rate bonds (4.02% at September 30, 2008) due March 1, 2009 through 2014 in an annual amount of \$1,000 (2004 Series – NH)	6,000	7,000
Unamortized premium – 2006 A Series	7,655	8,348
Unamortized discount – 1996 and 2002 Series	(67)	(99)
	\$ 291,698	\$ 295,854
Less current portion	5,975	3,495
Long-term debt, excluding current portion	\$ 285,723	\$ 292,359

The estimated fair value of Lifespan’s long-term debt at September 30, 2008 amounts to \$257,706 and is estimated using discounted cash flow analyses, based on Lifespan’s current incremental borrowing rates for similar types of borrowing arrangements.

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

LIFESPAN CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2008 and 2007

(In thousands)

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.

A total of \$195,087 of the net proceeds of the 2006 bond issue and \$8,166 of the refunded bonds' unspent debt service funds was deposited into trust funds for the purpose of these partial refundings. The principal balance outstanding on the 1996 and 2002 refunded bonds, which are considered extinguished, was \$118,405 and \$65,315, respectively, at September 30, 2008. The trusts are held by an independent trustee and are invested in obligations of the United States Government which mature and bear interest in such amounts and at such times as will be sufficient to pay the principal and interest as it comes due on the 1996 and 2002 refunded bonds.

The above outstanding 2006 Hospital Financing Revenue Bonds (Lifespan Obligated Group – RIH, TMH 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. RIH, TMH 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 Financial Security Assurance, Inc.

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 and the Foundations) are secured by mortgage liens on RIH's and TMH's real property and all buildings, structures and improvements thereon. RIH, TMH and the Foundations are jointly and severally liable for repayment of the 2002 Bonds.

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. A total of \$20,580 of the net proceeds from the 1996 bond issue and \$1,004 of the refunded bonds' unspent debt service funds was deposited into a trust fund for the purpose of these refundings. The principal balance outstanding on the TMH-refunded bonds, which are considered extinguished, was \$13,170 at September 30, 2008. The trust is held by an independent trustee and is invested in obligations of the United States Government which mature and bear interest in such amounts and at such times as will be sufficient to pay the principal and interest as it comes due on the TMH-refunded bonds.

Prior to the issuance of the 1996 Bonds, RIH drew \$97,585 under a credit facility with four financial institutions (the Facility) and deposited that amount into a trust fund along with \$735 of the refunded bonds' unspent debt service funds for the purpose of advance refunding \$95,995 of RIH's 1991 Series A bonds. The Facility matured in January 2000. The principal balance outstanding on the RIH-refunded bonds, which are considered extinguished, was \$79,600 at September 30, 2008. The trust is held by an independent trustee and is invested in obligations of the United States Government which mature and bear

LIFESPAN CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

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(In thousands)

interest in such amounts and at such times as will be sufficient to pay the principal and interest as it comes due on the RIH-refunded bonds.

The above outstanding 1996 Hospital Financing Revenue Bonds (Lifespan Obligated Group – RIH, TMH and the Foundations) are secured by a pledge of the gross receipts of RIH and TMH. RIH, TMH 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 2006, 2002 and 1996 Bonds, RIH and TMH are required to satisfy certain measures of financial performance as long as the bonds are outstanding. At September 30, 2008, management believes RIH and TMH 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 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 2004 and 1999 Bonds when due is guaranteed by Newport Hospital Foundation, Inc. Under the terms of the 2004 and 1999 Bonds, NH is required to satisfy certain measures of financial performance as long as the bonds are outstanding. At September 30, 2008, 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 2013 are as follows: 2009, \$5,975; 2010, \$10,370; 2011, \$10,785, 2012, \$11,295, and 2013, \$11,820.

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

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

Debt Service Reserve Fund – RIH and TMH are required to apply monies in the Debt Service Reserve Fund to remedy deficiencies in the 2002 Bond Fund, if any.

LIFESPAN CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2008 and 2007

(In thousands)

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

	<u>2008</u>		<u>2007</u>
RIH and TMH:			
Bond Funds	\$ 1,041	\$	2,104
Debt Service Reserve Fund – 2002 Series	518		648
	<u>1,559</u>		<u>2,752</u>
Newport Hospital Bond Fund – 1999 Series	498		498
Total	\$ <u>2,057</u>	\$	<u>3,250</u>

(13) Temporarily and Permanently Restricted Net Assets

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

	<u>2008</u>		<u>2007</u>
General health care service activities	\$ 126,596	\$	168,268
Research	46,177		46,938
Total	\$ <u>172,773</u>	\$	<u>215,206</u>

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

	<u>2008</u>		<u>2007</u>
General health care service activities	\$ 226,807	\$	254,792
Research	22,523		27,039
Total	\$ <u>249,330</u>	\$	<u>281,831</u>

LIFESPAN CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2008 and 2007

(In thousands)

(14) Leases

Lifespan leases building space and equipment under various noncancelable operating lease agreements. Future minimum lease payments, by year and in the aggregate, under noncancelable operating leases with terms of one year or more consist of the following at September 30, 2008:

	<u>Amount</u>
Year ending September 30:	
2009	\$ 14,260
2010	11,605
2011	9,378
2012	7,396
2013	<u>5,118</u>
Total minimum lease payments	<u>\$ 47,757</u>

Rental expense, including rentals under leases with terms of less than one year, for the years ended September 30, 2008 and 2007 was \$14,266 and \$13,636, 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.

(16) Malpractice and Other Litigation

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

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

LIFESPAN CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2008 and 2007

(In thousands)

(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, 2008 and 2007 are \$3,048 and \$2,802, respectively.

(18) Functional Expenses

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

	<u>2008</u>	<u>2007</u>
Health care services	\$ 1,160,557	\$ 1,085,642
Research	87,793	80,141
General and administrative:		
Depreciation and amortization	50,057	47,068
Interest	13,599	13,988
Other	129,160	122,580
Total general and administrative	<u>192,816</u>	<u>183,636</u>
	<u>\$ 1,441,166</u>	<u>\$ 1,349,419</u>

LIFESPAN CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2008 and 2007

(In thousands)

(19) Promises to Give

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

	2008	2007
Capital campaigns	\$ 10,791	\$ 14,732
Other restricted	7,102	5,878
	17,893	20,610
Unconditional promises to give before unamortized discount and allowance for uncollectibles	17,893	20,610
Less unamortized discount at rates ranging from 3.0% to 4.6%	(1,777)	(2,256)
Subtotal	16,116	18,354
Less allowance for uncollectibles	(870)	(431)
Net unconditional promises to give	\$ 15,246	\$ 17,923
Amounts due in:		
Less than one year	\$ 7,499	7,708
One to five years	9,281	11,278
More than five years	1,113	1,624
Total	\$ 17,893	\$ 20,610

(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, Kent County Visiting Nurse Association (d/b/a VNA of Care New England) and their related affiliates. The Federal Trade Commission reviewed the transaction in December 2007 and reaffirmed its endorsement in December 2008. Approval is currently being sought from the Rhode Island Attorney General's Office and the Rhode Island Department of Health. Decisions are expected some time during the next year.



KPMG LLP
50 Kennedy Plaza
Providence, RI 02903

Independent Auditors' Report on Supplementary Information

The Board of Directors
Lifespan Corporation:

We have audited and reported separately herein on the consolidated financial statements of Lifespan Corporation and Affiliates (Lifespan) as of and for the years ended September 30, 2008 and 2007.

Our audits were made for the purpose of forming an opinion on the consolidated financial statements of Lifespan taken as a whole. The consolidating information is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations of the individual entities. The consolidating financial information as of and for the years ended September 30, 2008 and 2007 has been subjected to the auditing procedures applied in our audit of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

KPMG LLP

January 23, 2009

LIFESPAN CORPORATION AND AFFILIATES
 Supplementary Consolidating Statement of Financial Position
 September 30, 2008
 (In thousands)

Assets	Lifespan Obligated Group						Emma Pendleton Bradley Hospital	Eliminations	Subtotal	Lifespan Corporation *	Lifespan Diversified Services, Inc.	Newport Health Care Corporation	Lifespan Foundations **	Lifespan MSO, Inc.	Total	Eliminations	Consolidated total
	Rhode Island Hospital	The Miriam Hospital	RH Foundation	TMH Foundation	Eliminations	Subtotal											
Current assets:																	
Cash and cash equivalents	\$ 34,337	\$ 12,282	\$ 337	\$ 13		\$ 46,969	\$ 1,486	\$ 48,455	\$ 4,067	\$ 12	\$ 7,544	\$ 21	\$ 185	\$ 60,284		\$ 60,284	
Patient accounts receivable	137,936	44,843	—	—		182,779	10,651	193,430	—	247	12,785	—	—	206,462		206,462	
Less allowance for doubtful accounts	(32,112)	(9,362)	—	—		(41,474)	(782)	(42,256)	—	(208)	(2,255)	—	—	(44,719)		(44,719)	
Net patient accounts receivable	105,824	35,481	—	—		141,305	9,869	151,174	—	39	10,530	—	—	161,743		161,743	
Other receivables	11,272	2,927	—	—	\$ (3,189)	11,010	517	11,389	13,896	—	37	—	—	25,322	\$ (10,994)	14,328	
Current portion of contributions receivable, net	—	—	3,846	1,761	—	5,607	—	5,607	—	—	401	383	—	6,391	—	6,391	
Total receivables	117,096	38,408	3,846	1,761	(3,189)	157,922	10,386	168,170	13,896	39	10,968	383	—	193,456	(10,994)	182,462	
Assets limited as to use	847	194	—	—	—	1,041	—	1,041	16,855	—	498	—	—	18,394	—	18,394	
Inventories	10,701	3,180	—	—	—	13,881	109	13,990	—	124	466	—	—	14,580	—	14,580	
Prepaid expenses and other current assets	1,842	430	—	—	—	2,272	5	2,277	3,697	—	470	—	64	6,508	—	6,508	
Total current assets	164,823	54,494	4,183	1,774	(3,189)	222,085	11,986	233,933	38,515	175	19,946	404	249	293,222	(10,994)	282,228	
Assets limited as to use	419,012	77,624	38,221	43,878	—	578,735	52,035	630,770	127,197	—	208,049	5,646	—	971,662	—	971,662	
Less amount required to meet current obligations	(847)	(194)	—	—	—	(1,041)	—	(1,041)	(16,855)	—	(498)	—	—	(18,394)	—	(18,394)	
Noncurrent assets limited as to use	418,165	77,430	38,221	43,878	—	577,694	52,035	629,729	110,342	—	207,551	5,646	—	953,268	—	953,268	
Property and equipment, net	479,148	156,219	—	—	—	635,367	25,737	661,104	—	48	79,009	—	785	740,946	—	740,946	
Other assets:																	
Contributions receivable, net	—	—	3,205	3,627	—	6,832	—	6,832	—	—	313	1,710	—	8,855	—	8,855	
Interest in net assets of related Foundation	49,811	47,890	—	—	(97,701)	—	2,379	(2,379)	—	—	—	—	—	—	—	—	
Deferred charges and financing costs, net	5,628	1,371	—	—	—	6,999	—	6,999	—	—	282	—	—	7,281	—	7,281	
Other noncurrent assets	4,700	696	4,658	317	—	10,371	74	10,445	16,733	—	10,006	139	—	37,323	(12,365)	24,958	
Total other assets	60,139	49,957	7,863	3,944	(97,701)	24,202	2,453	24,276	16,733	—	10,601	1,849	—	53,459	(12,365)	41,094	
Total assets	\$ 1,122,275	\$ 338,100	\$ 50,267	\$ 49,596	\$ (100,890)	\$ 1,459,348	\$ 92,211	\$ 1,549,042	\$ 165,590	\$ 223	\$ 317,107	\$ 7,899	\$ 1,034	\$ 2,040,895	\$ (23,359)	\$ 2,017,536	

LIFESPAN CORPORATION AND AFFILIATES
 Supplementary Consolidating Statement of Financial Position
 September 30, 2008
 (In thousands)

Liabilities and Net Assets (Deficit)	Lifespan Obligated Group						Emma Pendleton Bradley Hospital	Eliminations	Subtotal	Lifespan Corporation *	Lifespan Diversified Services, Inc.	Newport Health Care Corporation	Lifespan Foundations **	Lifespan MSO, Inc.	Total	Eliminations	Consolidated total
	Rhode Island Hospital	The Miriam Hospital	RIH Foundation	TMH Foundation	Eliminations	Subtotal											
Current liabilities:																	
Accounts payable	\$ 31,988	\$ 12,687	\$ 111	\$ 2	\$ —	\$ 44,788	\$ 2,658	\$ 47,446	\$ 9,397	\$ 102	\$ 2,854	\$ 2	\$ 96	\$ 59,897	\$ —	\$ 59,897	
Accrued employee benefits and compensation	27,955	13,733	—	—	—	41,688	2,409	44,097	11,783	64	4,494	—	120	60,558	—	60,558	
Other accrued expenses	18,533	4,732	283	456	(3,189)	20,815	1,834	22,511	946	—	780	1,766	142	26,145	(12,760)	13,385	
Current portion of long-term debt	3,371	914	—	—	—	4,285	—	4,285	—	—	1,690	—	—	5,975	—	5,975	
Current portion of estimated third-party payor settlements	12,236	6,429	—	—	—	18,665	1,564	20,229	—	—	1,034	—	—	21,263	—	21,263	
Current portion of estimated malpractice and other self-insurance costs	3,258	1,163	—	—	—	4,421	190	4,611	17,345	—	265	—	70	22,291	—	22,291	
Total current liabilities	97,341	39,658	394	458	(3,189)	134,662	8,655	143,179	39,471	166	11,117	1,768	428	196,129	(12,760)	183,369	
Long-term debt, net of current portion	205,922	50,546	—	—	—	256,468	—	256,468	—	—	29,255	—	—	285,723	—	285,723	
Estimated third-party payor settlements, net of current portion	45,387	8,697	—	—	—	54,084	675	54,759	2,927	—	4,634	—	—	62,320	—	62,320	
Estimated malpractice self-insurance costs, net of current portion	—	—	—	—	—	—	—	—	82,856	—	—	—	—	82,856	—	82,856	
Other liabilities	59,439	6,809	62	1,248	—	67,558	2,205	69,763	19,889	1,164	605	1	45	91,467	(10,599)	80,868	
Total liabilities	408,089	105,710	456	1,706	(3,189)	512,772	11,535	524,169	145,143	1,330	45,611	1,769	473	718,495	(23,359)	695,136	
Net assets (deficit):																	
Unrestricted	434,831	203,576	12,072	34,679	(46,751)	638,407	26,323	665,278	20,447	(1,107)	217,002	(1,884)	561	900,297	—	900,297	
Temporarily restricted	120,429	21,151	14,353	5,548	(19,901)	141,580	4,257	142,910	—	—	25,419	4,444	—	172,773	—	172,773	
Permanently restricted	158,926	7,663	23,386	7,663	(31,049)	166,589	50,096	216,685	—	—	29,075	3,570	—	249,330	—	249,330	
Total net assets (deficit)	714,186	232,390	49,811	47,890	(97,701)	946,576	80,676	1,024,873	20,447	(1,107)	271,496	6,130	561	1,322,400	—	1,322,400	
Total liabilities and net assets	\$ 1,122,275	\$ 338,100	\$ 50,267	\$ 49,596	\$ (100,890)	\$ 1,459,348	\$ 92,211	\$ 1,549,042	\$ 165,590	\$ 223	\$ 317,107	\$ 7,899	\$ 1,034	\$ 2,040,895	\$ (23,359)	\$ 2,017,536	

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

See accompanying independent auditors' report on supplementary information.

LIFESPAN CORPORATION AND AFFILIATES
 Supplementary Consolidating Statement of Financial Position
 September 30, 2007
 (In thousands)

Assets	Lifespan Obligated Group					Subtotal	Emma	Eliminations	Subtotal	Lifespan	Lifespan	Newport	Lifespan	Lifespan	Total	Eliminations	Consolidated
	Rhode	The	RIH	TMH			Pendleton										
	Island	Miriam	Foundation	Foundation		Bradley					Care						
	Hospital	Hospital				Hospital					Corporation	Foundations **	MSO, Inc.			total	
Current assets:																	
Cash and cash equivalents	\$ 38,259	\$ 7,886	\$ 28	\$ 12		\$ 46,185	\$ 3,954		\$ 50,139	\$ 16,122	\$ 49	\$ 10,718	\$ 23	\$ 350	\$ 77,401	\$ 77,401	
Patient accounts receivable	140,042	37,892	—	—		177,934	9,468		187,402	—	406	12,858	—	—	200,666	200,666	
Less allowance for doubtful accounts	(31,098)	(8,781)	—	—		(39,879)	(833)		(40,712)	—	(237)	(2,707)	—	—	(43,656)	(43,656)	
Net patient accounts receivable	108,944	29,111	—	—		138,055	8,635		146,690	—	169	10,151	—	—	157,010	157,010	
Other receivables	15,645	4,194	—	—	\$ (1,771)	18,068	609	\$ (253)	18,424	3,980	—	140	—	—	22,544	\$ (2,694) 19,850	
Current portion of contributions receivable, net	—	—	3,724	1,620	—	5,344	—	—	5,344	—	—	955	412	—	6,711	6,711	
Total receivables	124,589	33,305	3,724	1,620	(1,771)	161,467	9,244	(253)	170,458	3,980	169	11,246	412	—	186,265	(2,694) 183,571	
Assets limited as to use	1,645	459	—	—	—	2,104	—	—	2,104	19,292	—	498	—	—	21,894	— 21,894	
Inventories	8,082	3,257	—	—	—	11,339	108	—	11,447	—	171	405	—	—	12,023	— 12,023	
Prepaid expenses and other current assets	1,543	282	—	—	—	1,825	4	—	1,829	3,161	—	451	—	68	5,509	— 5,509	
Total current assets	174,118	45,189	3,752	1,632	(1,771)	222,920	13,310	(253)	235,977	42,555	389	23,318	435	418	303,092	(2,694) 300,398	
Assets limited as to use	502,514	98,444	48,077	55,298	—	704,333	60,944	—	765,277	116,492	—	250,528	6,400	—	1,138,697	— 1,138,697	
Less amount required to meet current obligations	(1,645)	(459)	—	—	—	(2,104)	—	—	(2,104)	(19,292)	—	(498)	—	—	(21,894)	— (21,894)	
Noncurrent assets limited as to use	500,869	97,985	48,077	55,298	—	702,229	60,944	—	763,173	97,200	—	250,030	6,400	—	1,116,803	— 1,116,803	
Property and equipment, net	443,933	146,031	—	—	—	589,964	15,277	—	605,241	—	71	75,578	—	708	681,598	— 681,598	
Other assets:																	
Contributions receivable, net	—	—	5,282	4,102	—	9,384	—	—	9,384	—	—	527	1,301	—	11,212	— 11,212	
Interest in net assets of related Foundation	62,450	59,540	—	—	(121,990)	—	2,129	(2,129)	—	—	—	—	—	—	—	—	
Deferred charges and financing costs, net	6,120	1,493	—	—	—	7,613	—	—	7,613	—	—	298	—	—	7,911	— 7,911	
Other noncurrent assets	3,568	690	6,378	389	—	11,025	60	—	11,085	13,788	—	12,083	126	—	37,082	(13,982) 23,100	
Total other assets	72,138	61,723	11,660	4,491	(121,990)	28,022	2,189	(2,129)	28,082	13,788	—	12,908	1,427	—	56,205	(13,982) 42,223	
Total assets	\$ 1,191,058	\$ 350,928	\$ 63,489	\$ 61,421	\$ (123,761)	\$ 1,543,135	\$ 91,720	\$ (2,382)	\$ 1,632,473	\$ 153,543	\$ 460	\$ 361,834	\$ 8,262	\$ 1,126	\$ 2,157,698	\$ (16,676) \$ 2,141,022	

LIFESPAN CORPORATION AND AFFILIATES
 Supplementary Consolidating Statement of Financial Position
 September 30, 2007
 (In thousands)

Liabilities and Net Assets (Deficit)	Lifespan Obligated Group						Emma Pendleton Bradley Hospital	Eliminations	Subtotal	Lifespan Corporation *	Lifespan Diversified Services, Inc.	Newport Health Care Corporation	Lifespan Foundations **	Lifespan MISO, Inc.	Total	Eliminations	Consolidated total
	Rhode Island Hospital	The Miriam Hospital	RIH Foundation	TMH Foundation	Eliminations	Subtotal											
Current liabilities:																	
Accounts payable	\$ 36,567	\$ 9,137	\$ 103	\$ 92	\$ —	\$ 45,899	\$ 527	\$ 46,426	\$ 5,078	\$ 96	\$ 2,921	\$ —	\$ 128	\$ 54,649	\$ —	\$ 54,649	
Accrued employee benefits and compensation	24,715	12,270	—	—	—	36,985	2,174	39,159	14,163	73	3,938	—	100	57,433	—	57,433	
Other accrued expenses	10,177	2,732	839	344	(1,771)	12,321	565	12,633	2,232	—	958	1,343	320	17,486	(3,301)	14,185	
Current portion of long-term debt	1,418	417	—	—	—	1,835	—	1,835	—	—	1,660	—	—	3,495	—	3,495	
Current portion of estimated third-party payor settlements	16,175	7,969	—	—	—	24,144	1,774	25,918	—	—	424	—	—	26,342	—	26,342	
Current portion of estimated malpractice and other self-insurance costs	4,480	1,186	—	—	—	5,666	494	6,160	19,654	—	218	—	73	26,105	—	26,105	
Total current liabilities	93,532	33,711	942	436	(1,771)	126,850	5,534	132,131	41,127	169	10,119	1,343	621	185,510	(3,301)	182,209	
Long-term debt, net of current portion	209,822	51,592	—	—	—	261,414	—	261,414	—	—	30,945	—	—	292,359	—	292,359	
Estimated third-party payor settlements, net of current portion	45,676	11,147	—	—	—	56,823	675	57,498	2,927	—	4,622	—	—	65,047	—	65,047	
Estimated malpractice self-insurance costs, net of current portion	—	—	—	—	—	—	—	—	67,265	—	—	—	—	67,265	—	67,265	
Other liabilities	54,168	4,998	97	1,445	—	60,708	1,806	62,514	15,589	1,312	575	2	25	80,017	(13,375)	66,642	
Total liabilities	403,198	101,448	1,039	1,881	(1,771)	505,795	8,015	513,557	126,908	1,481	46,261	1,345	646	690,198	(16,676)	673,522	
Net assets (deficit):																	
Unrestricted	452,878	216,778	22,982	45,776	(68,758)	669,656	22,971	693,062	26,635	(1,021)	251,947	(640)	480	970,463	—	970,463	
Temporarily restricted	148,002	26,034	17,302	7,096	(24,398)	174,036	4,057	175,529	—	—	35,559	4,118	—	215,206	—	215,206	
Permanently restricted	186,980	6,668	22,166	6,668	(28,834)	193,648	56,677	250,325	—	—	28,067	3,439	—	281,831	—	281,831	
Total net assets (deficit)	787,860	249,480	62,450	59,540	(121,990)	1,037,340	83,705	1,118,916	26,635	(1,021)	315,573	6,917	480	1,467,500	—	1,467,500	
Total liabilities and net assets	\$ 1,191,058	\$ 350,928	\$ 63,489	\$ 61,421	\$ (123,761)	\$ 1,543,135	\$ 91,720	\$ 1,632,473	\$ 153,543	\$ 460	\$ 361,834	\$ 8,262	\$ 1,126	\$ 2,157,698	\$ (16,676)	\$ 2,141,022	

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

See accompanying independent auditors' report on supplementary information.

LIFESPAN CORPORATION AND AFFILIATES
 Supplementary Consolidating Statement of Operations and Changes in Net Assets
 Year ended September 30, 2008
 (In thousands)

	Lifespan Obligated Group					Subtotal	Emma Pendleton Bradley Hospital	Eliminations	Subtotal	Lifespan Corporation*	Lifespan Diversified Services, Inc.	Newport Health Care Corporation	Lifespan Foundations**	Lifespan MSO, Inc.	Total	Eliminations	Consolidated total
	Rhode Island Hospital	The Miriam Hospital	RIH Foundation	TMH Foundation	Eliminations												
Unrestricted revenues and other support:																	
Net patient service revenue	\$ 840,004	\$ 312,686			\$ (1,149)	\$ 1,151,541	\$ 52,904	\$ 1,204,445			\$ 102,777			\$ 1,307,222		\$ 1,307,222	
Other revenue	37,709	9,675			(2,125)	45,259	897	46,156	\$ 105,865	\$ 1,738	2,402		\$ 4,621	\$ 160,782	\$ (98,889)	\$ 61,893	
Endowment earnings contributed toward community benefit	6,895	614			—	7,509	2,503	10,012	—	—	996		—	11,008	—	11,008	
Net assets released from restrictions used for operations	15,665	1,990			—	17,655	294	17,949	—	—	1,236		—	19,185	—	19,185	
Net assets released from restrictions used for research	49,369	22,691			—	72,060	1,779	73,839	—	—	—		—	73,839	—	73,839	
Total unrestricted revenues and other support	949,642	347,656			(3,274)	1,294,024	58,377	1,352,401	105,865	1,738	107,411		4,621	1,572,036	(98,889)	1,473,147	
Operating expenses:																	
Compensation and benefits	490,708	171,240			—	661,948	42,873	704,821	62,907	772	60,495		2,492	831,487	(37)	831,450	
Supplies and other expenses	198,664	92,599			(2,125)	289,138	4,834	293,972	19,803	731	19,169		1,247	334,922	10,350	345,272	
Purchased services	112,428	39,228			(1,149)	150,507	6,189	156,696	24,626	191	14,838		667	197,038	(109,202)	87,836	
Provision for bad debts	56,538	15,745			—	72,283	32	72,315	—	105	4,391		—	76,811	—	76,811	
Depreciation and amortization	31,024	10,772			—	41,796	1,310	43,106	—	23	6,806		122	50,057	—	50,057	
Interest	9,707	2,400			—	12,107	—	12,107	—	—	1,492		—	13,599	—	13,599	
License fees	24,408	8,751			—	33,159	—	33,159	—	—	2,982		—	36,141	—	36,141	
Total operating expenses	923,477	340,735			(3,274)	1,260,938	55,238	1,316,176	107,336	1,822	110,193		4,528	1,540,055	(98,889)	1,441,166	
Income (loss) from operations	26,165	6,921			—	33,086	3,139	36,225	(1,471)	(84)	(2,782)		93	31,981	—	31,981	
Nonoperating gains and losses:																	
Unrestricted gifts and bequests	—	—	\$ 623	\$ 236	—	859	—	859	—	—	348	\$ 397	—	1,604	—	1,604	
Unrestricted income from board-designated investments	—	—	571	717	—	1,288	—	1,288	1,176	—	3,445	61	—	5,970	—	5,970	
Net realized gains (losses) on sales of board-designated investments	1,438	526	(992)	(986)	—	(14)	—	(14)	—	—	2,754	52	—	2,792	—	2,792	
Grants to outside agencies	—	—	(440)	(146)	—	(586)	—	(586)	—	—	(127)	(154)	—	(867)	—	(867)	
Fundraising expenses	—	—	(2,714)	(852)	—	(3,566)	—	(3,566)	—	—	(703)	(781)	—	(5,050)	—	(5,050)	
Other nonoperating (losses) gains, net	113	(8)	—	—	—	105	29	134	—	—	(177)	—	—	(43)	—	(43)	
Total nonoperating gains (losses), net	1,551	518	(2,952)	(1,031)	—	(1,914)	29	(1,885)	1,176	—	5,540	(425)	—	4,406	—	4,406	
Excess (deficiency) of revenues over expenses	\$ 27,716	\$ 7,439	\$ (2,952)	\$ (1,031)	\$ —	\$ 31,172	\$ 3,168	\$ 34,340	\$ (295)	\$ (84)	\$ 2,758	\$ (425)	\$ 93	\$ 36,387	\$ —	\$ 36,387	

LIFESPAN CORPORATION AND AFFILIATES
 Supplementary Consolidating Statement of Operations and Changes in Net Assets
 Year ended September 30, 2008
 (In thousands)

	Lifespan Obligated Group						Emma Pardleton Bradley Hospital	Eliminations	Subtotal	Lifespan Corporation*	Lifespan Diversified Services, Inc.	Newport Health Care Corporation	Lifespan Foundations**	Lifespan MSO, Inc.	Total	Eliminations	Consolidated total
	Rhode Island Hospital	The Miriam Hospital	RIH Foundation	TMH Foundation	Eliminations	Subtotal											
Unrestricted net assets:																	
Excess (deficiency) of revenues over expenses	\$ 27,716	\$ 7,439	\$ (2,952)	\$ (1,031)		\$ 31,172	\$ 3,168		\$ 34,340	\$ (295)	\$ (84)	\$ 2,758	\$ (425)	\$ 93	\$ 36,387	\$ 36,387	
Other changes in unrestricted net assets:																	
Net change in unrealized gains on investment:	(38,931)	(12,768)	(7,958)	(10,066)		(69,723)	(368)		(70,091)	(4,860)	—	(38,820)	(1,319)	—	(115,090)	(115,090)	
Net assets released from restrictions used for purchase of property and equipment	8,342	4,678	—	—		13,020	1,416		14,436	—	—	4,445	—	—	18,881	18,881	
Change in funded status of pension and other postretirement plans other than net periodic pension and postretirement benefit cost:	(4,776)	(1,454)	—	—		(6,230)	(251)		(6,481)	(1,033)	(2)	(3,328)	—	(12)	(10,856)	(10,856)	
Decrease in net assets of related Foundation	(10,910)	(11,097)	—	—	\$ 22,007	—	(113)	\$ 113	—	—	—	—	—	—	—	—	
Transfers (to) from unrestricted net assets of affiliate:	—	—	—	—	—	—	(500)	—	(500)	—	—	—	500	—	—	—	
Other increases	512	—	—	—	—	512	—	—	512	—	—	—	—	—	512	512	
(Decrease) increase in unrestricted net assets	(18,047)	(13,202)	(10,910)	(11,097)	22,007	(31,249)	3,352	113	(27,784)	(6,188)	(86)	(34,945)	(1,244)	81	(70,166)	(70,166)	
Temporarily restricted net assets:																	
Gifts, grants, and bequests	57,438	23,233	4,924	2,474	—	88,069	2,048	—	90,117	—	—	1,147	1,811	—	93,075	93,075	
Income from restricted endowment and other restricted investments	3,931	1,014	145	91	—	5,181	22	—	5,203	—	—	660	46	—	5,909	5,909	
Net assets released from restrictions:	(73,376)	(29,359)	—	—	—	(102,735)	(3,489)	—	(106,224)	—	—	(5,681)	—	—	(111,905)	(111,905)	
Net realized and unrealized (losses) gains on investment:	(20,380)	(2,204)	(2,314)	(132)	—	(25,030)	(235)	—	(25,265)	—	—	(6,322)	53	—	(31,534)	(31,534)	
Appropriations from (to) permanently restricted net asset:	2,059	—	—	—	—	2,059	—	—	2,059	—	—	—	(37)	—	2,022	2,022	
Transfers from (to) temporarily restricted net asset of affiliates	5,704	3,981	(5,704)	(3,981)	—	—	1,491	—	1,491	—	—	56	(1,547)	—	—	—	
(Decrease) increase in net assets of related Foundation	(2,949)	(1,548)	—	—	4,497	—	363	(363)	—	—	—	—	—	—	—	—	
(Decrease) increase in temporarily restricted net assets	(27,573)	(4,883)	(2,949)	(1,548)	4,497	(32,456)	200	(363)	(32,619)	—	—	(10,140)	326	—	(42,433)	(42,433)	
Permanently restricted net assets:																	
Gifts and bequests	—	—	955	732	—	1,687	—	—	1,687	—	—	—	—	—	1,687	1,687	
Net realized gains on sales of permanently restricted investments	3,748	—	22	9	—	3,779	—	—	3,779	—	—	1,008	—	—	4,787	4,787	
Net unrealized (losses) gains on investments:	(30,963)	—	243	217	—	(30,503)	(6,581)	—	(37,084)	—	—	—	131	—	(36,953)	(36,953)	
Appropriations (to) from temporarily restricted net asset:	(2,059)	—	—	37	—	(2,022)	—	—	(2,022)	—	—	—	—	—	(2,022)	(2,022)	
Increase in net assets of related Foundation	1,220	995	—	—	(2,215)	—	—	—	—	—	—	—	—	—	—	—	
(Decrease) increase in permanently restricted net assets	(28,054)	995	1,220	995	(2,215)	(27,059)	(6,581)	—	(33,640)	—	—	1,008	131	—	(32,501)	(32,501)	
(Decrease) increase in net assets	(73,674)	(17,090)	(12,639)	(11,650)	24,289	(90,764)	(3,029)	(250)	(94,043)	(6,188)	(86)	(44,077)	(787)	81	(145,100)	(145,100)	
Net assets (deficit), beginning of year	787,860	249,480	62,450	59,540	(121,990)	1,037,340	83,705	(2,129)	1,118,916	26,635	(1,021)	315,573	6,917	480	1,467,500	1,467,500	
Net assets (deficit), end of year	\$ 714,186	\$ 232,390	\$ 49,811	\$ 47,890	\$ (97,701)	\$ 946,576	\$ 80,676	\$ (2,379)	\$ 1,024,873	\$ 20,447	\$ (1,107)	\$ 271,496	\$ 6,130	\$ 561	\$ 1,322,400	\$ 1,322,400	

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

See accompanying independent auditors' report on supplementary information.

LIFESPAN CORPORATION AND AFFILIATES
 Supplementary Consolidating Statement of Operations and Changes in Net Assets

Year ended September 30, 2007

(In thousands)

	Lifespan Obligated Group						Emma Pendleton Bradley Hospital	Eliminations	Subtotal	Lifespan Corporation*	Lifespan Diversified Services, Inc.	Newport Health Care Corporation	Lifespan Foundations**	Lifespan MSO, Inc.	Total	Eliminations	Consolidated total
	Rhode Island Hospital	The Miriam Hospital	RIH Foundation	TMH Foundation	Eliminations	Subtotal											
Unrestricted revenues and other support:																	
Net patient service revenue	\$ 809,582	\$ 282,809			\$ (1,032)	\$ 1,091,359	\$ 51,064	\$ 1,142,423	\$ 102,586	\$ 1,982	\$ 101,709		\$ 4,160	\$ 1,244,132	\$ (95,113)	\$ 1,244,132	
Other revenue	34,210	13,284			(2,085)	45,409	727	46,136			1,795			156,639		61,546	
Endowment earnings contributed toward community benefit	6,238	686			—	6,924	2,479	9,403	—	—	998			10,401	—	10,401	
Net assets released from restrictions used for operations	12,235	1,194			—	13,429	242	13,671	—	—	1,388			15,059	—	15,059	
Net assets released from restrictions used for research	45,055	19,856			—	64,911	1,566	66,477	—	—	—			66,477	—	66,477	
Total unrestricted revenues and other support	907,320	317,829			(3,117)	1,222,032	56,078	1,278,110	102,586	1,982	105,890		4,160	1,492,728	(95,113)	1,397,615	
Operating expenses:																	
Compensation and benefits	465,439	154,552			—	619,991	40,312	660,303	64,429	816	56,870		2,251	784,669	(1,669)	783,000	
Supplies and other expenses	188,734	82,219			(2,085)	268,868	3,833	272,701	17,480	669	17,659		1,187	309,696	10,240	319,936	
Purchased services	100,719	35,822			(1,032)	135,509	6,062	141,571	21,220	204	15,237		507	178,739	(103,684)	75,055	
Provision for bad debts	55,883	16,444			—	72,327	(366)	71,961	—	160	6,706		—	78,827	—	78,827	
Depreciation and amortization	30,326	9,080			—	39,406	1,228	40,634	—	23	6,292		119	47,068	—	47,068	
Interest	9,911	2,452			—	12,363	—	12,363	—	—	1,625		—	13,988	—	13,988	
License fees	20,454	8,115			—	28,569	—	28,569	—	—	2,976		—	31,545	—	31,545	
Total operating expenses	871,466	308,684			(3,117)	1,177,033	51,069	1,228,102	103,129	1,872	107,365		4,064	1,444,532	(95,113)	1,349,419	
Income (loss) from operations	35,854	9,145			—	44,999	5,009	50,008	(543)	110	(1,475)		96	48,196	—	48,196	
Nonoperating gains and losses:																	
Unrestricted gifts and bequests	—	—	\$ 539	\$ 1,848	—	2,387	—	2,387	—	—	258	\$ 407	—	3,052	—	3,052	
Unrestricted income from board-designated investments	—	—	520	710	—	1,230	—	1,230	1,289	—	3,270	56	—	5,845	—	5,845	
Net realized gains on sales of board-designated investments	16,977	7,228	2,715	3,900	—	30,820	—	30,820	—	—	19,351	358	—	50,529	—	50,529	
Grants to outside agencies	—	—	(398)	(156)	—	(554)	—	(554)	—	—	(74)	(138)	—	(766)	—	(766)	
Fundraising expenses	—	—	(2,494)	(911)	—	(3,405)	—	(3,405)	—	—	(557)	(629)	—	(4,591)	—	(4,591)	
Other nonoperating (losses) gains, net	52	(190)	—	—	—	(138)	13	(125)	247	—	(163)	—	—	(41)	—	(41)	
Total nonoperating gains, net	17,029	7,038	882	5,391	—	30,340	13	30,353	1,536	—	22,085	54	—	54,028	—	54,028	
Excess of revenues over expenses	\$ 52,883	\$ 16,183	\$ 882	\$ 5,391	\$ —	\$ 75,339	\$ 5,022	\$ 80,361	\$ 993	\$ 110	\$ 20,610	\$ 54	\$ 96	\$ 102,224	\$ —	\$ 102,224	

LIFESPAN CORPORATION AND AFFILIATES
 Supplementary Consolidating Statement of Operations and Changes in Net Assets
 Year ended September 30, 2007
 (In thousands)

	<u>Lifespan Obligated Group</u>						<u>Emma Pendleton Bradley Hospital</u>	<u>Eliminations</u>	<u>Subtotal</u>	<u>Lifespan Corporation*</u>	<u>Lifespan Diversified Services, Inc.</u>	<u>Newport Health Care Corporation</u>	<u>Lifespan Foundations**</u>	<u>Lifespan MSO, Inc.</u>	<u>Total</u>	<u>Eliminations</u>	<u>Consolidated total</u>
	<u>Rhode Island Hospital</u>	<u>The Miriam Hospital</u>	<u>RIH Foundation</u>	<u>TMH Foundation</u>	<u>Eliminations</u>	<u>Subtotal</u>											
Unrestricted net assets:																	
Excess of revenues over expenses	\$ 52,883	\$ 16,183	\$ 882	\$ 5,391		\$ 75,339	\$ 5,022		\$ 80,361	\$ 993	\$ 110	\$ 20,610	\$ 54	\$ 96	\$ 102,224		\$ 102,224
Other changes in unrestricted net assets:																	
Net change in unrealized gains on investments:	13,298	4,803	1,689	2,857		22,647	183		22,830	3,134	—	10,035	(99)	—	35,900		35,900
Net assets released from restrictions used for purchase of property and equipment	7,660	5,957	—	—		13,617	948		14,565	—	—	700	—	—	15,265		15,265
Effect of adoption of provisions of FASB Statement No. 158	(13,695)	5,070	—	—		(8,625)	722		(7,903)	1,566	37	7,817	—	26	1,543		1,543
Increase in net assets of related Foundation	2,571	8,248	—	—	\$ (10,819)	—	519	\$ (519)	—	—	—	—	—	—	—		—
Transfers (to) from unrestricted net assets of affiliate:	—	—	—	—	—	—	(675)	—	(675)	—	—	—	—	675	—		—
Other increases	—	428	—	—	—	428	—	—	428	—	—	3	—	—	431		431
Increase in unrestricted net assets	62,717	40,689	2,571	8,248	(10,819)	103,406	6,719	(519)	109,606	5,693	147	39,165	630	122	155,363		155,363
Temporarily restricted net assets:																	
Gifts, grants, and bequests	54,393	21,943	6,034	4,519	—	86,889	1,705	—	88,594	—	—	1,945	2,015	—	92,554		92,554
Income from restricted endowment and other restricted investments	3,474	884	125	88	—	4,571	12	—	4,583	—	—	675	39	—	5,297		5,297
Net assets released from restrictions	(64,950)	(27,007)	—	—	—	(91,957)	(2,756)	—	(94,713)	—	—	(2,088)	—	—	(96,801)		(96,801)
Net realized and unrealized gains (losses) on investment:	21,988	(100)	954	128	—	22,970	136	—	23,106	—	—	7,213	240	—	30,559		30,559
Appropriations from permanently restricted net asset:	3,256	—	—	—	—	3,256	—	—	3,256	—	—	—	—	—	3,256		3,256
Transfers from (to) temporarily restricted net asset of affiliates	6,979	5,884	(6,968)	(5,820)	—	75	825	—	900	—	—	—	(900)	—	—		—
Increase (decrease) in net assets of related Foundation	145	(1,085)	—	—	940	—	1,250	(1,250)	—	—	—	—	—	—	—		—
Increase (decrease) in temporarily restricted net assets	25,285	519	145	(1,085)	940	25,804	1,172	(1,250)	25,726	—	—	7,745	1,394	—	34,865		34,865
Permanently restricted net assets:																	
Gifts and bequests	—	—	2,075	266	—	2,341	—	—	2,341	—	—	—	—	—	2,341		2,341
Net realized gains on sales of permanently restricted investments	14,187	—	45	10	—	14,242	—	—	14,242	—	—	870	—	—	15,112		15,112
Net unrealized gains on investments	8,917	—	449	199	—	9,565	18,985	—	28,550	—	—	—	494	—	29,044		29,044
Appropriations to temporarily restricted net asset:	(3,256)	—	—	—	—	(3,256)	—	—	(3,256)	—	—	—	—	—	(3,256)		(3,256)
Transfers from (to) permanently restricted net asset of affiliates	50	—	125	—	—	175	—	—	175	—	—	—	(175)	—	—		—
Increase in net assets of related Foundation	2,694	475	—	—	(3,169)	—	—	—	—	—	—	—	—	—	—		—
Increase in permanently restricted net assets	22,592	475	2,694	475	(3,169)	23,067	18,985	—	42,052	—	—	870	319	—	43,241		43,241
Increase in net assets, before interest in net assets of RIHF/ TMHF at October 1, 2006	110,594	41,683	5,410	7,638	(13,048)	152,277	26,876	(1,769)	177,384	5,693	147	47,780	2,343	122	233,469		233,469
Interest in net assets of RIHF/ TMHF at October 1, 2006	—	—	57,040	51,902	—	108,942	—	—	108,942	—	—	—	(108,942)	—	—		—
Increase (decrease) in net assets	110,594	41,683	62,450	59,540	(13,048)	261,219	26,876	(1,769)	286,326	5,693	147	47,780	(106,599)	122	233,469		233,469
Net assets (deficit), beginning of year	677,266	207,797	—	—	(108,942)	776,121	56,829	(360)	832,590	20,942	(1,168)	267,793	113,516	358	1,234,031		1,234,031
Net assets (deficit), end of year	\$ 787,860	\$ 249,480	\$ 62,450	\$ 59,540	\$ (121,990)	\$ 1,037,340	\$ 83,705	\$ (2,129)	\$ 1,118,916	\$ 26,635	\$ (1,021)	\$ 315,573	\$ 6,917	\$ 480	\$ 1,467,500	\$ —	\$ 1,467,500

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

See accompanying independent auditors' report on supplementary information.