THE MIRIAM HOSPITAL

Financial Statements

September 30, 2009 and 2008

(With Independent Auditors' Report Thereon)

THE MIRIAM HOSPITAL

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September 30, 2009 and 2008

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KPMG LLP
50 Kennedy Plaza
Providence, RI 02903

Independent Auditors' Report

The Board of Trustees
The Miriam Hospital:

We have audited the accompanying statements of financial position of The Miriam Hospital (the Hospital) as of September 30, 2009 and 2008, and the related statements of operations and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these 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 the Hospital'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 financial statements referred to above present fairly, in all material respects, the financial position of The Miriam Hospital as of September 30, 2009 and 2008, and the results of its operations and changes in net assets, and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

As described in note 3 to the financial statements, in 2009 the Hospital adopted the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Subtopic 820-10, *Fair Value Measurements and Disclosures*.

KPMG LLP

February 19, 2010

THE MIRIAM HOSPITAL

Statements of Financial Position

September 30, 2009 and 2008

(In thousands)

Assets	2009	2008
Current assets:		
Cash and cash equivalents	$ 20,555	$ 12,282
Patient accounts receivable	45,419	44,843
Less allowance for doubtful accounts	(10,618)	(9,362)
Net patient accounts receivable	34,801	35,481
Other receivables	3,574	2,927
Total receivables	38,375	38,408
Assets limited as to use	—	194
Inventories	3,705	3,180
Prepaid expenses and other current assets	407	430
Total current assets	63,042	54,494
Interest in net assets of The Miriam Hospital Foundation	44,171	47,890
Assets limited as to use	89,697	77,624
Less amount required to meet current obligations	—	(194)
Noncurrent assets limited as to use	89,697	77,430
Property and equipment, net	155,408	156,219
Other assets:		
Deferred financing costs, net	1,863	1,371
Other noncurrent assets	696	696
Total other assets	2,559	2,067
Total assets	$ 354,877	$ 338,100

Liabilities and Net Assets	2009	2008
Current liabilities:		
Accounts payable	$ 10,473	$ 12,687
Accrued employee benefits and compensation	15,837	13,733
Other accrued expenses	3,668	4,732
Current portion of long-term debt	1,799	914
Current portion of estimated third-party payor settlements	8,874	6,429
Estimated health care benefit self-insurance costs	1,707	1,163
Total current liabilities	42,358	39,658
Long-term debt, net of current portion	68,197	50,546
Estimated third-party payor settlements, net of current portion	6,572	8,697
Accrued pension liability	17,986	6,183
Other liabilities	880	626
Total liabilities	135,993	105,710
Net assets:		
Unrestricted	192,478	203,576
Temporarily restricted	19,753	21,151
Permanently restricted	6,653	7,663
Total net assets	218,884	232,390
Total liabilities and net assets	$ 354,877	$ 338,100

See accompanying notes to financial statements.

THE MIRIAM HOSPITAL

Statements of Operations and Changes in Net Assets

Years ended September 30, 2009 and 2008

(In thousands)

	2009	2008
Unrestricted revenues and other support:		
Net patient service revenue	$ 334,572	$ 312,686
Other revenue	10,201	9,675
Endowment earnings contributed toward community benefit	397	614
Net assets released from restrictions used for operations	1,856	1,990
Net assets released from restrictions used for research	20,484	22,691
Total unrestricted revenues and other support	367,510	347,656
Operating expenses:		
Compensation and benefits	177,876	171,240
Supplies and other expenses	102,345	92,599
Purchased services	39,472	39,228
Provision for bad debts	17,087	15,745
Depreciation and amortization	10,583	10,772
Interest	3,044	2,400
License fees	14,431	8,751
Total operating expenses	364,838	340,735
Income from operations	2,672	6,921
Nonoperating gains and losses:		
Net realized (losses) gains on board-designated investments	(1,864)	526
Other nonoperating losses, net	(51)	(8)
Total nonoperating (losses) gains, net	(1,915)	518
Excess of revenues over expenses	$ 757	$ 7,439

(Continued)

THE MIRIAM HOSPITAL

Statements of Operations and Changes in Net Assets (Continued)

Years ended September 30, 2009 and 2008

(In thousands)

	2009	2008
Unrestricted net assets:		
Excess of revenues over expenses	$ 757	$ 7,439
Other changes in unrestricted net assets:		
Change in funded status of pension and other postretirement plans, other than net periodic pension and postretirement benefit costs	(10,533)	(1,454)
Effect of changing pension and postretirement plans' measurement date pursuant to ASC Topic 715	(1,034)	—
Net change in unrealized gains on investments	37	(12,768)
Net assets released from restrictions used for purchase of property and equipment	3,001	4,678
Decrease in interest in net assets of The Miriam Hospital Foundation	(3,326)	(11,097)
Decrease in unrestricted net assets	(11,098)	(13,202)
Temporarily restricted net assets:		
Gifts, grants and bequests	21,015	23,233
Income from restricted investments	719	1,014
Increase (decrease) in interest in net assets of The Miriam Hospital Foundation	617	(1,548)
Transfers from The Miriam Hospital Foundation	2,605	3,981
Net assets released from restrictions	(25,341)	(29,359)
Net realized and unrealized losses on investments	(1,013)	(2,204)
Decrease in temporarily restricted net assets	(1,398)	(4,883)
Permanently restricted net assets:		
(Decrease) increase in interest in net assets of The Miriam Hospital Foundation	(1,010)	995
Decrease in net assets	(13,506)	(17,090)
Net assets, beginning of year	232,390	249,480
Net assets, end of year	$ 218,884	$ 232,390

See accompanying notes to financial statements.

THE MIRIAM HOSPITAL

Statements of Cash Flows

Years ended September 30, 2009 and 2008

(In thousands)

		2009		2008
Cash flows from operating activities:				
Decrease in net assets	$	(13,506)	$	(17,090)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:				
Change in funded status of pension and other postretirement plans, other than net periodic pension and postretirement benefit costs		10,533		1,454
Effect of changing pension and postretirement plans' measurement date pursuant to ASC Topic 715		1,034		—
Net realized and unrealized losses on investments		2,840		14,446
Undistributed portion of change in interest in net assets of The Miriam Hospital Foundation		3,719		11,650
Transfers from The Miriam Hospital Foundation		(2,605)		(3,981)
Depreciation and amortization		10,583		10,772
Provision for estimated health care benefit self-insurance costs		20,543		17,993
Decrease in liabilities for estimated health care benefit self-insurance costs resulting from claims paid		(19,999)		(18,016)
Net decrease (increase) in patient accounts receivable		680		(6,370)
(Decrease) increase in accounts payable		(2,214)		3,550
Increase in accrued employee benefits and compensation		2,104		1,463
Increase (decrease) in estimated third-party payor settlements		320		(3,990)
(Decrease) increase in all other current and noncurrent assets and liabilities, net		(2,444)		3,415
Net cash provided by operating activities		11,588		15,296
Cash flows from investing activities:				
Purchase of property and equipment		(9,640)		(20,838)
Net (increase) decrease in trustee-held bond funds		(16,036)		298
Other net decreases in assets limited as to use		1,123		6,076
Net cash used in investing activities		(24,553)		(14,464)
Cash flows from financing activities:				
Proceeds from issuance of long-term debt		19,547		—
Payments on long-term debt		(914)		(417)
Transfers from The Miriam Hospital Foundation		2,605		3,981
Net cash provided by financing activities		21,238		3,564
Net increase in cash and cash equivalents		8,273		4,396
Cash and cash equivalents, beginning of year		12,282		7,886
Cash and cash equivalents, end of year	$	20,555	$	12,282
Supplemental disclosure of cash flow information:				
Cash paid for interest	$	2,682	$	2,534

See accompanying notes to financial statements.

(In thousands)

(1) Description of Organization

The Miriam Hospital (the Hospital), located in Providence, Rhode Island, is a 247-bed nonprofit general acute care teaching hospital with university affiliation providing a comprehensive range of diagnostic and therapeutic services (excluding obstetrics) for the acute care of patients principally from Rhode Island and southeastern Massachusetts. As a complement to its role in service and education, the Hospital actively supports research. The Hospital is accredited by the Joint Commission on Accreditation of Healthcare Organizations (JCAHO) and participates as a provider primarily in Medicare, Blue Cross and Medicaid programs. The Hospital is also a member of Voluntary Hospitals of America, Inc. (VHA).

Effective August 9, 1994, the Federal Trade Commission and the Health Services Council of the Rhode Island Department of Health approved the combination of the Hospital and Rhode Island Hospital (RIH) of Providence, RI (719 beds) under a plan which included the creation of a not-for-profit parent company, Lifespan Corporation. Each hospital continues to maintain its own identity and Board of Trustees, as well as its own campus and its own name. Lifespan has the responsibility for strategic planning and initiatives, capital and operating budgets, and overall governance of the consolidated organization.

(2) Charity Care and Other Community Benefits

The total net cost of charity care and other community benefits provided by the Hospital for the years ended September 30, 2009 and 2008 is summarized in the following table:

	2009	2008
Charity care	$ 8,338	$ 6,700
Medical education, net	8,343	7,988
Research	3,272	2,971
Subsidized health services	576	518
Community health improvement services and community benefit operations	176	242
Unreimbursed Medicaid costs	896	354
Total	$ 21,601	$ 18,773

(2) Charity Care and Other Community Benefits (continued)

Charity Care

The Hospital 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. The Hospital maintains records to identify and monitor the level of charity care it provides. The total cost incurred by the Hospital to provide charity care amounted to $8,338 and $6,700 in 2009 and 2008, respectively. Charges forgone, based on established rates, amounted to $33,342 and $25,839 in 2009 and 2008, respectively.

Medical Education

The Hospital provides the setting for and substantially supports medical education in various clinical training and nursing programs. The total cost of medical education provided by the Hospital exceeds the reimbursement received from third-party payors by $8,343 and $7,988 in 2009 and 2008, respectively.

In 1969, the Hospital and certain other Rhode Island hospitals entered into an affiliation agreement to participate jointly in various clinical training programs and research activities with Brown Medical School, renamed The Warren Alpert Medical School of Brown University (Brown). In 2004, Brown and Lifespan Corporation (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.

The Hospital participates in Brown programs in internal medicine and medicine subspecialties, general surgery and surgical subspecialties, psychiatry, emergency medicine, orthopedics, and dermatology and provides stipends to residents and physician fellows while in training.

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, the Hospital has 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; and the University of Massachusetts-Dartmouth, pursuant to which their nursing students obtain clinical training and experience at the Hospital. The Hospital does not receive any compensation from the various schools for providing a clinical setting for the student nurse training.

(Continued)

(2) Charity Care and Other Community Benefits (continued)

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

Research

The Hospital conducts extensive medical research and is in the forefront of biomedical health care delivery research and among the leaders nationally in National Institutes of Health programs. The Hospital also sponsors a significant level of these research activities, as indicated in the table on page 6.

Federal support accounts for approximately 84% of all externally funded research at the Hospital. 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

The Hospital subsidizes various health services including a tuberculosis clinic.

Community Health Improvement Services and Community Benefit Operations

The Hospital 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

The Hospital 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 Hospital considers events and transactions that occur after the statement of financial position date, but before the financial statements are issued, to provide additional evidence relative to certain estimates or to identify matters that require additional disclosure. These financial statements were issued on February 19, 2010 and subsequent events have been evaluated through that date.

(b) Use of Estimates

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

(c) Accounting Pronouncements Adopted in 2009

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

Effective October 1, 2008, the Hospital adopted the provisions of FASB ASC Subtopic 958-250, *Classification of Donor-Restricted Endowment Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act* (ASC 958-250). ASC 958-250 provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and also requires disclosures about endowment funds, both donor-restricted endowment funds and board-designated endowment funds. See note 5 for disclosures of endowment funds required by ASC 958-250.

(3) Summary of Significant Accounting Policies (continued)

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

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

(d) Accounting Pronouncements Not Yet Adopted

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

(e) Cash and Cash Equivalents

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

(3) Summary of Significant Accounting Policies (continued)

(f) Investments and Investment Income

As noted above, effective October 1, 2008, the Hospital adopted the recognition and disclosure provisions of ASC 820-10. ASC 820-10 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. Fair value represents the price that would be received upon the sale of an asset or paid upon the transfer of a liability in an orderly transaction between market participants as of the measurement date. ASC 820-10 establishes a fair value hierarchy that prioritizes inputs used to measure fair value into three levels:

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

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. In determining fair value, the Hospital utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. The adoption of ASC 820-10 did not have an impact on the Hospital's financial position, changes in net assets, or cash flows, but did significantly expand fair value disclosures.

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

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

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

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

(3) Summary of Significant Accounting Policies (continued)

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

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the statements of financial position. Investments in collective investment funds with monthly pricing and liquidity are measured based on the fair value of the underlying investments; otherwise, such investments are recorded at historical cost. Investments of less than 5% in limited partnerships are also recorded at historical cost. Investments of 5% or more in limited partnerships, limited liability corporations or similar investments are accounted for at fair value, with changes in fair value recorded as realized gains or losses using the equity method. Investments in derivative financial instruments are not material.

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

Effective October 1, 2008, the Hospital reclassified $21,811 of its assets limited as to use from available-for-sale securities to trading securities. Investments designated by the Hospital as trading assets are reported at fair value, with gains or losses resulting from changes in fair value recognized in the statement of operations and changes in net assets as realized gains or losses on investments.

(3) Summary of Significant Accounting Policies (continued)

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

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

Investment income from funds 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.

(g) Assets Limited As To Use

Assets limited as to use primarily include designated assets set aside by the Hospital’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 the Hospital has been limited by grantors or donors to a specific purpose, as well as assets held by trustees under bond indenture agreements. Amounts required to meet current liabilities of the Hospital are reported in current assets in the statements of financial position.

(h) Property and Equipment

Property and equipment acquisitions are recorded at cost. Depreciation is computed over the estimated useful life of each class of depreciable asset using the straight-line method. Buildings and improvements lives range from 5 to 40 years and equipment from 3 to 20 years. 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.

(3) Summary of Significant Accounting Policies (continued)

(i) Deferred Financing Costs

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

(j) Temporarily Restricted Net Assets

Temporarily restricted net assets contain grantor or donor-imposed stipulations as to the timing of their availability or use for a particular purpose, including research activities. These net assets are released from restrictions when the specified time elapses or actions have been taken to meet the restrictions.

(k) Excess of Revenues Over Expenses

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

(l) Net Patient Service Revenue

The Hospital provides care to patients under Medicare, Medicaid, managed care and commercial insurance contractual arrangements. The Hospital has agreements with many third-party payors that provide for payments to the Hospital at amounts less than its 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.

(3) Summary of Significant Accounting Policies (continued)

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

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

Settlements and adjustments arising under reimbursement arrangements with some third-party payors, primarily Medicare, Medicaid and Blue Cross, are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. The Hospital 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 the Hospital.

(m) Provision for Bad Debts

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

(n) Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient service revenue.

(3) Summary of Significant Accounting Policies (continued)

(o) Donor-Restricted Gifts

Unconditional promises to give cash and other assets to the Hospital are reported at fair value at the date the promise is received. The gifts are reported as temporarily restricted support that increases the net asset class if they are received with stipulations that limit the use of the assets. 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 statements of operations and changes in net assets as net assets released from restrictions.

(p) Inventories

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

(q) Estimated Self-Insurance Costs

The Hospital participates in Lifespan self-insurance programs with other Lifespan affiliates for losses arising from medical malpractice claims, health benefits to its employees, and losses arising from workers' compensation claims. The Hospital has recorded provisions for estimated claims, which are based on Lifespan's own experience. The provisions for self-insured losses include estimates of the ultimate costs for both reported claims and claims incurred but not reported.

(r) Fair Value of Financial Instruments

The carrying amounts recorded in the statements of financial position for cash and cash equivalents, patient accounts receivable, assets limited as to use, accounts payable, accrued expenses, estimated third-party payor settlements, and estimated health care benefit self-insurance costs approximate their respective fair values. The estimated fair value of the Hospital's assets limited as to use and long-term debt are disclosed in notes 5 and 10, respectively.

(s) Reclassifications

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

(4) Disproportionate Share

The Hospital is a participant 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 Hospital, receive federal and state Medicaid funds as additional reimbursement for treating a disproportionate share of low income patients. Total payments to the Hospital under the Disproportionate Share Program aggregated $8,534 and $8,150 in 2009 and 2008, respectively, and are reflected as part of net patient service revenue in the accompanying statements of operations and changes in net assets.

The State of Rhode Island has assessed a license fee to all Rhode Island hospitals, based on each hospital's 2007 net patient service revenue as defined. The Hospital's license fee expense was $14,431 and $8,751 in 2009 and 2008, respectively. The hospitals in the State of Rhode Island accepted the fee as part of an agreement with the State's Department of Health and Human Services in return for an equitable distribution of funds to those hospitals meeting certain criteria in providing services to the Medicaid population.

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

(Continued)

(In thousands)

(5) Investments

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

	2009	2008
Unrestricted board-designated funds:		
Cash and short-term investments	$ 239	$ —
U.S. government and agency obligations	3,931	1,990
Corporate equity securities	5,513	11,116
Corporate obligations	3,164	2,912
Collective investment funds	47,732	44,902
	60,579	60,920
Held by trustee under bond indenture agreements:		
Cash and short-term investments	13,734	323
U.S. government and agency obligations	2,626	—
	16,360	323
Temporarily restricted funds:		
Collective investment funds	12,758	16,381
Total	$ 89,697	$ 77,624

Trading Securities

Effective October 1, 2008, the Hospital reclassified certain of its assets limited as to use from available-for-sale securities to trading securities. The gains recognized as a result of this transfer amounted to $2,103.

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

	2009	2008
Available-for-sale	$ 70,106	$ 77,624
Trading	19,591	—
Total	$ 89,697	$ 77,624

(In thousands)

(5) Investments (continued)

Fair Value

The following table summarizes the Hospital’s investments in the ASC 820-10 fair value hierarchy as of September 30, 2009:

	Level 1	Level 2	Level 3	Total
Investments:				
Cash and short-term investments	$ 14,939	$ —	$ —	$ 14,939
U.S. government and agency obligations	1,386	2,626	—	4,012
Corporate equity securities	6,066	—	—	6,066
Corporate obligations	—	5,444	—	5,444
Collective investment funds	7,410	44,766	—	52,176
Total	$ 29,801	$ 52,836	$ —	$ 82,637

Investments in collective investment funds which do not have monthly pricing and liquidity are recorded at historical cost. Investments of less than 5% in limited partnerships are also recorded at historical cost. The aggregate historical cost of these investments, which approximates market value as reported by investment managers, amounted to $7,060 at September 30, 2009. During 2009 and 2008 there were no declines in market values of any of these investments below their cost which were designated to be other than temporary.

Most investments classified in Level 2 consist of shares or units in investment funds as opposed to direct interests in the funds’ underlying holdings, which may be marketable. Because the NAV reported by each fund is used as a practical expedient to estimate the fair value of the Hospital’s interest therein, its classification in Level 2 is based on the Hospital’s ability to redeem its interest at or near the date of the statement of financial position. The classification of investments in the fair value hierarchy is not necessarily an indication of the risks, liquidity, or degree of difficulty in estimating the fair value of each investment’s underlying assets and liabilities.

(In thousands)

(5) Investments (continued)

Investment Income, Gains and Losses

Investment income, gains and losses for cash equivalents and assets limited as to use are comprised of the following for the years ended September 30:

		2009		2008
Other revenue:				
Investment income	$	845	$	1,456
Endowment earnings contributed toward community benefit:				
Dividend and interest income	$	397	$	614
Nonoperating gains and losses:				
Net realized (losses) gains on board-designated investments	$	(1,864)	$	526
Other changes in unrestricted net assets:				
Net change in unrealized gains on investments	$	37	$	(12,768)
Changes in temporarily restricted net assets:				
Income from restricted investments	$	719	$	1,014
Net realized and unrealized losses on investments		(1,013)		(2,204)
	$	(294)	$	(1,190)

Liquidity

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

Investment redemption or sale period:		
Daily	$	68,070
Monthly		5,920
Quarterly		6,561
One-to-five years		130
Locked-up until liquidation		1,956
Total	$	82,637

(In thousands)

(5) Investments (continued)

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

Commitments

Energy, venture capital, private equity and certain real estate investments are generally made through limited partnerships. Under the terms of these agreements, the Hospital is obligated to remit additional funding periodically as capital or liquidity calls are exercised by the manager. These partnerships have a limited existence, generally ten years, and such agreements may provide for annual extensions for the purpose of disposing portfolio positions and returning capital to investors. However, depending on market conditions, the inability to execute the fund's strategy, and other factors, a manager may extend the terms of a fund beyond its originally anticipated existence or may wind the fund down prematurely. The Hospital cannot anticipate such changes because they are based on unforeseen events, but should they occur they may result in less liquidity or return from the investment than originally anticipated. As a result, the timing and amount of future capital or liquidity calls expected to be exercised in any particular future year is uncertain. The aggregate amount of unfunded commitments associated with the above noted investment categories as of September 30, 2009 was $1,154.

Investments With Unrealized Losses

Information regarding investments with unrealized losses at September 30, 2009 and 2008 is presented below, segregated between those that have been in a continuous unrealized loss position for less than twelve months and those that have been in a continuous unrealized loss position for twelve or more months:

	Less than 12 months		12 months or longer		Total	
September 30, 2009:	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
Unrestricted board-designated and temporarily restricted funds:						
Collective investment funds	$ —	$ —	$ 23,740	$ 4,012	$ 23,740	$ 4,012
Total temporarily impaired securities	$ —	$ —	$ 23,740	$ 4,012	$ 23,740	$ 4,012

(In thousands)

(5) Investments (continued)

September 30, 2008:	Less than 12 months Fair Value	Less than 12 months Unrealized Losses	12 months or longer Fair Value	12 months or longer Unrealized Losses	Total Fair Value	Total Unrealized Losses
Unrestricted board-designated and temporarily restricted funds:						
Collective investment funds	$ 16,641	$ 2,721	$ 23,519	$ 3,234	$ 40,160	$ 5,955
Total temporarily impaired securities	$ 16,641	$ 2,721	$ 23,519	$ 3,234	$ 40,160	$ 5,955

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

Securities Lending

The Hospital 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.

Endowments

The Hospital's endowment consists of individual funds established for a variety of purposes, including both donor-restricted endowment funds and funds designated by the Hospital to function as endowments. Investments associated with endowment funds, including funds designated by the Hospital to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

(In thousands)

Endowments (continued)

Endowment funds consist of the following at September 30, 2009:

	Unrestricted board-designated	Temporarily restricted	Total
Donor-restricted endowment funds	$ —	$ 12,758	$ 12,758
Unrestricted board-designated endowment funds	60,579	—	60,579
Total endowment funds	$ 60,579	$ 12,758	$ 73,337

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

	Unrestricted board-designated	Temporarily restricted	Total
Donor-restricted endowment funds	$ —	$ 16,381	$ 16,381
Unrestricted board-designated endowment funds	60,920	—	60,920
Total endowment funds	$ 60,920	$ 16,381	$ 77,301

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

	Unrestricted board-designated	Temporarily restricted	Total
Endowment funds, October 1, 2008	$ 60,920	$ 16,381	$ 77,301
Interest and dividend income	1,238	719	1,957
Net realized and unrealized losses	(1,827)	(1,013)	(2,840)
Cash gifts, grants and bequests	—	22,012	22,012
Net assets released from restrictions	—	(25,341)	(25,341)
Deposits	248	—	248
Endowment funds, September 30, 2009	$ 60,579	$ 12,758	$ 73,337

(Continued)

(In thousands)

Endowments (continued)

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

		Unrestricted board-designated		Temporarily restricted		Total
Endowment funds, October 1, 2007	$	80,197	$	17,626	$	97,823
Interest and dividend income		1,965		1,014		2,979
Net realized and unrealized losses		(12,242)		(2,204)		(14,446)
Cash gifts, grants and bequests		—		29,304		29,304
Net assets released from restrictions		—		(29,359)		(29,359)
Withdrawals		(9,000)		—		(9,000)
Endowment funds, September 30, 2008	$	60,920	$	16,381	$	77,301

(a) Return Objectives and Risk Parameters

Lifespan has adopted investment policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets, including both donor-restricted funds and unrestricted board-designated funds. Under this policy, as approved by Lifespan, the endowment assets are invested in a manner that is intended to produce results that exceed the total benchmark return while assuming a moderate level of investment risk. The Hospital expects its endowment funds, over a full market cycle, to provide an average annual real rate of return of approximately 5.5% plus inflation annually. Actual returns in any given year or period of years may vary from this amount.

(b) Strategies Employed for Achieving Objectives

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

(In thousands)

(6) Property and Equipment

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

	2009	2008
Land and improvements	$ 4,360	$ 4,370
Buildings and improvements	179,877	159,439
Equipment	110,650	117,078
	294,887	280,887
Less accumulated depreciation and amortization	143,625	133,159
	151,262	147,728
Construction in progress	4,146	8,491
Property and equipment, net	$ 155,408	$ 156,219

Depreciation and amortization expense for the years ended September 30, 2009 and 2008 amounted to $10,583 and $10,772, respectively.

The estimated cost of completion of construction in progress approximated $700 at September 30, 2009, comprised mainly of various building renovation projects. In addition, the Hospital has several building renovation projects pending contractual commitments with an estimated cost of completion of approximately $1,600.

It is the Hospital’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 2009 and 2008.

(In thousands)

(7) Pension and Other Postretirement Benefits

Change in Measurement Date of Pension and Other Postretirement Benefit Plans

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

	Lifespan Corporation Retirement Plan	Lifespan Corporation Postretirement Benefit Plan	Total
Service cost	$ 5,559	$ 122	$ 5,681
Interest cost	5,442	397	5,839
Expected return on plan assets	(5,706)	—	(5,706)
Amortization of net actuarial loss	77	106	183
Amortization of prior service cost (benefit)	224	(264)	(40)
Total reduction to unrestricted net assets of Lifespan	$ 5,596	$ 361	$ 5,957
Total reduction to (increase in) unrestricted net assets of the Hospital	$ 1,070	$ (36)	$ 1,034

Pension Benefits

Lifespan Corp. sponsors the Lifespan Corporation Retirement Plan (the Plan), which was established effective January 1, 1996 when the Rhode Island Hospital Retirement 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 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.

(In thousands)

(7) Pension and Other Postretirement Benefits (continued)

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

Substantially all employees of Lifespan Corporation who meet the above requirements are eligible to participate in the Plan.

The provisions of ASC 715 require an employer to recognize in its statement of financial position an asset for a benefit plan's overfunded status or a liability for a plan's underfunded status, and to recognize changes in that funded status in the year in which the changes occur through changes in unrestricted net assets. The funded-status amount is measured as the difference between the fair value of plan assets and the benefit obligation including all actuarial gains and losses and prior service cost. Based on September 30, 2009 funded-status amounts for the Hospital's portion of the Plan, the Hospital recorded a decrease in unrestricted net assets of $10,297.

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

Net actuarial loss	$	1,392
Prior service cost		15
	$	1,407

(In thousands)

(7) Pension and Other Postretirement Benefits (continued)

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

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

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

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

(Continued)

(In thousands)

(7) Pension and Other Postretirement Benefits (continued)

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

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

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

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

	2009	2008
Accrued pension liability	$ 17,986	$ 6,183

(In thousands)

(7) Pension and Other Postretirement Benefits (continued)

	2009	2008
Sources of change in unrestricted net assets:		
Net loss arising during the year	$ (10,614)	$ (1,292)
Amortizations:		
Net actuarial loss (gain)	134	(167)
Prior service cost	183	129
Total unrestricted net asset loss recognized during the year	$ (10,297)	$ (1,330)

Net Periodic Pension Cost

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

	2009	2008
Service cost	$ 22,237	$ 21,052
Interest cost	21,769	24,904
Expected return on plan assets	(22,861)	(27,144)
Amortization of net actuarial loss (gain)	208	(798)
Amortization of prior service cost	997	997
Net periodic pension cost for Lifespan	$ 22,350	$ 19,011
Net periodic pension cost for the Hospital	$ 4,459	$ 3,974

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

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

(In thousands)

(7) Pension and Other Postretirement Benefits (continued)

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

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

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

The overall financial objective of the Plan is to meet present and future obligations to beneficiaries, while minimizing long-term contributions to the Plan (by earning an adequate return on Plan assets), with moderate volatility in year-to-year contribution levels.

The primary investment objective of the Plan is to attain the expected long-term rate of return on Plan assets in support of the above objective. The Plan’s specific investment objective is to attain an average annual real total return (net of investment management fees) of at least 5% over the long term (rolling five-year periods). Real total return is the sum of capital appreciation (or loss) and current income (dividends and interest) adjusted for inflation by the Consumer Price Index.

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

(In thousands)

(7) Pension and Other Postretirement Benefits (continued)

Expected Cash Flows

Information about the expected cash flows for the Plan follows:

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

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

Other Postretirement Benefits

In addition to providing pension benefits, the Hospital provides certain health care benefits to retired employees. As of December 31, 2004, health care postretirement benefits were eliminated for all active employees of the Hospital who had not attained age 55 and completed five years of consecutive service.

The Hospital recognizes in its statement of financial position an asset for a benefit plan’s overfunded status or a liability for a plan’s underfunded status, and recognizes changes in that funded status in the year in which the changes occur through changes in unrestricted net assets. The funded-status amount is measured as the difference between the fair value of plan assets and the benefit obligation including all actuarial gains and losses and prior service cost. Based on September 30, 2009 funded-status amounts for the Hospital’s postretirement benefit plan, the Hospital recorded a decrease in unrestricted net assets of $236.

(In thousands)

(7) Pension and Other Postretirement Benefits (continued)

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

Net actuarial loss	$ 8
Prior service benefit	(39)
	$ (31)

Benefit Obligations

	2009	2008
Change in benefit obligation:		
Accumulated postretirement benefit obligation at beginning of year	$ 312	$ 391
Interest cost for July 1 – September 30, 2008	8	—
Interest cost	30	32
Benefits paid	(70)	(64)
Actuarial loss (gain)	49	(47)
Accumulated postretirement benefit obligation at end of year	$ 329	$ 312

Funded Status

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

	2009	2008
Benefit obligations	$ 329	$ 312
Funded status	(329)	(312)
Accrued postretirement benefit cost recognized in the statements of financial position	$ (329)	$ (312)

(In thousands)

(7) Pension and Other Postretirement Benefits (continued)

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

		2009		2008
Accrued postretirement benefit cost:				
Current (included in accrued employee benefits and compensation)	$	52	$	73
Noncurrent (included in other liabilities)		277		239
Total accrued postretirement benefit cost	$	329	$	312

		2009		2008
Amounts not yet reflected in net periodic postretirement benefit income and included in unrestricted net assets:				
Prior service benefit	$	977	$	1,232
Accumulated net actuarial loss		(158)		(160)
Amounts not yet recognized as a component of net periodic postretirement benefit income		819		1,072
Accumulated net periodic postretirement benefit cost		(1,148)		(1,384)
Net amount recognized	$	(329)	$	(312)

		2009		2008
Sources of change in unrestricted net assets:				
Net (loss) gain arising during the year	$	(61)	$	28
Amortizations:				
Net actuarial loss		29		52
Prior service benefit		(204)		(204)
Total unrestricted net asset loss recognized during the year	$	(236)	$	(124)

(In thousands)

(7) Pension and Other Postretirement Benefits (continued)

Net Periodic Postretirement Benefit Income

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

	2009	2008
Interest cost	$ 30	$ 32
Amortization of prior service benefit	(204)	(204)
Amortization of net actuarial loss	29	52
Net periodic postretirement benefit income	$ (145)	$ (120)

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

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

Assumed Health Care Cost Trend Rates at September 30:

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

(In thousands)

(7) Pension and Other Postretirement Benefits (continued)

Assumed health care cost trend rates have a significant effect on the amounts reported. A one-percentage-point increase in assumed health care cost trend rates would have the following effects as of September 30, 2009:

	1-Percentage-Point Increase	1-Percentage-Point Decrease
Effect on interest cost	$ 6	$ (6)
Effect on accumulated postretirement benefit obligation	63	(57)

Expected Cash Flows

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

Expected benefit payments:	
2010	$ 52
2011	64
2012	67
2013	75
2014	79
2015 through 2019	423

(8) Patient Service Revenue and Related Reimbursement

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

	2009	2008
Medicare and Senior Care	49%	48%
Blue Cross	21	22
Medicaid and RIte Care	8	7
Managed care	13	14
Commercial, self-pay, and other	9	9
	100%	100%

(8) Patient Service Revenue and Related Reimbursement (continued)

The Hospital grants credit to patients, most of whom are local residents. The Hospital 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).

Cost reports filed annually with third-party payors are subject to audit prior to final settlement. The 2009 cost reports have not been filed and, therefore, not settled with either Medicare or Medicaid. In addition, the Medicare cost reports for 2006 through 2008 and the Medicaid cost reports for 2004 through 2008 have not been settled.

Regulations in effect require annual settlements based upon cost reports filed by the Hospital. These settlements are estimated and recorded in the accompanying financial statements. Changes in these estimates are reflected in the financial statements in the year in which they occur. Net patient service revenue in the accompanying statements of operations and changes in net assets was decreased by $498 in 2009 and increased by $514 in 2008, to reflect changes in the estimated settlements for certain prior years.

Revenues from Medicare and Medicaid programs accounted for approximately 49% and 8%, respectively, of the Hospital's gross patient service revenue for the year ended September 30, 2009. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. The Hospital believes that it is in compliance with all applicable laws and regulations. Compliance with laws and regulations can be subject to future government review and interpretation as well as significant regulatory action; failure to comply with such laws and regulations can result in fines, penalties and exclusion from Medicare and Medicaid programs.

(9) Income Tax Status

The Hospital is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and is exempt from Federal income taxes pursuant to Section 501(a) of the Code.

(In thousands)

(10) Long-Term Debt

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

	2009	2008
Hospital Financing Revenue fixed rate serial and term bonds due May 15, 2010 through 2032 in annual amounts ranging from $6,605 to $15,020 at rates ranging from 4% to 5% (2006A Series—Lifespan Obligated Group)	$ 38,336	$ 38,811
Hospital Financing Revenue fixed rate serial and term bonds due May 15, 2027 through 2039 in annual amounts ranging from $1,870 to $7,900 at rates ranging from 6.125% to 7% (2009A Series—Lifespan Obligated Group)	19,547	—
Hospital Financing Revenue fixed rate serial and term bonds due May 15, 2010 through 2026 in annual amounts ranging from $625 to $14,705 at rates ranging from 5.3% to 5.75% (1996 Series—Lifespan Obligated Group)	9,552	9,656
Hospital Financing Revenue fixed rate serial and term bonds due August 15, 2010 through 2012 in annual amounts ranging from $1,420 to $1,595 at rates ranging from 5.75% to 6.375% (2002 Series—Lifespan Obligated Group)	1,129	1,464
Unamortized premium – 2006A Series	1,407	1,546
Unamortized premium – 2009A Series	35	—
Unamortized discount – 1996 and 2002 Series	(10)	(17)
	69,996	51,460
Less current portion	1,799	914
Long-term debt, excluding current portion	$ 68,197	$ 50,546

The estimated fair value of the Hospital’s long-term debt at September 30, 2009 amounts to $69,831 and is estimated using discounted cash flow analyses, based on the Hospital’s current incremental borrowing rates for similar types of borrowing arrangements.

(Continued)

(In thousands)

(10) Long-Term Debt (continued)

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

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

The above outstanding 2009 Hospital Financing Revenue Bonds (Lifespan Obligated Group—the Hospital, RIH, EPBH, RIHF and TMHF) are secured by a pledge of the gross receipts of the Obligated Group Hospitals and by mortgage liens on the Hospital's and RIH's real property and all buildings, structures and improvements thereon. The Obligated Group Hospitals, RIHF and TMHF are jointly and severally liable for repayment of the 2009A Bonds, recorded directly by the Obligated Group Hospitals as follows:

The Hospital	$ 19,547
RIH	72,441
EPBH	22,997
Total	$ 114,985

Payment of the principal amount of and interest on $64,825 of the 2009A Bonds when due is guaranteed by a financial guaranty insurance policy issued by Assured Guaranty Corp.

(In thousands)

(10) Long-Term Debt (continued)

On February 14, 2006, Rhode Island Health and Educational Building Corporation (RIHEBC) issued, on behalf of the Lifespan Obligated Group, which consisted of the Hospital and RIH, $192,135 of tax-exempt bonds (the 2006A Bonds) for the purpose of refunding $123,405 and $65,315 of the Lifespan Obligated Group's 1996 Bonds and 2002 Bonds, respectively. The advance refundings were allocated as follows:

	1996 Bonds	2002 Bonds
The Hospital	$ 21,596	$ 16,329
RIH	101,809	48,986
Total	$ 123,405	$ 65,315

On September 12, 2006, the Board of Directors of Lifespan Corporation, acting as the sole member of each of The Miriam Hospital Foundation and Rhode Island Hospital Foundation (the Foundations), adopted resolutions authorizing the Foundations to become members of the Lifespan Obligated Group. The Boards of Trustees of each of the Foundations, as well as the then existing members of the Lifespan Obligated Group, the Hospital and RIH, previously authorized related resolutions. The effective date for such change was October 1, 2006.

The above outstanding 2006 Hospital Financing Revenue Bonds (Lifespan Obligated Group—the Hospital, RIH, EPBH and the Foundations) are secured by a pledge of the gross receipts of the Hospital and RIH and by mortgage liens on the Hospital's and RIH's real property and all buildings, structures and improvements thereon. The Obligated Group Hospitals and the Foundations are jointly and severally liable for repayment of the 2006A Bonds, $38,336 and $151,444 of which has been recorded directly by the Hospital and RIH, respectively. Payment of the principal and interest on the 2006A Bonds when due is guaranteed by a financial guaranty insurance policy issued by Assured Guaranty Corp.

On 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 of the Hospital and RIH, 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—the Hospital, RIH, EPBH and the Foundations) are secured by mortgage liens on the Hospital's and RIH's real property and all buildings, structures and improvements thereon. The Obligated Group Hospitals

(10) Long-Term Debt (continued)

and the Foundations are jointly and severally liable for repayment of the 2002 Bonds, $1,129 and $3,386 of which has been recorded directly by the Hospital and RIH, respectively.

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, the Hospital's and RIH's 1996, 1997, 1998 and 1999 expenditures for routine capital equipment and facility renovation/replacement, and to advance refund $8,455 of the Hospital's 1989 Series A bonds, $1,900 of the Hospital's 1992 Series A bonds and $10,065 of the Hospital's 1992 Series B bonds.

The above outstanding 1996 Hospital Financing Revenue Bonds (Lifespan Obligated Group—the Hospital, RIH, EPBH and the Foundations) are secured by a pledge of the gross receipts of the Hospital and RIH. The Obligated Group Hospitals and the Foundations are jointly and severally liable for repayment of the 1996 Bonds, $9,552 and $45,033 of which has been recorded directly by the Hospital and RIH, respectively. Payment of the principal and interest on the 1996 Bonds when due is guaranteed by a financial guaranty insurance policy issued by MBIA Insurance Corporation.

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

The Hospital's aggregate maturities of long-term debt for the five fiscal years ending in September 2014 are as follows: 2010, $1,799; 2011, $1,879; 2012, $1,977; 2013, $1,998; and 2014, $2,099.

Agreements underlying the various Hospital Financing Revenue Bonds require that the Obligated Group Hospitals maintain certain trustee-held funds, included with assets limited as to use in the statements of financial position, as follows:

Project Fund — The Obligated Group Hospitals are required to apply monies in the Project Fund to pay the costs of debt issuance, facility renovation/replacement, and routine capital equipment.

Bond Funds — The Obligated Group Hospitals are required to make periodic deposits to the trustee sufficient to provide sinking funds for the payment of principal and interest to bondholders when due.

Debt Service Reserve Funds — The Obligated Group Hospitals are required to apply monies in the Debt Service Reserve Funds to remedy deficiencies in the Bond Funds, if any.

(In thousands)

(10) Long-Term Debt (continued)

The Hospital's trustee-held funds at September 30 are summarized as follows:

	2009	2008
Project Fund – 2009 Series	$ 14,274	$ —
Bond Funds	—	194
Debt Service Reserve Funds – 2009 Series	1,956	—
Debt Service Reserve Funds – 2002 Series	130	129
Total	$ 16,360	$ 323

(11) Temporarily and Permanently Restricted Net Assets

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

	2009	2008
General health care service activities	$ 3,520	$ 4,348
Research	10,068	11,255
Interest in net assets of The Miriam Hospital Foundation	6,165	5,548
Total	$ 19,753	$ 21,151

Permanently restricted net assets are restricted in perpetuity at September 30 and consist of the following:

	2009	2008
Interest in net assets of The Miriam Hospital Foundation	$ 6,653	$ 7,663

(In thousands)

(12) Leases

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

		Amount
Year Ending September 30:		
2010	$	4,153
2011		3,636
2012		2,647
2013		2,475
2014		872
Total minimum lease payments	$	13,783

Rental expense, including rentals under leases with terms of less than one year, for the years ended September 30, 2009 and 2008 was $5,645 and $5,132, respectively.

(13) Concentrations of Credit Risk

Financial instruments which potentially subject the Hospital 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.

The Hospital 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. The Hospital has not historically incurred any significant concentrated credit losses in the normal course of business.

(14) Malpractice and Other Litigation

Professional Liability/Medical Malpractice and General Liability

Professional liability/medical malpractice coverage for the Hospital is supplied on a claims-made basis by Rhode Island Sound Enterprises Insurance Co. Ltd. (RISE), Lifespan's affiliated captive insurance company, which underwrites the medical malpractice risk of the Hospital. The adequacy of the coverage provided and the funding levels are reviewed annually by independent actuaries and consultants. The professional liability/medical malpractice insurance provided by RISE has liability limits of $4,000 per claim with no annual aggregate. RISE provides a second layer of coverage which has limits of an additional $2,000 per claim with a $2,000 annual aggregate. In addition, commercial umbrella excess insurance has been obtained by Lifespan to increase the professional liability limits to $22,000 per claim.

The Hospital has been named as a defendant in a number of pending actions seeking damages for alleged general or medical malpractice liability. In the opinion of management, any liability and legal defense costs resulting from these actions will be within the limits of the Hospital's malpractice insurance coverage provided by RISE and/or commercial excess carriers.

General liability coverage is provided to the Hospital 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.

Workers' Compensation

The Hospital has incurred a number of workers' compensation claims and, in the opinion of management, the liability of the Hospital will be within the limits of the assets of Lifespan's workers' compensation self-insurance trust fund.

Other Litigation

The Hospital 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 the Hospital's future financial position or results from operations.

(Continued)

(In thousands)

(15) Related-Party Transactions

The Hospital rents space and purchases laundry and linen services from RIH. Included in the Hospital's operating expenses in the statements of operations and changes in net assets are the following costs resulting from transactions with RIH for the years ended September 30:

	2009	2008
Rental expense	$ 984	$ 942
Laundry and linen	1,180	1,183
Total	$ 2,164	$ 2,125

The Hospital was charged a management fee by Lifespan of $23,686 and $23,023 in 2009 and 2008, respectively, representing approximately 23% and 21%, respectively, of Lifespan's operating expenses. Lifespan provides information services, human resources, financial, and various other support services to the Hospital.

Included in other receivables and other accrued expenses in the statements of financial position are the following significant amounts due from (to) certain related entities at September 30:

	2009	2008
Other receivables:		
Lifespan	$ 115	$ 19
Newport Hospital	—	(39)
Total	$ 115	$ (20)
Other accrued expenses:		
RIH	$ (941)	$ (3,189)
Newport Hospital	(224)	—
Total	$ (1,165)	$ (3,189)

During the years ended September 30, 2009 and 2008, the Hospital received temporarily restricted net asset transfers from The Miriam Hospital Foundation (the Foundation) amounting to $2,605 and $3,981, respectively. In addition, the Hospital received grants from the Foundation amounting to $500 in both 2009 and 2008 in support of the Hospital's research activities. Such grants are included in other revenue.

(In thousands)

(15) Related-Party Transactions (continued)

The Foundation, whose sole corporate member is Lifespan Corporation, was established to engage in philanthropic activities to support the mission and purposes of Lifespan and the Hospital. Funds are distributed to the Hospital when purpose restrictions stipulated by donors are accomplished, or as determined by the Boards of Trustees of the Hospital and the Foundation. A summary of the Foundation's assets, liabilities, net assets, deficiency of revenues over expenses, and changes in net assets follows. The Hospital's interest in the net assets of the Foundation is reported as a noncurrent asset in the statements of financial position.

	2009	2008
Assets, principally assets limited as to use	$ 45,391	$ 49,596
Liabilities	$ 1,220	$ 1,706
Unrestricted net assets	31,353	34,679
Temporarily restricted net assets	6,165	5,548
Permanently restricted net assets	6,653	7,663
Total liabilities and net assets	$ 45,391	$ 49,596
Total unrestricted revenues, (losses) gains and other support	$ (1,695)	$ 72
Total expenses	1,242	1,103
Deficiency of revenues over expenses	(2,937)	(1,031)
Other decreases in unrestricted net assets	(389)	(10,066)
Unrestricted net assets, beginning of year	34,679	45,776
Unrestricted net assets, end of year	$ 31,353	$ 34,679
Increase (decrease) in temporarily restricted net assets	$ 617	$ (1,548)
Temporarily restricted net assets, beginning of year	5,548	7,096
Temporarily restricted net assets, end of year	$ 6,165	$ 5,548
(Decrease) increase in permanently restricted net assets	$ (1,010)	$ 995
Permanently restricted net assets, beginning of year	7,663	6,668
Permanently restricted net assets, end of year	$ 6,653	$ 7,663

(In thousands)

(16) Functional Expenses

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

	2009	2008
Health care services	$ 296,962	$ 271,670
Research	23,756	25,662
General and administrative:		
Depreciation and amortization	10,583	10,772
Interest	3,044	2,400
Other	30,493	30,231
Total general and administrative	44,120	43,403
	$ 364,838	$ 340,735

(17) Combination of RIH and TMH

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