



LIFESPAN CORPORATION AND AFFILIATES

Independent Auditors' Reports as Required by Title 2 U.S. Code of
Federal Regulations Part 200, *Uniform Administrative Requirements, Cost
Principles, and Audit Requirements for Federal Awards*
and *Government Auditing Standards* and Related Information

Year ended September 30, 2023

LIFESPAN CORPORATION AND AFFILIATES

Independent Auditors' Reports as Required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and *Government Auditing Standards* and Related Information

Year Ended September 30, 2023

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KPMG LLP
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Exhibit I

Independent Auditors' Report

The Board of Directors
Lifespan Corporation and Affiliates:

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Lifespan Corporation and Affiliates (the Organization), which comprise the consolidated statements of financial position as of September 30, 2023 and 2022, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Organization as of September 30, 2023 and 2022, and the results of its operations and the changes in its net assets and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for one year after the date the consolidated financial statements are issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.



In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 15, 2024, on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.

KPMG LLP

Providence, Rhode Island
January 15, 2024

LIFESPAN CORPORATION AND AFFILIATES

Consolidated Statements of Financial Position

September 30, 2023 and 2022

(In thousands)

Assets	2023	2022	Liabilities and Net Assets	2023	2022
Current assets:			Current liabilities:		
Cash and cash equivalents	\$ 96,684	166,768	Accounts payable	\$ 152,563	170,181
Patient accounts receivable	293,152	269,435	Accrued employee benefits and compensation	118,778	123,976
Other receivables	58,787	43,058	Other accrued expenses	19,177	17,587
Current portion of contributions receivable, net	<u>11,567</u>	<u>10,906</u>	Current portion of long-term debt	19,612	18,791
Total receivables	363,506	323,399	Current portion of estimated third-party payor settlements	12,310	28,304
Assets limited as to use	68,355	64,284	Current portion of estimated malpractice and other self-insurance costs	82,992	77,883
Inventories	46,290	43,499	Operating lease liabilities, current portion	<u>24,207</u>	<u>24,430</u>
Prepaid expenses and other current assets	<u>26,643</u>	<u>25,544</u>	Total current liabilities	429,639	461,152
Total current assets	<u>601,478</u>	<u>623,494</u>	Long-term debt, net of current portion	391,164	413,432
Assets limited as to use	1,502,742	1,410,266	Estimated third-party payor settlements, net of current portion	24,099	26,093
Less amount required to meet current obligations	<u>(68,355)</u>	<u>(64,284)</u>	Estimated malpractice self-insurance costs, net of current portion	167,169	152,878
Noncurrent assets limited as to use	<u>1,434,387</u>	<u>1,345,982</u>	Accrued pension liability	76,994	126,049
Right-of-use assets, net – operating leases	109,923	109,464	Operating lease liabilities, non-current portion	88,943	87,327
Property and equipment, net	776,354	806,935	Other liabilities	<u>61,549</u>	<u>68,595</u>
Other assets:			Total liabilities	<u>1,239,557</u>	<u>1,335,526</u>
Contributions receivable, net	12,678	14,876	Net assets:		
Other noncurrent assets	<u>111,682</u>	<u>109,611</u>	Net assets without donor restrictions	1,134,704	1,042,186
Total other assets	124,360	124,487	Net assets with donor restrictions	<u>672,241</u>	<u>632,650</u>
Total assets	<u>\$ 3,046,502</u>	<u>3,010,362</u>	Total net assets	1,806,945	1,674,836
			Total liabilities and net assets	<u>\$ 3,046,502</u>	<u>3,010,362</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, 2023 and 2022

(In thousands)

	2023	2022
Revenues and other support without donor restrictions:		
Patient service revenue	\$ 2,600,934	2,373,055
Other revenues	316,246	262,343
Endowment earnings contributed toward community benefit	17,971	17,466
Net assets released from restrictions used for operations	36,295	48,377
Net assets released from restrictions used for research	145,208	126,640
	3,116,654	2,827,881
Operating expenses:		
Compensation and benefits	1,879,931	1,748,427
Supplies and other expenses	834,632	744,218
Purchased services	183,966	183,873
Depreciation and amortization	94,060	93,234
Interest	12,868	13,489
License fees	102,621	100,657
	3,108,078	2,883,898
Total operating expenses		
Income (loss) from operations	8,576	(56,017)
Nonoperating gains and losses:		
Gifts and bequests without donor restrictions	4,445	5,040
Income from board-designated investments	4,494	3,705
Net realized and unrealized gains (losses) on board-designated investments	47,823	(124,835)
Non-service periodic pension costs	(22,459)	(9,317)
Fundraising expenses	(5,056)	(5,021)
Other nonoperating losses, net	(689)	(385)
	28,558	(130,813)
Total nonoperating gains (losses), net		
Excess (deficiency) of revenues over expenses	37,134	(186,830)

LIFESPAN CORPORATION AND AFFILIATES

Consolidated Statements of Operations and Changes in Net Assets

Years ended September 30, 2023 and 2022

(In thousands)

	2023	2022
Changes in net assets without donor restrictions:		
Excess (deficiency) of revenues over expenses	\$ 37,134	(186,830)
Other changes in net assets without donor restrictions:		
Change in funded status of pension and other postretirement plans, other than net periodic pension and postretirement benefit costs	48,716	36,261
Net assets released from restrictions used for purchase of property and equipment	6,420	12,465
Other increases (decreases)	248	(294)
Increase (decrease) in net assets without donor restrictions	92,518	(138,398)
Changes in net assets with donor restrictions:		
Gifts, grants, and bequests	179,655	186,156
Income from restricted endowment and other restricted investments	10,781	11,310
Net assets released from restrictions	(187,923)	(187,482)
Net realized and unrealized gains (losses) on investments	40,861	(104,127)
Fundraising expenses	(1,993)	(1,985)
Grants to outside agencies	(881)	(838)
Other (decreases) increases	(909)	270
Increase (decrease) in net assets with donor restrictions	39,591	(96,696)
Increase (decrease) in net assets	132,109	(235,094)
Net assets, beginning of year	1,674,836	1,909,930
Net assets, end of year	\$ 1,806,945	1,674,836

See accompanying notes to consolidated financial statements.

LIFESPAN CORPORATION AND AFFILIATES

Consolidated Statements of Cash Flows

Years ended September 30, 2023 and 2022

(In thousands)

	2023	2022
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ 132,109	(235,094)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:		
Change in funded status of pension and other postretirement plans, other than net periodic pension and postretirement benefit costs	(48,716)	(36,261)
Pension settlement charge	—	6,165
Net realized and unrealized (gains) losses on investments	(88,684)	228,962
Restricted contributions	(7,302)	(10,727)
Depreciation and amortization	94,060	93,234
Provision for estimated self-insurance costs	237,910	197,899
Decrease in liabilities for estimated self-insurance costs resulting from claims paid	(218,511)	(177,788)
Increase in patient accounts receivable	(23,717)	(27,729)
Decrease (increase) in accounts payable	(17,618)	17,556
Decrease in accrued employee benefits and compensation	(5,198)	(54,206)
Decrease in estimated third-party payor settlements	(17,988)	(140,777)
Decrease in all other current and noncurrent assets and liabilities, net	(26,118)	(53,317)
Net cash provided by (used in) operating activities	10,227	(192,083)
Cash flows from investing activities:		
Purchase of property and equipment	(63,479)	(77,779)
Contributions restricted for purchase of property and equipment	—	10,727
Purchases of assets limited as to use	(673,342)	(969,151)
Proceeds from sales of assets limited as to use	664,119	1,009,846
Other net decreases in assets limited as to use	8,468	14,254
Net cash used in investing activities	(64,234)	(12,103)
Cash flows from financing activities:		
Proceeds from mortgage issuance	—	16,193
Payments on long-term debt	(18,792)	(17,893)
Restricted contributions	7,302	—
Net cash used in financing activities	(11,490)	(1,700)
Net decrease in cash, cash equivalents, and restricted cash	(65,497)	(205,886)
Cash, cash equivalents, and restricted cash at:		
Beginning of year	173,334	379,220
End of year	\$ 107,837	173,334
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 15,837	16,463
Cash and cash equivalents	96,684	166,768
Restricted cash	11,153	6,566
Cash, cash equivalents, and restricted cash	\$ 107,837	173,334

See accompanying notes to consolidated financial statements.

LIFESPAN CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2023 and 2022

(In thousands)

(1) Description of Organization

Lifespan Corporation and Affiliates (Lifespan), established in August 1994, is an integrated regional health care delivery system comprised of teaching hospitals, a community hospital, a children's and adolescent psychiatric hospital, a retail and specialty pharmacy, community mental and behavioral health providers, a primary care group practice, a multispecialty group practice, and other caregivers, with locations throughout Rhode Island. As a complement to its role in healthcare service and education, Lifespan actively supports research at Rhode Island Hospital, The Miriam Hospital, and Emma Pendleton Bradley Hospital. Lifespan Corporation (Lifespan Corp.) is a nonprofit 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.

Lifespan Corp. and the Lifespan system hospitals have a mirror board such that the Board of Trustees of the Lifespan system hospitals consists of those persons who serve on the Board of Lifespan Corporation. Other Lifespan Corp. entities are governed by Boards either elected by Lifespan Corp. or another affiliate controlled by Lifespan Corp.

Affiliated corporations of Lifespan Corp. include Rhode Island Hospital (RIH), The Miriam Hospital (TMH), Emma Pendleton Bradley Hospital (Bradley), Newport Health Care Corporation (NHCC) which includes Newport Hospital (NH), Lifespan Physician Group, Inc. (LPG), Gateway Healthcare, Inc (Gateway), and Coastal Medical Physicians, Inc. (Coastal).

(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, 2023 and 2022 is summarized in the following table:

	<u>2023</u>	<u>2022</u>
Charity care	\$ 31,689	29,754
Medical education, net	110,392	97,209
Research	23,240	20,481
Subsidized health services	36,777	34,543
Unreimbursed Medicaid costs	103,822	105,844
Community health improvement services and community benefit operations	<u>1,577</u>	<u>1,752</u>
Total	<u>\$ 307,497</u>	<u>289,583</u>

LIFESPAN CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2023 and 2022

(In thousands)

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

(a) Charity Care

Lifespan provides full charity care for individuals at or below twice the federal poverty level, with a sliding scale for individuals based upon the federal poverty level guidelines, as set by the U.S. Department of Health and Human Services (HHS). In addition, a substantial discount consistent with Medicare program reimbursement is offered to all other uninsured patients. Lifespan determines the costs associated with providing charity care by aggregating the applicable direct and indirect costs, including compensation and benefits, supplies, and other operating expenses, based on data from its costing system. The total cost, excluding medical education and research, incurred by Lifespan to provide charity care amounted to \$31,689 and \$29,754 in 2023 and 2022, respectively.

(b) Medical Education

Lifespan provides the setting for and substantially supports medical education in various clinical training and nursing programs.

(c) Research

Lifespan conducts extensive medical research, with RIH and TMH in the forefront of biomedical health care delivery research and among the leaders nationally in the National Institutes of Health programs. Lifespan also sponsors a number of research activities, with focuses that include infectious diseases, oncology, children & family psychology, emergency medicine, and weight control & diabetes, among other areas.

Federal support accounts for approximately 57% of all externally funded research at Lifespan. Researchers focus on basic research projects and clinical trials which investigate prevention and treatment of HIV/AIDS, obesity, cancer, diabetes, cardiac disease, neurological problems, orthopedic advancements, mental health concerns, and brain science. Researchers work in the laboratory or with patients, or both.

(d) Subsidized Health Services

Lifespan substantially subsidizes various health services including the following programs: adult psychiatry, tuberculosis, and Alzheimer's, as well as the Center for Special Children, Vanderbilt Rehabilitation Center (NH), and certain other specialty services. Lifespan also supports comprehensive mental health evaluation and treatment of children, adolescents, and families under several programs, including outpatient, day treatment, and residential.

(e) Unreimbursed Medicaid Costs

Lifespan subsidizes the cost of treating patients who receive government assistance where reimbursement is below cost. Medicaid is a means-tested health insurance program, jointly funded by state and federal governments. States administer the program and set rules for eligibility, benefits, and provider payments within broad federal guidelines. The program provides health care coverage to low-income children and families, pregnant women, long-term unemployed adults, seniors, and persons with disabilities. Eligibility is determined by a variety of factors, which include income relative to the federal poverty line, age and immigration status, and assets. The unreimbursed Medicaid costs do not include any allocation of medical education or research costs.

LIFESPAN CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2023 and 2022

(In thousands)

(3) Summary of Significant Accounting Policies

(a) Basis of Presentation

The consolidated financial statements, which are prepared on the accrual basis of accounting, include the accounts of Lifespan Corp. and its affiliates after elimination of significant intercompany accounts and transactions.

(b) Subsequent Events

In October 2023, Lifespan and Brown University voted in separate meetings to approve the parameters of a nonbinding term sheet that authorizes both institutions to strengthen the existing affiliation and licensing agreements between Lifespan and Brown's Warren Alpert Medical School.

On November 2, 2023, the Centers for Medicare and Medicaid Services (CMS) published its final rule detailing the method by which it will repay hospitals for its unlawful cuts to hospital 340B payments. Lifespan's estimated receivable in fiscal year 2024, net of legal fees related to the CMS settlement is \$35,483.

The members of the Lifespan Obligated Group (OG) entered into a credit agreement, dated December 15, 2023 with JPMorgan Chase Bank, N.A. for a line of credit facility up to a maximum principal amount of \$50,000 to finance general corporate activities. Any principal outstanding bears interest per annum at 0.95% above the daily secured overnight financing rate (SOFR) while the unused fee associated with the line of credit is 0.25%. Interest is payable quarterly, and all outstanding principal and any accrued and unpaid interest would be due on the maturity date of December 14, 2024.

In December 2023, the Federal Emergency Management Agency (FEMA) obligated funds totaling \$27,836 to RIH, TMH, and Bradley.

Lifespan considers events and transactions that occur after the consolidated statement of financial position date, but before the consolidated financial statements are issued, to provide additional evidence relative to certain estimates or to identify matters that require additional disclosure. These consolidated financial statements were issued on January 15, 2024 and subsequent events have been evaluated through that date.

(c) Use of Estimates

The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses, and accompanying notes, as well as related disclosure of contingent assets and liabilities. Estimates are used in accounting for, among other items, third-party payor settlements, malpractice self-insurance costs, and pensions. Actual results could differ from those estimates.

LIFESPAN CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2023 and 2022

(In thousands)

(3) Summary of Significant Accounting Policies (continued)

(d) Cash and Cash Equivalents

Cash and cash equivalents include investments in 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. Cash equivalents held for investment purposes that are classified as assets limited as to use are not reflected as cash equivalents in the consolidated statements of cash flows.

(e) Patient Accounts Receivable

Lifespan hospitals have agreements with many third-party payors that provide for payments to the hospitals at amounts less than their established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the contractual allowances and discounts that are netted against patient accounts receivable in the consolidated statements of financial position. Lifespan grants credit to patients, most of whom are local residents. Lifespan generally does not require collateral or other security in extending credit to patients; however, it routinely obtains assignment of (or is otherwise entitled to receive) patients' benefits payable under their health insurance programs, plans, or policies (e.g., Medicare, Medicaid, Blue Cross, managed care, or commercial insurance policies). The difference between the standard payment rates (or the discounted rates, if applicable) and the amounts collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

The following table reflects an approximate percentage breakdown of patient accounts receivable from third-party payors, government subsidies, and others (including uninsured patients) as of September 30, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Medicare and Senior Care	31 %	30 %
Blue Cross	21	19
Medicaid and Rite Care	22	24
Managed Care	9	8
Commercial, self-pay, and other	17	19
	<u>100 %</u>	<u>100 %</u>

LIFESPAN CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2023 and 2022

(In thousands)

(3) Summary of Significant Accounting Policies (continued)

(f) Investments and Investment Income

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

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

Net asset value (NAV) – investments without a readily determinable fair value which are measured using a practical expedient, without adjustment, by investment companies/managers that hold the asset.

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

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

Short-term investments: Includes cash & cash equivalents, money market funds, and pending investment settlements. Valued at the NAV reported by the financial institution, with maturities of three months or less when purchased.

U.S. government/agency and corporate obligations: Valued using market quotations or prices obtained from independent pricing sources which may employ various pricing methods to value the investments, including matrix pricing based on quoted prices for securities with similar coupons, ratings, and maturities.

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

LIFESPAN CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2023 and 2022

(In thousands)

(3) Summary of Significant Accounting Policies (continued)

(f) *Investments and Investment Income (continued)*

Collective investment funds: Investments in collective investment funds are valued using NAV as reported by the investment manager, which approximates the market values of the underlying investments within the fund or realizable values as estimated by the investment manager. Lifespan owns interests in collective investment funds that are generally recorded at the NAV reported by the fund managers, unless the fund has a readily determinable fair value which is used as a practical expedient to estimate the fair value of Lifespan's interest therein. Such valuations are determined by fund managers and generally consider variables such as operating results, comparable earnings multiples, projected cash flows, recent sales prices, and other pertinent information, and may reflect discounts for the illiquid nature of certain investments held. As of September 30, 2023 and 2022, Lifespan had no plans or intentions to sell investments at amounts different from NAV.

Investments in real estate included in assets held in trust as donor-restricted funds are measured at fair market value based on independent appraisals conducted by the trustee from time to time.

Investment income or loss (including realized gains and losses on investments, interest, and dividends) is included in the excess (deficiency) of revenues over expenses unless the income or loss is restricted by donor or law.

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 net assets with donor restrictions.

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 revenues without donor restrictions as endowment earnings contributed toward community benefit.

Income from donor-restricted investments held in perpetuity is recorded within nonoperating gains when unrestricted by the donor and as an addition to the net assets of the associated donor-restricted fund when restricted by the donor.

(g) *Assets Limited as to Use*

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

LIFESPAN CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2023 and 2022

(In thousands)

(3) Summary of Significant Accounting Policies (continued)

(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, equipment lives range from 3 to 20 years, and assets related to information technology projects range from 5 to 8 years. Repairs and maintenance are expensed as incurred.

(i) Classification of Net Assets

FASB ASC Subtopic 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 requires disclosures about endowment funds, including donor-restricted endowment funds and funds designated by the Board to function as endowment.

Under UPMIFA, the assets of a donor-restricted endowment fund may be appropriated for expenditure by Lifespan in accordance with the standard of prudence prescribed by UPMIFA.

Net assets, revenues, and gains and losses are classified into two categories of net assets based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of Lifespan are classified and reported as follows:

Net assets with donor restrictions contain grantor or donor-imposed stipulations that are more specific than broad limits resulting from a not-for-profit's nature in which it operates. Some donors impose restrictions that are temporary in nature, for example, stipulating that resources be used only after a specific date, for particular purposes, including research activities, or to acquire buildings and equipment. Other donors impose restrictions that are perpetual in nature, for example, donor-restricted endowment funds stipulating that resources be maintained in perpetuity.

Net assets without donor restrictions contain no donor-imposed restrictions and are available for the general operations of Lifespan. Such net assets may be designated by Lifespan for specific purposes, including functioning as endowment funds.

See note 5 for more information.

(j) Excess (Deficiency) of Revenues over Expenses

The consolidated statements of operations and changes in net assets include excess (deficiency) of revenues over expenses. Changes in net assets without donor restrictions which are excluded from excess (deficiency) of revenues over expenses, consistent with industry practice, include the change in funded status of pension and other postretirement plans other than net periodic pension and postretirement benefit costs, net assets released from restrictions used for purchase of property and equipment, and other increases (decreases).

LIFESPAN CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2023 and 2022

(In thousands)

(3) Summary of Significant Accounting Policies (continued)

(k) Patient Service Revenue

Lifespan hospitals (the Hospitals) provide care to patients under Medicare, Medicaid, Blue Cross, 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. 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 and Medicaid utilize prospective payment systems for most inpatient hospital services rendered to program beneficiaries based on the classification of each case into a diagnostic-related group (DRG). Outpatient hospital services are primarily paid using an ambulatory payment classification system.

The majority of payments from Blue Cross, managed care, and commercial insurance companies are based upon fixed fee arrangements, some of which follow a DRG-based approach, while others employ a combination of per diem rates and specific case rates for inpatient services, along with fixed fees applicable to outpatient services.

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

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. Lifespan also provides services to uninsured patients, and offers those uninsured patients a discount, either by policy or law, from standard charges. Lifespan estimates the transaction price for patients with deductibles and coinsurance and for those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions, which are determined based on historical collection experience. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change or are accrued on an estimated basis in the period the related services are rendered and are adjusted in future periods as final settlements are determined.

LIFESPAN CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2023 and 2022

(In thousands)

(3) Summary of Significant Accounting Policies (continued)

(k) Patient Service Revenue (continued)

Consistent with Lifespan's mission, care is provided to patients regardless of their ability to pay. Uninsured patients and other patients qualifying for financial assistance receive a discount that is at least equal to the discount received by Medicare beneficiaries on hospital charges using the prospective method as defined by IRC §501(r). Under the prospective method, the maximum amount that can be charged to qualifying individuals for emergency or other medically necessary care is the amount the hospitals would use in their billing and coding process if applicable individuals were a Medicare fee-for-service beneficiary. Self-pay patients qualifying for charity care under IRC §501(r) are billed at a rate consistent with amounts reimbursed by Medicare for services deemed as medically necessary. Charity care and other community benefits are not reported as patient service revenue (see note 2).

The following table reflects patient service revenue from third-party payors, government subsidies, and others (including uninsured patients) for the years ended September 30, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Medicare and Senior Care	\$ 1,022,685	880,190
Blue Cross	661,829	590,676
Medicaid and Rite Care	592,095	564,241
Managed Care	110,802	84,131
Commercial, self-pay, and other	<u>213,523</u>	<u>253,817</u>
Total patient service revenue	<u>\$ 2,600,934</u>	<u>2,373,055</u>

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Lifespan believes that it complies 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.

(l) Other Revenues

Included in other revenues in 2022 is \$22,901 of funding from the State of Rhode Island under the Coronavirus State and Local Fiscal Recovery Funds established under the American Rescue Plan Act (ARPA) and \$1,900 from the United States Department of the Treasury under the State of Rhode Island's Hospital Assistance Partnership Program (HAPP). Additionally, \$8,724 in grants were released by the United States Department of Health and Human Services (HHS) under the Coronavirus Aid, Relief, and Economic Security (CARES) Act.

LIFESPAN CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2023 and 2022

(In thousands)

(3) Summary of Significant Accounting Policies (continued)

(l) Other Revenues (continued)

Lifespan Pharmacy sales and other contracts related to health care services are included in other revenues and consist of contracts which vary in duration and in performance. Revenue is recognized when the performance obligations identified within the individual contracts are satisfied and collections are probable. Other revenues also consist of Lifespan School Solutions school revenue, investment income from funds available for self-insurance liabilities, indirect revenues from research grants, UPMIFA distributions, rental income, and dietary/cafeteria income.

(m) Net Assets Released from Restrictions Used for Operations

Included in net assets released from restrictions used for operations in 2023 is \$10,638 from FEMA.

(n) Research Grants and Contracts

Revenue related to research grants and contracts is recognized as the related costs are incurred. Indirect costs relating to certain government grants and contracts are reimbursed at fixed rates negotiated with the government agencies.

(o) Charity Care

Lifespan hospitals provide care to patients who meet certain criteria under their charity care policies without charge or at amounts less than their established rates. Because the Lifespan hospitals do not pursue collection of amounts determined to qualify as charity care, they are not reported as patient service revenue (see note 2).

(p) Donor-Restricted Gifts

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at fair value, which is measured as the present value of future cash flows. The discounts on those amounts are computed using interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in gifts, grants, and bequests. Conditional promises to give are not recorded as support until the conditions are substantially met.

Amounts received, including contributions and accumulated investment returns, whose use has been restricted by donors to a specific period or purpose or that have been restricted by donors to be maintained in perpetuity to provide a permanent source of income, are reported as net assets with donor restrictions. When a donor or grantor restriction expires, that is, when a stipulated purpose restriction is accomplished, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the consolidated statements of operations and changes in net assets as net assets released from restrictions.

(q) Inventories

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

LIFESPAN CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2023 and 2022

(In thousands)

(3) Summary of Significant Accounting Policies (continued)

(r) *Estimated Self-Insurance Costs*

Lifespan is self-insured for losses arising from professional liability/medical malpractice, general liability, and workers' compensation claims. The provision for these self-insured losses includes estimates of the ultimate costs for both reported claims and claims incurred but not reported. R..I. Sound Enterprises Insurance Co. Ltd. (RISE), Lifespan's affiliated captive insurance company, pays professional liability/medical malpractice and general liability claims. Lifespan has segregated certain investments included in assets limited as to use for payment of workers' compensation claims. Independent actuaries have been retained to assist Lifespan with determining both the provision for self-insured losses and amounts to be deposited in funds available for self-insurance liabilities.

Lifespan provides self-insured health benefit options to the employees of all affiliates. Lifespan has recorded a provision for estimated claims, totaling \$10,863 and \$10,178 as of September 30, 2023 and 2022, respectively, which is based on Lifespan's own experience. The provision for these self-insured losses includes estimates of the ultimate costs for both reported claims and claims incurred but not reported.

(s) *Fair Value of Financial Instruments*

The carrying amounts recorded in the consolidated statements of financial position for cash and cash equivalents, patient accounts receivable, contributions receivable, assets limited as to use, accounts payable, accrued expenses, estimated third-party payor settlements, and estimated self-insurance costs approximate their respective fair values. The estimated fair values of Lifespan's assets limited as to use and pension-related assets are disclosed in notes 5 and 8, respectively.

(t) *Goodwill*

Goodwill, which is not subject to amortization, is included in other noncurrent assets in the accompanying consolidated statements of financial position. Goodwill is reviewed for impairment on an annual basis and more frequently if circumstances indicate a potential impairment exists or has occurred. Lifespan has determined that no impairment exists at September 30, 2023.

(u) *Leases*

Lifespan determines if an arrangement is a lease or contains a lease at inception and performs the initial classification and measurement of its right-of-use assets and liabilities at the lease commencement date and thereafter, if modified. The lease term includes any renewal options that Lifespan is reasonably certain to exercise.

Lifespan measures its right-of-use assets and lease liabilities at the lease commencement date based on the present value of the remaining lease payments. Lifespan has elected the practical expedient to use a risk-free rate for its leases when establishing a discount rate when determining the present value of lease payments.

LIFESPAN CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2023 and 2022

(In thousands)

(3) Summary of Significant Accounting Policies (continued)

(u) Leases (continued)

The majority of leases contain fixed lease payments and lease payments tied to usage which may be subject to variability. Lifespan recognizes rental expense for its operating leases on a straight-line basis over the lease term based on the total fixed lease payments, of which \$27,930 and \$26,426 is included in supplies and other expenses in the consolidated statements of operations for the years ended September 30, 2023 and 2022, respectively.

(v) Reclassifications

Certain 2022 amounts have been reclassified to conform to the 2023 reporting format.

(4) Disproportionate Share and License Fees

RIH, TMH, 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 \$77,549 and \$74,947 in 2023 and 2022, respectively, and are reflected as part of patient service revenue in the accompanying consolidated statements of operations and changes in net assets.

In 2023 and 2022, the State of Rhode Island assessed a license fee to all Rhode Island hospitals, based on each hospital's 2019 and 2018 net patient service revenue, respectively, as defined. The Hospitals' (RIH, TMH, and NH) license fee expense in the years ended September 30, 2023 and 2022 was \$102,621 and \$100,657, respectively.

Lifespan was a net payor of DSH revenue received less license fees paid totaling \$25,072 and \$25,710 for the years ended September 30, 2023 and 2022, respectively.

(5) Assets Limited as to Use

The composition of assets limited as to use at September 30, 2023 and 2022 is set forth in the following table:

	<u>2023</u>	<u>2022</u>
Funds available for self-insurance liabilities	\$ 227,575	195,104
Investments without donor restrictions	638,081	622,697
Investments with donor restrictions	<u>637,086</u>	<u>592,465</u>
Total	<u>\$ 1,502,742</u>	<u>1,410,266</u>

LIFESPAN CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2023 and 2022

(In thousands)

(5) Assets Limited as to Use (continued)

(a) Fair Value

The following tables summarize Lifespan's investments and assets held in trust by major category within the ASC 820-10 fair value hierarchy as of September 30, 2023 and 2022, as well as related strategy and liquidity/notice requirements:

	2023				Total	Redemption frequency	Days' notice
	NAV or its practical expedient	Level 1	Level 2	Level 3			
U.S. equities:							
Large cap value	\$ —	85,034	—	—	85,034	Daily	One
Large cap growth	46,315	176,847	—	—	223,162	Daily – Monthly	One – Fourteen
Marketable alternatives:							
Multiple strategies	40,989	—	—	—	40,989	Quarterly	Sixty – Ninety
Long-short equity	11,072	—	—	—	11,072	Monthly – Quarterly	Sixty
Absolute return strategies	82,920	—	—	—	82,920	Quarterly – Annually	Sixty – Ninety
Absolute return strategies	1,663	—	—	—	1,663	Illiquid	N/A
International equities:							
Developed markets	115,505	37,479	—	—	152,984	Daily – Monthly	One – Thirty
Emerging markets	10,833	38,497	—	—	49,330	Daily – Quarterly	One – Sixty
Global equities	—	27,526	—	—	27,526	Daily – Monthly	One – Thirty-three
Limited partnerships	256,807	—	—	—	256,807	Illiquid	N/A
Commodities:							
Energy	—	8,764	—	—	8,764	Daily	One
Real estate	14,312	—	—	—	14,312	Monthly	Sixteen
Fixed income:							
U.S. Treasuries	—	66,615	—	—	66,615	Daily	One
U.S. Government and agency	—	95,046	34,607	—	129,653	Daily	One
Domestic bonds	—	40,450	169,997	—	210,447	Daily	One
Short-term investments	—	69,033	—	—	69,033	Daily	One
	580,416	645,291	204,604	—	1,430,311		
Assets held in trust	—	—	—	72,431	72,431	Illiquid	N/A
Total	\$ 580,416	645,291	204,604	72,431	1,502,742		

LIFESPAN CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2023 and 2022

(In thousands)

(5) Assets Limited as to Use (continued)

(a) Fair Value (continued)

	2022				Total	Redemption frequency	Days' notice
	NAV or its practical expedient	Level 1	Level 2	Level 3			
U.S. equities:							
Large cap value	\$ —	71,654	—	—	71,654	Daily	One
Large cap growth	46,251	121,933	—	—	168,184	Daily – Monthly	One – Fourteen
Marketable alternatives:							
Multiple strategies	15,886	—	—	—	15,886	Quarterly	Sixty – Ninety
Long-short equity	21,576	—	—	—	21,576	Monthly – Quarterly	Sixty
Absolute return strategies	99,614	—	—	—	99,614	Quarterly – Annually	Sixty – Ninety
Absolute return strategies	6,976	—	—	—	6,976	Illiquid	N/A
International equities:							
Developed markets	55,985	29,451	34,589	—	120,025	Daily – Monthly	One – Thirty
Emerging markets	10,036	32,803	—	—	42,839	Daily – Quarterly	One – Sixty
Global equities	25,210	20,114	—	—	45,324	Daily – Monthly	One – Thirty-three
Limited partnerships	237,613	—	—	—	237,613	Illiquid	N/A
Commodities:							
Energy	—	15,527	—	—	15,527	Daily	One
Real estate	—	—	18,633	—	18,633	Monthly	Sixteen
Fixed income:							
U.S. Treasuries	—	52,205	—	—	52,205	Daily	One
U.S. Government and agency	—	87,379	30,106	—	117,485	Daily	One
Domestic bonds	—	40,137	159,466	—	199,603	Daily	One
Short-term investments	—	107,776	—	—	107,776	Daily	One
	519,147	578,979	242,794	—	1,340,920		
Assets held in trust	—	—	—	69,346	69,346	Illiquid	N/A
Total	\$ 519,147	578,979	242,794	69,346	1,410,266		

The following table presents Lifespan's activity for the years ended September 30, 2023 and 2022 for investments measured at fair value on a recurring basis using significant unobservable inputs (Level 3) as defined in ASC 820-10:

	Assets held in trust	
	2023	2022
Fair value at October 1	\$ 69,346	81,319
Net unrealized gains (losses)	3,085	(11,973)
Fair value at September 30	\$ 72,431	69,346

LIFESPAN CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2023 and 2022

(In thousands)

(5) Assets Limited as to Use (continued)

(b) Commitments

Venture capital, private equity, private credit, real estate, and energy investments are made through limited partnerships. Under the terms of these agreements, Lifespan is obligated to remit additional funding periodically as capital or liquidity calls are exercised by the manager. These partnerships have a limited existence, generally ten years, and such agreements may provide for annual extensions to dispose of portfolio positions and return capital to investors. However, depending on market conditions, the inability to execute the fund's strategy, and other factors, a manager may extend the terms of a fund beyond its originally anticipated existence or may wind the fund down prematurely. Lifespan cannot anticipate such changes because they are based on unforeseen events, but should they occur, they may result in less liquidity or return from the investment than originally anticipated. As a result, the timing and amount of future capital or liquidity calls expected to be exercised in any future year is uncertain. The aggregate amount of unfunded commitments associated with the above-noted investment categories as of September 30, 2023 was \$134,050.

(c) 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, 2023 and 2022 was \$72,431 and \$69,346, respectively, and is reported as donor-restricted funds held in perpetuity within assets limited as to use in the consolidated statements of financial position.

(d) Long-Term Investment Pool

Lifespan's long-term investment pool consists of 104 individual funds established for a variety of purposes, including both donor-restricted endowment funds and funds designated by Lifespan to function as endowments. Investments associated with endowment funds, including funds designated by Lifespan to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Lifespan funds consist of the following at September 30, 2023:

	Without donor restrictions	With donor restrictions	Total
Funds with donor restrictions	\$ —	637,086	637,086
Internally board-designated funds	638,081	—	638,081
Total funds	\$ 638,081	637,086	1,275,167

LIFESPAN CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2023 and 2022

(In thousands)

(5) Assets Limited as to Use (continued)

(d) Long-Term Investment Pool (Continued)

Lifespan funds consist of the following at September 30, 2022:

	Without donor restrictions	With donor restrictions	Total
Funds with donor restrictions	\$ —	592,465	592,465
Internally board-designated funds	622,697	—	622,697
Total funds	\$ <u>622,697</u>	<u>592,465</u>	<u>1,215,162</u>

Changes in Lifespan funds for the year ended September 30, 2023 are as follows:

	Without donor restrictions	With donor restrictions	Total
Funds as of October 1, 2022	\$ 622,697	592,465	1,215,162
Interest, dividends, and investment returns	52,160	56,672	108,832
Cash gifts, grants, and bequests	4,445	179,655	184,100
Deposits	20,000	—	20,000
Net assets released from restrictions	—	(187,923)	(187,923)
Withdrawals	(57,674)	—	(57,674)
Other changes	(3,547)	(3,783)	(7,330)
Funds as of September 30, 2023	\$ <u>638,081</u>	<u>637,086</u>	<u>1,275,167</u>

LIFESPAN CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2023 and 2022

(In thousands)

(5) Assets Limited as to Use (continued)

(d) Long-Term Investment Pool (Continued)

Changes in Lifespan funds for the year ended September 30, 2022 are as follows:

	Without donor restrictions	With donor restrictions	Total
Funds as of October 1, 2021	\$ 800,460	702,393	1,502,853
Interest, dividends, and investment losses	(86,578)	(92,796)	(179,374)
Cash gifts, grants, and bequests	6,537	173,518	180,055
Deposits	20,000	—	20,000
Net assets released from restrictions	—	(190,640)	(190,640)
Withdrawals	(117,718)	—	(117,718)
Other decreases	(4)	(10)	(14)
Funds as of September 30, 2022	<u>\$ 622,697</u>	<u>592,465</u>	<u>1,215,162</u>

(e) Interpretation of Relevant Law

Net assets with donor restrictions for donor-restricted endowment funds of perpetual durations are comprised of: (a) the original value of the contributions made to the endowment, (b) the original value of the subsequent contributions made to the endowment, and (c) accumulations to the endowment made in accordance with applicable donor gift instruments. Any donor-restricted endowments that are not perpetual in nature are appropriated for expenditure by the applicable Lifespan affiliates in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, these Lifespan affiliates consider the following factors in deciding to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the applicable Lifespan affiliate and donor-restricted endowment funds
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the applicable Lifespan affiliate
- Lifespan's investment policy

LIFESPAN CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2023 and 2022

(In thousands)

(5) Assets Limited as to Use (continued)

(f) Return Objectives and Risk Parameters

Lifespan has an investment policy for endowment assets that provides 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 endowment funds and board-designated funds without donor restrictions. Under this policy, as approved by Lifespan's Investment Committee, the assets are invested in a manner that is intended to produce results that exceed the total target return over a full market cycle while assuming a moderate level of investment risk. Lifespan expects its funds, over a full market cycle, to provide an average annual real rate of return of approximately 5% plus inflation annually. Actual returns in any given year or period of years may vary from this amount.

(g) 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 utilizes a diversified asset allocation that places emphasis on investments in public equity, private investments, marketable alternatives, real assets, fixed income, and cash to achieve its long-term return objectives within prudent risk parameters.

(h) Spending Policy

Lifespan invests its endowment funds in accordance with the total return concept. Applicable endowments include internally board-designated funds without donor restrictions and donor-restricted endowment funds. The governing Boards of certain Lifespan affiliates have approved an endowment spending rate of 4% based on all the above factors. This spending rate is applied to the average fair value of the applicable funds for the immediately preceding three years.

(6) Liquidity and Availability of Resources

Financial assets without donor restrictions consist of the following as of September 30:

	<u>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 96,684	166,768
Patient accounts receivable	293,152	269,435
Other receivables	<u>58,924</u>	<u>43,058</u>
Total financial assets available within one year	<u>\$ 448,760</u>	<u>479,261</u>

LIFESPAN CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2023 and 2022

(In thousands)

(6) Liquidity and Availability of Resources (continued)

Lifespan manages its financial assets to be available as its operating expenditures and liabilities come due and invests cash in excess of daily requirements in short-term investments. Lifespan has \$68,355 and \$64,284 in investment funds available for current professional liability/medical malpractice, workers' compensation, and other self-insurance liabilities expected to be paid within one year as of September 30, 2023 and 2022, respectively. Additionally, Lifespan has board-designated funds of \$638,081 and \$622,697 as of September 30, 2023 and 2022, respectively. Although Lifespan does not intend to spend from its board-designated funds, other than amounts appropriated for general expenditures as part of its annual budget approval and appropriation process, amounts from its board-designated funds could be made available if necessary. However, both board-designated funds and donor-restricted endowment funds contain investments with liquidity constraints, of which \$502,252 and \$486,478 can be liquidated on a daily to quarterly basis as of September 30, 2023 and 2022, respectively (refer to note 5 for disclosures about investments).

(7) Property and Equipment

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

	<u>2023</u>	<u>2022</u>
Land and improvements	\$ 49,021	48,524
Buildings and improvements	1,204,094	1,195,878
Equipment	<u>485,652</u>	<u>444,171</u>
	1,738,767	1,688,573
Less accumulated depreciation and amortization	<u>989,091</u>	<u>898,472</u>
	749,676	790,101
Construction in progress	<u>26,678</u>	<u>16,834</u>
Property and equipment, net	<u>\$ 776,354</u>	<u>806,935</u>

Depreciation and amortization expense for the years ended September 30, 2023 and 2022 amounted to \$94,060 and \$93,234, respectively.

The estimated capital expenditures needed to complete both active construction in progress and projects not yet started but committed to under noncancelable contracts totaled \$38,900 at September 30, 2023.

During the year ended September 30, 2022, Lifespan wrote off \$566,124 in fully depreciated property and equipment.

LIFESPAN CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2023 and 2022

(In thousands)

(8) Retirement Benefits

Lifespan Corporation Retirement Plan

Lifespan Corp. sponsors the Lifespan Corporation Retirement Plan (the Plan), which was established effective January 1, 1996. The Plan is intended to constitute a plan described in Section 414(k) of the Internal Revenue Code (IRC), under which participant benefits are derived from employer contributions based on the separate Choice Matched Retirement Savings 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 IRC as amended, plus such additional amounts as may be determined to be appropriate by Lifespan.

Substantially all employees of RIH, TMH, Bradley, NH, LPG, Gateway, Lifespan Corp., and other Lifespan affiliates are eligible to participate in the Plan.

(a) Plan Amendments

Effective December 31, 2017, the Plan was amended to cease all future participation and benefit accruals for those employees whose terms and conditions of employment are not covered by a collective bargaining agreement. Lifespan remeasured the Plan's assets and liabilities at the amendment date, based on assumptions and market conditions as of that date. All previously eligible employees, as well as new employees whose terms and conditions of employment are not covered by a collective bargaining agreement, became eligible to participate prospectively in a newly formed defined contribution plan, the Lifespan 401(k) Retirement Savings Plan (the 401(k) Plan).

As of 2019 and 2020, United Nurses and Allied Professionals (UNAP) and International Brotherhood of Teamsters (IBT) RIH employees, respectively, who were hired, rehired, or transferred to a UNAP-covered or IBT-covered position and who made a one-time irrevocable election to discontinue participation in the Lifespan Corporation Retirement Plan and commence participation in the 401(k) Plan, became participants in the 401(k) Plan for purposes of elective contributions. All newly hired, rehired, or transferred UNAP employees are not eligible to participate in the Plan.

(b) Pension Benefits

The provisions of FASB ASC Topic 715, *Compensation-Retirement Benefits: Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans (ASC 715)*, require an employer to recognize in its statement of financial position an asset for a benefit plan's overfunded status or a liability for a plan's underfunded status, and to recognize changes in that funded status in the year in which the changes occur through changes in net assets without donor restrictions. The funded-status amount is measured as the difference between the fair value of plan assets and the projected benefit obligation including all actuarial gains and losses and prior service cost. Based on September 30, 2023 and 2022 funded-status amounts for the Plan, Lifespan recorded increases in net assets without donor restrictions of \$49,056 and \$34,427, respectively.

LIFESPAN CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2023 and 2022

(In thousands)

(8) Retirement Benefits (continued)

(b) Pension Benefits (continued)

The estimated amounts that will be amortized from net assets without donor restrictions into net periodic pension cost in 2024 are as follows:

Net actuarial loss	\$	12,752
Prior service cost		<u>122</u>
	\$	<u><u>12,874</u></u>

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

	<u>2023</u>	<u>2022</u>
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	\$ 590,011	776,348
Service cost	5,909	9,321
Interest cost	30,125	18,872
Plan settlement	—	(31,725)
Actuarial gain	(26,822)	(172,237)
Benefits paid	<u>(36,818)</u>	<u>(10,568)</u>
Projected benefit obligation at end of year	<u>\$ 562,405</u>	<u>590,011</u>

The actuarial gain in 2023 primarily relates to the increase in the discount rate from 5.53% at September 30, 2022 to 5.99% at September 30, 2023. The accumulated benefit obligation at the end of 2023 and 2022 was \$550,617 and \$575,413, respectively.

	<u>2023</u>	<u>2022</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	\$ 463,962	604,555
Actual gain (loss) return on plan assets	29,900	(118,255)
Employer contributions	28,367	19,955
Plan settlement	—	(31,725)
Benefits paid	<u>(36,818)</u>	<u>(10,568)</u>
Fair value of plan assets at end of year	<u>\$ 485,411</u>	<u>463,962</u>

LIFESPAN CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2023 and 2022

(In thousands)

(8) Retirement Benefits (continued)

(b) Pension Benefits (continued)

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

	2023	2022
Funded status, end of year:		
Fair value of plan assets	\$ 485,411	463,962
Projected benefit obligation	562,405	590,011
Accrued pension liability	\$ (76,994)	(126,049)
	2023	2022
Amounts not yet reflected in net periodic pension cost and included in net assets without donor restrictions:		
Prior service cost	\$ (1,090)	(1,212)
Accumulated net actuarial loss	(84,959)	(133,892)
Amounts not yet recognized as a component of net periodic pension cost	(86,049)	(135,104)
Accumulated net periodic pension cost in excess of employer contributions	9,055	9,055
Net amount recognized	\$ (76,994)	(126,049)
	2023	2022
Sources of change in net assets without donor restrictions:		
Net gain arising during the year	\$ 36,182	12,421
Amortizations:		
Pension settlement charge	—	6,165
Net actuarial loss	12,752	15,720
Prior service credit	122	121
Total net assets without donor restrictions gain recognized during the year	\$ 49,056	34,427

LIFESPAN CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2023 and 2022

(In thousands)

(8) Retirement Benefits (continued)

(c) Net Periodic Pension Cost

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

	2023	2022
Service cost, included in compensation and benefits	\$ 5,908	9,321
Non-service periodic pension costs:		
Interest cost	30,125	18,872
Expected return on plan assets	(20,540)	(31,561)
Pension settlement charge	—	6,165
Amortization of net actuarial loss	12,752	15,720
Amortization of prior service cost	122	121
Total non-service periodic pension costs	22,459	9,317
Net periodic pension cost	\$ 28,367	18,638

Based on the level of lump sum distributions that were paid by the Plan in 2022, Lifespan incurred non-cash settlement charges of \$6,165.

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

	2023	2022
Discount rate for benefit obligations	5.99 %	5.53 %
Discount rate for net periodic pension cost	5.53	2.80
Effective discount rate for service cost	5.45	2.90
Effective rate for interest on service cost	5.45	2.47
Rate of compensation increase	*	*
Expected long-term rate of return on Plan assets	6.50	6.50

* For RIH, service-based with ultimate rates of 5.00% (UNAP) and 2.20% (IBT); Not applicable for all other affiliates

LIFESPAN CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2023 and 2022

(In thousands)

(8) Retirement Benefits (continued)

(c) Net Periodic Pension Cost (continued)

The asset allocation for the Plan at September 30, 2023 and 2022, and the target allocation for 2024, by asset category, are as follows:

<u>Asset category</u>	Target allocation	Percentage of plan assets September 30	
	<u>2024</u>	<u>2023</u>	<u>2022</u>
U.S. equities	24.0 %	24.1 %	22.3 %
Marketable alternatives	15.0	15.0	15.5
International equities	20.0	19.9	20.3
Liquid diversifiers	8.0	8.0	8.5
Private equity/venture capital	—	0.1	0.1
Fixed income	30.0	29.5	30.6
Short-term investments	3.0	3.4	2.7
Total		<u>100.0 %</u>	<u>100.0 %</u>

The asset allocation table above does not include \$59,768 and \$53,936 of Plan assets at September 30, 2023 and 2022, respectively, attributable to the Choice Matched Retirement Savings Account balances of participants which are managed in various mutual funds by Fidelity Investments (Fidelity).

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

The primary investment objective of the Plan is to attain the average annual real total return (net of investment management fees) assumed in the Plan's most recent actuarial assumptions over the long term (rolling five-year periods). Real total return is the sum of capital appreciation (or loss) and current income (dividends and interest) adjusted for inflation as measured by the Consumer Price Index. It is recognized that the real return objective may be difficult to attain in every five-year period but should be attainable over a series of five-year periods. Performance is also measured against various benchmarks.

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 or changes to asset allocation. This estimate is primarily driven by actual historical asset-class returns, current valuations, and our long-term outlook for a globally diversified portfolio. Asset allocations are regularly reviewed and updated based on Plan investment objectives and evaluations of future market returns for each asset class.

LIFESPAN CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2023 and 2022

(In thousands)

(8) Retirement Benefits (continued)

(d) Fair Value

The following tables summarize the Plan's investments by major category within the ASC 820-10 fair value hierarchy as of September 30, 2023 and 2022, as well as related strategy and liquidity/notice requirements:

	2023				Redemption frequency	Days'
	NAV or its practical expedient	Level 1	Level 2	Total		
U.S. equities:						
Large cap value	\$ —	29,891	—	29,891	Daily	One
Large cap growth	21,391	49,953	—	71,344	Daily – Monthly	One – Fourteen
Marketable Alternatives:						
Multiple strategies	15,972	—	—	15,972	Daily – Quarterly	One – Ninety
Long-short equities	10,714	—	—	10,714	Monthly – Quarterly	Sixty
Absolute return strategies	32,100	—	—	32,100	Quarterly – Annually	Sixty – Ninety
Absolute return strategies	6,736	—	—	6,736	Illiquid	N/A
International equities:						
Developed markets	42,481	15,530	—	58,011	Daily – Monthly	One – Thirty
Emerging markets	—	17,935	—	17,935	Daily	One
Global equities	—	10,883	—	10,883	Daily – Monthly	Five – Thirty-three
Real estate	7,415	—	—	7,415	Monthly	Sixteen
Venture Capital	311	—	—	311	Illiquid	N/A
Fixed income:						
U.S. Treasuries	—	58,466	—	58,466	Daily	One
U.S. Government and agency	—	—	585	585	Daily	One
Domestic bonds	14,407	12,533	65,850	92,790	Daily	One
Short-term investments	—	12,490	—	12,490	Daily	One
Mutual funds	—	59,768	—	59,768	Daily	One
Total	\$ 151,527	267,449	66,435	485,411		

	2022				Redemption frequency	Days'
	NAV or its practical expedient	Level 1	Level 2	Total		
U.S. equities:						
Large cap value	\$ —	25,831	—	25,831	Daily	One
Large cap growth	21,319	43,056	—	64,375	Daily – Monthly	One – Fourteen
Marketable Alternatives:						
Multiple strategies	15,082	—	—	15,082	Daily – Quarterly	One – Ninety
Long-short equities	14,939	—	—	14,939	Monthly – Quarterly	Sixty
Absolute return strategies	31,284	—	—	31,284	Quarterly – Annually	Sixty – Ninety
Absolute return strategies	6,977	—	—	6,977	Illiquid	N/A
International equities:						
Developed markets	13,515	18,825	14,533	46,873	Daily – Monthly	One – Thirty
Emerging markets	—	18,538	—	18,538	Daily	One
Global equities	10,478	—	9,909	20,387	Daily – Monthly	Five – Thirty-three
Real estate	—	—	7,127	7,127	Monthly	Sixteen
Venture Capital	416	—	—	416	Illiquid	N/A
Fixed income:						
U.S. Treasuries	—	50,452	—	50,452	Daily	One
U.S. Government and agency	—	—	631	631	Daily	One
Domestic bonds	—	13,312	84,596	97,908	Daily	One
Short-term investments	—	9,206	—	9,206	Daily	One
Mutual funds	—	53,936	—	53,936	Daily	One
Total	\$ 114,010	233,156	116,796	463,962		

LIFESPAN CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2023 and 2022

(In thousands)

(8) Retirement Benefits (continued)

(e) *Expected Cash Flows*

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

Employer contributions:		
2024	\$	34,045
Expected benefit payments:		
2024	\$	73,781
2025		43,749
2026		38,202
2027		39,122
2028		39,482
2029 through 2033		181,425

Management evaluates its Plan assumptions annually and the expected employer contributions in 2024 could increase.

Lifespan Corporation 401(k) Retirement Savings Plan

The Lifespan 401(k) Retirement Savings Plan (the 401(k) Plan), which covers substantially all employees of Lifespan Corp., RIH, TMH, Bradley, NH, LPG, GHI, and other Lifespan affiliates (Participating Employers), was adopted January 1, 2018. The 401(k) Retirement Savings Plan and its related Trust are intended to qualify as a profit-sharing plan and trust under Code Sections 401(a) and 501(a), and the cash or deferred arrangement forming part of the Plan is intended to qualify under Code Section 401(k). The 401(k) Plan is also intended to constitute a plan described in Section 404(c) of the Employee Retirement Income Security Act of 1974 (ERISA).

(a) *Plan Amendment*

Effective December 31, 2021, the accounts of each participant in the Coastal Medical, Inc. Retirement Plan (the Coastal Plan) were merged into the 401(k) Plan. Assets transferred into the 401(k) Plan as a result of this merger were \$112,962.

(b) *Matching Contributions*

The 401(k) Plan includes an automatic Lifespan matching contribution based on the salary deferral elections of participants, up to a maximum of 6% of eligible base pay. Lifespan's matching contribution charged to expense amounted to \$51,112 in 2023 and \$44,912 in 2022, respectively.

LIFESPAN CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2023 and 2022

(In thousands)

(8) Retirement Benefits (continued)

Lifespan Corporation 403(b) Retirement Plan

The Lifespan Corporation 403(b) Retirement Plan (the 403(b) Plan), adopted January 1, 1996, is a defined contribution plan established under Section 403(b) of the Internal Revenue Code. All employees of Lifespan Corporation and participating employers were eligible to participate in the 403(b) Retirement Plan. The 403(b) Retirement Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

(9) Estimated Self-Insurance Costs

Professional Liability/Medical Malpractice and General Liability

Professional liability/medical malpractice coverage for RIH, TMH, Bradley, NH, Gateway, and all other Lifespan affiliates is supplied on a claims-made basis by RISE, Lifespan's affiliated captive insurance company, which underwrites the medical malpractice risk of Lifespan (including a contractual commitment to indemnify LPG/Coastal clinicians and certain eligible non-employed physicians). The adequacy of the coverage provided, and the funding levels, are reviewed annually by independent actuaries. The professional liability/medical malpractice insurance provided by RISE has liability limits of \$22,000 per claim with no annual aggregate. In addition, \$40,000 of commercial umbrella excess insurance has been obtained by Lifespan to increase the professional liability limits to \$62,000 per claim. Lifespan contracts with various highly rated insurance carriers to mitigate the excess coverage risk. Also covered under the RISE professional liability/medical malpractice policy through contractual indemnification agreements are 959 LPG/Coastal clinicians and 684 non-employed physicians. Each of these clinicians and physicians is provided with a \$2,000 indemnification per claim and a \$6,000 annual indemnification aggregate.

General liability coverage is provided to RIH, TMH, Bradley, NH, Gateway, LPG, and all other Lifespan affiliates by RISE amounting to \$2,000 per occurrence and \$4,000 in the annual aggregate. RISE also furnishes \$1,000 of automobile liability coverage as well as deductible coverage for several other lines of insurance. In addition, commercial excess liability insurance has been obtained by Lifespan to increase the aggregate general liability coverage to \$62,000.

Lifespan has recorded a provision for estimated losses on professional liability/medical malpractice and general liability incidents, totaling \$35,668 and \$32,921 as of September 30, 2023 and 2022, respectively, based on actuarial studies and Lifespan's own experience.

Workers' Compensation

Lifespan has recorded a provision for workers' compensation losses, based on actuarial studies and its own experience. The actuarial studies include an assumed inflation rate of 4%. The amounts accrued for estimated workers' compensation self-insurance costs at September 30, 2023 and 2022 have been discounted at 4%. Lifespan has a surety bond with the Department of Labor and Training of the State of Rhode Island for \$17,000 through July 31, 2024 supporting the estimated unpaid liability.

LIFESPAN CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2023 and 2022

(In thousands)

(10) Medicare Cost Reports and Other Third-Party Settlement Estimates

Medicare cost reports filed annually with The Centers for Medicare and Medicaid Services (CMS) are subject to audit prior to final settlement. The 2023 Medicare cost reports have not been filed and, therefore, are not settled.

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

	<u>RIH</u>	<u>TMH</u>	<u>NH</u>
2022	X	X	X
2021	X	X	X
2020	X	X	
2019	X		

Regulations in effect require annual settlements based upon cost reports filed by RIH, TMH, and NH. 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. Patient service revenue in the accompanying consolidated statements of operations and changes in net assets was increased by \$25,158 in 2023 and \$13,135 in 2022, respectively, to reflect changes in the estimated settlements for certain prior years.

(11) Income Tax Status

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

Lifespan recognizes the effect of income tax positions only if those positions are more likely than not to be sustained. Recognized income tax positions are measured at the largest amount of benefit that is greater than fifty percent likely to be realized upon settlement. Changes in measurement are reflected in the period in which the change in judgment occurs. Lifespan did not recognize the effect of any income tax positions in either 2023 or 2022.

LIFESPAN CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2023 and 2022

(In thousands)

(12) Long-Term Debt

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

	2023	2022
Private placement debt due May 27, 2031 at a fixed rate of 2.99% (2021 Series – Lifespan Obligated Group)	\$ 200,000	200,000
Hospital Financing Revenue fixed rate serial and term bonds due May 15, 2022 through 2039 in annual amounts ranging from \$6,540 to \$42,920 at rates ranging from 4% to 5% (2016 Series – Lifespan Obligated Group)	167,315	182,970
Private placement debt due July 1, 2022 through 2029 in annual amounts ranging from \$1,338 to \$1,629 at a fixed rate of 2.85% (2014 Series – NH)	9,116	10,493
Mortgage loan payable through October 1, 2031 at a fixed rate of 2.88%	13,089	14,708
Other long-term debt	2,148	2,288
Unamortized premium – 2016 Series	19,108	21,764
	410,776	432,223
Less current portion	19,612	18,791
Long-term debt, net of current portion	\$ 391,164	413,432

On May 27, 2021, the Lifespan Obligated Group (OG) issued taxable senior secured notes in a private placement in the aggregate principal amount of \$200,000 at a fixed rate of 2.99%, due May 27, 2031. The proceeds from the issuance will be used to fund strategic initiatives. These notes are secured by a pledge of the gross receipts of RIH, TMH, and Bradley (the Obligated Group Hospitals) and by mortgage liens on RIH's and TMH's real property and all buildings, structures, and improvements thereon.

On August 11, 2016, the Rhode Island Health and Educational Building Corporation (RIHEBC) issued, on behalf of the Lifespan Obligated Group (OG), which consists of RIH, TMH, Bradley, Rhode Island Hospital Foundation, and The Miriam Hospital Foundation, \$265,470 of tax-exempt fixed rate serial and term bonds (the 2016 Bonds) due May 15, 2017 through 2039 in annual amounts ranging from \$6,540 to \$42,920 at coupon rates ranging from 4% to 5%, with an effective rate of approximately 3.15%. These 2016 Hospital Financing Revenue Refunding Bonds are secured by a pledge of the gross receipts of the Obligated Group Hospitals and by mortgage liens on RIH's and TMH's real property and all buildings, structures, and improvements thereon. The OG is jointly and severally liable for repayment of the 2016 Bonds. Under the terms of the 2016 Bonds, the Obligated Group Hospitals are required to satisfy certain measures of financial performance for as long as the bonds are outstanding.

LIFESPAN CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2023 and 2022

(In thousands)

(12) Long-Term Debt (continued)

On November 5, 2014, RIHEBC issued, on behalf of NH, \$20,390 of fixed rate 2.85% tax-exempt bonds (the 2014 Bonds) in a private placement for the advance refunding of \$20,275 of NH's 1999 Bonds. The 2014 Bonds are secured by a pledge of the gross receipts of NH. Payment of the principal and interest on the 2014 Bonds when due is guaranteed by Newport Hospital Foundation, Inc. Under the terms of the 2014 Bonds, NH is required to satisfy certain measures of financial performance for as long as the bonds are outstanding.

Lifespan's aggregate maturities of long-term debt for the five fiscal years ending in September 2028 are as follows: 2024, \$19,612; 2025, \$20,484; 2026, \$22,837; 2027, \$9,732 and 2028, \$10,105.

(13) Leases

Lifespan's portfolio includes operating leases of assets typically associated with real estate, clinical, research, diagnostic equipment, and administrative equipment. These operating leases generally have 1-to-20-year terms, with one or more renewal options, primarily relating to the real estate leases. The exercise of such lease renewal options is at Lifespan's sole discretion, and to the extent Lifespan is reasonably certain it will exercise a renewal option, the years related to that option are included in its determination of the lease term. Certain leases also include options to purchase the leased property at a price that either approximates or exceeds fair value.

The following summarizes additional information related to operating leases as of September 30, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Weighted average remaining lease term	5.2 years	5.3 years
Weighted average discount rate	1.80 %	1.60 %

LIFESPAN CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2023 and 2022

(In thousands)

(13) Leases (continued)

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 on September 30, 2023:

Year ending September 30:	
2024	\$ 26,464
2025	21,657
2026	17,720
2027	14,405
2028	10,634
Thereafter	<u>34,594</u>
Total future minimum lease payments	125,474
Less imputed interest	<u>(12,324)</u>
Total lease liabilities	<u><u>\$ 113,150</u></u>

Supplemental cash flow information related to operating leases is as follows for the years ended September 30, 2023 and 2022:

	2023	2022
Cash outflows from operating leases	\$ 27,930	26,426

(14) Revolving Credit Loan Payable

The members of the Lifespan Obligated Group (OG) entered into a credit agreement, dated April 22, 2015 and most recently amended April 15, 2022, with Citizens Bank, N.A. for a line of credit facility up to a maximum principal amount of \$20,000 to finance working capital requirements. Any principal outstanding bears interest per annum at 1.5% above the LIBOR Advantage rate. Lifespan terminated its line of credit effective August 22, 2023.

The members of the Lifespan OG entered into a credit agreement, dated August 21, 2023 with Bank of America, N.A. for a line of credit facility up to a maximum principal amount of \$50,000 to finance working capital requirements. Any principal outstanding bears interest per annum at 1.1% above the daily secured overnight financing rate (SOFR) while the unused fee associated with the line of credit is 0.125%. Interest is payable quarterly, and all outstanding principal and any accrued and unpaid interest would be due on the maturity date of August 20, 2024. At September 30, 2023, there was no principal outstanding under the facility. The OG is required to comply with various affirmative and negative covenants as well as maintain a credit rating the term of the line of credit.

LIFESPAN CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2023 and 2022

(In thousands)

(15) Net Assets with Donor Restrictions

Net assets with donor restrictions at September 30 are available for the following purposes:

	<u>2023</u>	<u>2022</u>
General health care service activities	\$ 506,651	472,119
Property and equipment	53,468	48,918
Research	<u>112,122</u>	<u>111,613</u>
Total	<u>\$ 672,241</u>	<u>632,650</u>

(16) Concentrations of Credit Risk

Lifespan maintains its cash accounts at various financial institutions. Excess cash is swept into Treasury funds on a daily basis. Lifespan has not experienced any losses in such accounts and evaluates the credit worthiness of the financial institutions with which it conducts business.

Financial instruments which potentially subject Lifespan to concentrations of credit risk consist primarily of accounts receivable and certain investments. The risk associated with short-term investments is mitigated by the fact that these investments are placed with what management believes are high credit quality financial institutions and diversified amongst cash and short-term fixed income funds. Long-term investments are diversified amongst equities, fixed income, real assets, and other alternative assets to avoid company specific, sector, or geographical concentrations.

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.

(17) Malpractice and Other Litigation

Certain Lifespan hospitals and/or their indemnified physicians have been named as defendants in a number of pending actions seeking damages for alleged medical malpractice liability. Management believes that 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 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 any outstanding matters will be resolved without material adverse effect on Lifespan's future financial position or results of operations.

(18) Functional Expenses

Lifespan provides general health care services to residents within its geographic location. The consolidated statements of operations and changes in net assets present the expenses related to providing these services by natural classification. Lifespan also summarizes its operating expenses by functional classification.

LIFESPAN CORPORATION AND AFFILIATES

Notes to Consolidated Financial Statements

September 30, 2023 and 2022

(In thousands)

(18) Functional Expenses (continued)

Operating expenses by nature and function are summarized as follows for the years ended September 30, 2023 and 2022:

2023					
		Health Care Services	Research	General and Administrative	Total
Compensation and benefits	\$	1,604,795	77,185	197,951	1,879,931
Supplies and other expenses		734,102	51,778	48,752	834,632
Purchased services		137,621	8,777	37,568	183,966
Depreciation and amortization		81,355	4,039	8,666	94,060
Interest		12,815	—	53	12,868
License fees		102,621	—	—	102,621
	\$	2,673,309	141,779	292,990	3,108,078

2022					
		Health Care Services	Research	General and Administrative	Total
Compensation and benefits	\$	1,500,175	68,471	179,781	1,748,427
Supplies and other expenses		650,690	45,375	48,153	744,218
Purchased services		135,481	7,406	40,986	183,873
Depreciation and amortization		80,781	3,899	8,554	93,234
Interest		13,413	—	76	13,489
License fees		100,657	—	—	100,657
	\$	2,481,197	125,151	277,550	2,883,898

LIFESPAN CORPORATION AND AFFILIATES
Schedule of Expenditures of Federal Awards
Year Ended September 30, 2023

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Assistance Listing Number	Direct Award of Pass-through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
Research and Development Cluster:				
Department of Defense:				
Military Medical Research and Development:				
Children's Hospital Boston	12.420	Direct	\$ 145,089	805,397
Massachusetts General Hospital	12.420	W81XWH-17-2-0016	—	14,635
Ocean State Research Institute, Inc.	12.420	W81XWH-17-1-0619	—	433
The Geneva Foundation at Wmmmc	12.420	W81XWH2020015	—	60,922
University of Pittsburgh	12.420	W81XWH-17-2-0073	—	24,052
University of Pittsburgh	12.420	W81XWH2190014	—	12,159
University of Buffalo	12.420	W81XWH2220076	—	(134)
				11,970
Military Medical Research and Development Subtotal			145,089	929,434
Uniform Services University Medical Research Projects:				
Henry M. Jackson Foundation	12.750	HU0001-19-2-0063	—	60,294
Henry M. Jackson Foundation	12.750	1046927/W911Y-20-900	—	25,083
Uniform Services University Medical Research Projects Subtotal			—	85,377
Research and Technology Development:				
Brown University	12.910	D19AC00015	—	3,346
Research and Technology Development Subtotal			—	3,346
Department of Defense Total			145,089	1,018,157
Department of Transportation:				
National Priority Safety Programs:				
Rhode Island Department of Transportation	20.600	NHTSA402PS2206	—	95,770
Subtotal			—	95,770
Rhode Island Department of Transportation	20.616	NHTSAM2CPS1601	—	142,795
Subtotal			—	142,795
Department of Transportation Total			—	238,565
National Science Foundation:				
Engineering:				
Brown University	47.041	2047583	—	12,608
Engineering Subtotal			—	12,608
Computer and Information Science Engineering				
Computer and Information Science Engineering Subtotal	47.070	Direct	—	1,117
National Science Foundation Total			—	13,725
Department of Veterans Affairs:				
Providence Va Medical Center	64.999	1101HX002534	—	11,627
Department of Veterans Affairs Total			—	11,627
Department of Health and Human Services:				
Agency For Healthcare Research and Quality				
Agency For Healthcare Research and Subtotal	93.226	Direct	—	303,378
Centers For Disease Control and Prevention:			—	303,378
Blood Disorder Program:				
Boston Children's Hospital	93.080	NU27DD000020	—	20,548
Blood Disorder Program Subtotal			—	20,548
Injury Prevention and Control Research				
Brown University	93.136	Direct	401,892	717,093
Brown University	93.136	R01CE003267	—	287,002
Georgia State University Research Foundation	93.136	R01CE003353	—	22,517
Rhode Island Department of Health	93.136	U01CE003215	—	29,365
Rhode Island Department of Health	93.136	NU17CE9249567	—	33,178
Rhode Island Department of Health	93.136	NU17E924967	—	(4,115)
Rhode Island Department of Health	93.136	PO 3721124	—	3,753
Rhode Island Department of Health	93.136	NU17CE924967	—	58,213
University of California Los Angeles	93.136	R01CE003632	—	32,346
Injury Prevention and Control Research Subtotal			401,892	1,179,352
Pediatric Weight Management Interventions				
Pediatric Weight Management Interventions Subtotal	93.349	Direct	50,885	554,822
Centers for Disease Control Research			50,885	554,822
Centers for Disease Control Research Subtotal	93.U01	Direct	—	43,851
Centers for Disease Control Subtotal			—	43,851
Centers for Disease Control Subtotal			452,777	1,798,573
Health Resources and Services Administration:				
Maternal and Child Health Federal Consolidated Programs				
Brown University	93.110	75N94021D00004	—	23,228
Icahn School of Medicine at Mount Sinai	93.110	2H30MC24048	—	20,146
Johns Hopkins University	93.110	NU17CE924961	—	28,551
Rhode Island Department of Health	93.110	U4CMC32319	—	358,588
Maternal and Child Health Federal Consolidated Programs Subtotal			—	430,513
Emergency Medical Services for Children				
Yale University	93.127	Direct	641,159	883,799
Yale University	93.127	H34MC33245	—	79,670
Emergency Medical Services for Children Subtotal			641,159	963,469
HIV-Related Training and Technical Assistance:				
University of Massachusetts	93.145	U1OHA29294	—	23,165
University of Massachusetts	93.145	U1OHA29294	—	36,236
University of Massachusetts	93.145	U1OHA29294	—	34,562
HIV-Related Training and Technical Assistance Subtotal			—	93,963

LIFESPAN CORPORATION AND AFFILIATES
Schedule of Expenditures of Federal Awards
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Federal Grantor/Pass-through Grantor/Program or Cluster Title	Assistance Listing Number	Direct Award of Pass-through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
Coordinated Services and Access to Research for Women, Infants, Children, and Youth Family Aids Center For Treatment	93.153	H12HA24854	\$ —	51,986
Coordinated Services and Access to Research for Women, Infants, Children, and Youth Subtotal			—	51,986
Sickle Cell Treatment Demonstration Program: Johns Hopkins University	93.365	2U1EMC27864	—	57,969
Sickle Cell Treatment Demonstration Program Subtotal			—	57,969
Outpatient Early Intervention Services with Respect to HIV Disease Outpatient Early Intervention Services with Respect to HIV Disease Subtotal	93.918	Direct	—	793,002
Outpatient Early Intervention Services with Respect to HIV Disease Subtotal			—	793,002
Maternal and Child Health Services Block Grant to the States Thundermist Health Associates	93.994	B04MC31515	—	56,233
Maternal and Child Health Services Block Grant to the States Subtotal			—	56,233
Health Resources and Services Administration Subtotal			641,159	2,447,135
Substance Abuse and Mental Health Service Administration: Projects of Regional and National Significance:	93.243	Direct	137,909	422,292
Brown University	93.243	5UR1T1080209	—	23,845
Brown University	93.243	H79T1082570	—	6,300
Rhode Island Department of Health	93.243	H79SM082108	—	122,857
Projects of Regional and National Significance Subtotal			137,909	575,294
Substance Abuse and Mental Health Service Administration Subtotal			137,909	575,294
National Institutes of Health: Alcohol Research Programs	93.273	Direct	152,537	1,630,130
Brown University	93.273	K24AA026326	—	6,989
Brown University	93.273	R21AA028394	—	17,541
Brown University	93.273	R21AA029033	—	(2,123)
Brown University	93.273	R01AA025456	—	1,840
Georgia State University Research Foundation	93.273	R01AA028813	—	39,717
University of Nebraska-Lincoln	93.273	R01AA029450	—	18,915
Alcohol Research Programs Subtotal			152,537	1,713,009
Trans-NIH Research Support Office of The Director of the National Institutes of Health	93.310	Direct	1,722,402	3,685,999
University of Arkansas For Medical Science	93.310	UG3OD023313	—	63,931
University of Arkansas For Medical Science	93.310	U24OD024957	—	43,779
University of Arkansas For Medical Science	93.310	U24OD024957	—	37,350
University of Arkansas For Medical Science	93.310	U24OD024957	—	41,269
University of Arkansas For Medical Science	93.310	U24OD024957	—	30,080
Trans-NIH Research Support Subtotal			1,722,402	3,902,408
National Institutes of Health Research: Brown University	93.U01	ME-2019C3-17875	—	83,342
Hennepin Healthcare Research Institute	93.U01	75N91019D00024	—	28,724
Hennepin Healthcare Research Institute	93.U01	75N91019D00024	—	21,212
Massachusetts Institute of Technology	93.U01	FA8702-15-D-0001	—	47,825
Memorial Sloan-Kettering Cancer Center	93.U01	R01CA220568	—	6,915
Society For Academic Emergency Medicine	93.U01	R13HS028770	—	3,986
National Institutes of Health Research Programs Subtotal			—	192,004
National Institute of Environmental Health Sciences: Environmental Health:				
Brown University	93.113	U01ES028184	—	13,937
Emory University School of Medicine	93.113	R24ES028507	—	110,856
Emory University School of Medicine	93.113	U24ES028507	—	200,515
J. Craig Venter Institute	93.113	R01ES030227	—	264,187
National Institute of Environmental Health Sciences Subtotal			—	589,495
National Institute of Dental and Craniofacial Research: Oral Diseases and Disorders Research:				
Boston University	93.121	UG3DE031249	—	35,464
National Institute of Dental and Craniofacial Research Subtotal			—	35,464
National Center for Complimentary and Integrative Health: Research and Training in Complementary and Integrative Health	93.213	Direct	221,037	792,085
Beth Israel Deaconess Medical Center	93.213	R01AT012072	—	35,717
Brown University	93.213	R34AT010172	—	6,135
Butler Hospital	93.213	1U01AT010863	—	4,595
National Center for Complimentary and Integrative Health Subtotal			221,037	838,532
National Heart, Lung, and Blood Institute: National Center on Sleep Disorders Research	93.233	Direct	103,427	881,466
National Heart, Lung, and Blood Institute			103,427	881,466
Cardiovascular Diseases Research Brown University	93.837	Direct	774,705	5,629,972
California Polytechnic State University	93.837	R01HL135091	—	(1,629)
Hennepin Healthcare Research Institute	93.837	UG3HL163508	—	318,976
Massachusetts General Hospital	93.837	R01HL136327	—	38,132
Ocean State Research Institute, Inc.	93.837	U01HL123336	—	31,816
Ocean State Research Institute, Inc.	93.837	R01HL139795	—	(1,791)
Ohio State University	93.837	R01HL163005	—	96,839
University of Iowa	93.837	R01HL142588	—	42,763
University of Minnesota	93.837	R01HL163979	—	8,422
University of Pennsylvania	93.837	N007373301	—	7,260
University of Pittsburgh	93.837	R01HL134905	—	25,741
University of Pittsburgh	93.837	UG3HL153847	—	3,400
University of Pittsburgh	93.837	R01HL147914	—	8,868
Cardiovascular Diseases Research Subtotal			774,705	6,208,769

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Federal Grantor/Pass-through Grantor/Program or Cluster Title	Assistance Listing Number	Direct Award of Pass-through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
Lung Diseases Research	93.838	Direct	\$ 560,343	2,207,511
Ann & Robert Lurie Children's Hospital	93.838	R01HL157256	—	14,902
Eko Health, Inc.	93.838	R44HL166025-01	—	98,395
Ocean State Research Institute, Inc.	93.838	R01HL148727	—	42,844
University of Florida-Gainesville	93.838	R01HL153119	—	90,153
University of Pittsburgh	93.838	R01HL159997	—	2,506
University of Utah	93.838	1OT2HL161847	—	4,383
Virginia Commonwealth University	93.838	OT2HL161847	—	141,167
Wayne State University	93.838	R01HL148247	—	21,661
Lung Diseases Research Subtotal			560,343	2,623,522
Blood Diseases and Resources Research	93.839	Direct	297,032	797,297
Boston Medical Center	93.839	R01HL141774	—	32,186
Rutgers, The State University of New Jersey	93.839	U01HL133817	—	37,819
Blood Diseases and Resources Research Subtotal			297,032	867,302
National Heart, Lung, and Blood Institute Subtotal			1,735,507	10,581,059
National Institute of Mental Health	93.242	Direct	1,702,109	5,780,957
American University	93.242	R01MH129161	—	1,009
Brown University	93.242	R01MH117960	—	68,450
Brown University	93.242	R01MH123556	—	63,015
Brown University	93.242	R01MH126681	—	106,444
Brown University	93.242	R01MH126940	—	18,700
Brown University	93.242	R01MH129457	—	45,468
Brown University	93.242	R34MH115457	—	10,193
Brown University	93.242	R34MH124469	—	20,549
Brown University	93.242	RF1MH132348	—	14,473
Brown University	93.242	R01MH114891	—	2,782
Brown University	93.242	R01MH119919	—	61,725
Brown University	93.242	R01MH122301	—	17,247
Brown University	93.242	R01MH126940	—	2,112
Brown University	93.242	R25MH101076	—	19,284
Brown University	93.242	RF1MH132348	—	72,044
Brown University	93.242	R01MH129457	—	845
Butler Hospital	93.242	R01MH12483	—	26,205
Butler Hospital	93.242	R01MH128248	—	10,888
George Mason University	93.242	R01MH118680	—	27,323
Massachusetts General Hospital	93.242	RF1MH120830	—	394
University of Puerto Rico	93.242	R34MH120179	—	3,797
Research Foundation For Mental Hygiene	93.242	R34MH127180	—	26,453
Stanford Medical University	93.242	62489925-139369	—	12,071
University of North Carolina at Chapel	93.242	U01MH110925	—	(8,717)
University of Rochester Medical Center	93.242	2P50MH106435	46,974	292,506
Virtually Better, Inc.	93.242	R41MH131229	—	108,384
Yale University	93.242	R21MH125199	—	25,961
National Institute of Mental Health Subtotal			1,749,083	6,830,562
National Institute on Drug Abuse	93.279	Direct	812,502	4,641,361
Brown University	93.279	K01DA048087	—	(209)
Brown University	93.279	R01DA045396	—	64,773
Brown University	93.279	R01DA054116	—	65,749
Brown University	93.279	R34DA053738	—	66,080
Brown University	93.279	UJ3DA056890	—	60,034
Brown University	93.279	R01DA047975	—	11,395
Brown University	93.279	R21DA053518	—	11,643
Brown University	93.279	U01DA045514	—	33,442
Brown University	93.279	U01DA050442	—	36,819
Butler Hospital	93.279	R21DA052133	—	15,174
Fordham University	93.279	R25DA031608	—	44,399
McLean Hospital	93.279	UG1DA015831	—	266,895
Northwestern University	93.279	K23DA048062	—	3,769
Ohio State University	93.279	K24DA037109	—	24,600
Ohio State University	93.279	R01DA047236	—	50,199
University of California- San Francisco	93.279	R01DA056265	—	20,374
National Institute on Drug Abuse Subtotal			812,502	5,416,497
National Institute of Biomedical Imaging and Bioengineering	93.286	R21EB035030	—	1,302
National Institute of Biomedical Imaging and Bioengineering Subtotal			—	1,302
National Institute on Minority Health and Health Disparities	93.307	Direct	951,271	1,681,354
Brown University	93.307	R01MD016241	—	73,845
University of North Carolina at Chapel	93.307	R21MD016467	—	10,184
National Institute on Minority Health and Health Disparities Subtotal			951,271	1,765,383
National Center for Advancing Translational Sciences	93.350	1R41TR002298	—	24,268
Nanode Therapeutics			—	24,268
National Center for Advancing Translational Sciences Subtotal			—	24,268
National Cancer Institute	93.353	UM1CA233080	—	234,270
21st Century Cures Act – Beau Biden Cancer Moonshot			—	234,270
Dana Farber Cancer Institute			—	234,270
21st Century Cures Act – Beau Biden Cancer Moonshot Subtotal			—	234,270
Cancer Cause and Prevention Research	93.393	U24CA248010	—	62,497
Children's Hospital Boston	93.393	UH3CA243120	—	28,940
Children's Hospital Boston	93.393	R01CA277839	—	4,358
Purdue University	93.393	R37CA237452	—	27,320
Vanderbilt University Medical Center	93.393		—	—
Cancer Cause and Prevention Research Subtotal			—	123,115
Cancer Detection and Diagnosis Research	93.394	Direct	136,601	420,890
Albert Einstein College of Medicine	93.394	R01CA218429	—	3,198
Medical College of Wisconsin	93.394	U01CA176110	—	10,462
University of Texas MD Anderson Cancer Center	93.394	R01CA264992	—	78,139
Cancer Detection and Diagnosis Research Subtotal			136,601	512,689

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Federal Grantor/Pass-through Grantor/Program or Cluster Title	Assistance Listing Number	Direct Award of Pass-through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
Cancer Treatment Research	93.395	Direct	\$ —	366,455
American College of Radiology	93.395	U10CA180820	—	2,375
Brown University	93.395	R21CA259734	—	5,267
Children's Hospital Boston	93.395	U24CA248010	—	92,560
Oregon Health Sciences University	93.395	U10CA180888	—	48,384
Public Health Institute	93.395	U10CA180886	—	8,237
Cancer Treatment Research Subtotal			—	523,278
Cancer Biology Research	93.396	Direct	—	433,847
Fox Chase Cancer Center	93.396	R01CA259188	—	47,553
Cancer Biology Research Subtotal			—	481,400
Cancer Centers Support Grants				
Indiana University	93.397	U54CA254518	—	19,382
Cancer Centers Support Grants Subtotal			—	19,382
National Cancer Institute Subtotal			136,601	1,894,134
National Institute on Nursing Research				
Brown University	93.361	R01NR020227	—	61,036
Duke University Medical Center	93.361	R01NR018379	—	5,236
National Institute on Nursing Research Subtotal			—	66,272
National Institute of Arthritis and Musculoskeletal and Skin Diseases				
Cleveland Clinic Foundation	93.846	Direct	366,650	1,676,875
University of Connecticut	93.846	R01AR074131	—	120,991
	93.846	R01AR072027	—	16,830
National Institute of Arthritis and Musculoskeletal and Skin Diseases Subtotal			366,650	1,814,696
National Institute of Diabetes and Digestive and Kidney Diseases				
Diabetes, Digestive, and Kidney Diseases Extramural Research				
Brown University	93.847	Direct	1,406,215	5,127,152
Clemson University	93.847	R01DK125382	—	6,415
Northwestern University	93.847	R01DK135679	—	72,341
Temple University	93.847	R01DK133300	—	27,551
University of Alabama at Tuscaloosa	93.847	R01DK130323	—	58,633
University of Pittsburgh	93.847	R01DK122473	—	51,295
University of Tennessee	93.847	R01DK120597	—	83,529
University of Tennessee	93.847	R01DK121360	—	28,293
University of California Los Angeles	93.847	R01DK10848	—	5,256
Yale University	93.847	R01DK128277	—	33,445
National Institute of Diabetes and Digestive and Kidney Diseases Subtotal			1,406,215	5,493,910
National Institute of Neurological Disorders and Stroke				
Extramural Research Programs in the Neurosciences				
Children's Hospital Boston	93.853	Direct	535	535
Columbia University	93.853	U54NS092090	—	19,365
Massachusetts General Hospital	93.853	R01NS110826	—	56,640
Mayo Clinic Rochester	93.853	U01NS121616	—	106,150
Orlando Health, Inc.	93.853	U01NS080168	—	49,656
University of Cincinnati	93.853	R01NS057676	—	89,801
University of Cincinnati	93.853	U01NS095869	—	33,879
University of Cincinnati	93.853	U01NS102289	—	19,004
University of Cincinnati	93.853	U01NS110728	—	6,549
University of Cincinnati	93.853	U01NS117450	—	3,023
Yale University	93.853	U24NS107215	—	46,233
Yale University	93.853	U24NS129500	—	715
National Institute of Neurological Disorders and Stroke Subtotal			535	430,550
National Institute of Allergy and Infectious Diseases				
Allergy and Infectious Diseases Research				
Aga Foundation	93.855	Direct	2,965,910	6,082,763
Brigham & Women's Hospital	93.855	R24AI118629	—	11,499
Brown University	93.855	UM1AI069412	—	1,005
Brown University	93.855	R01AI127699	—	72,259
Brown University	93.855	R01AI108441	—	776
Brown University	93.855	R01AI167694	—	22,655
Brown University	93.855	R25AI140490	—	33,929
Case Western Reserve University	93.855	R01AI129709	—	44,265
Children's Hospital Boston	93.855	R01AI141656	—	27,006
Children's Hospital Boston	93.855	R01AI151180	—	160,020
Children's National Research Institute	93.855	R01AI168090	—	35,966
Emory University School of Medicine	93.855	U19AI110483	—	42,525
George Washington University	93.855	P30AI117970	—	98,681
Icahn School of Medicine at Mount Sinai	93.855	R01AI120792	—	180,633
Indiana University	93.855	U01AI069911	—	64,065
Johns Hopkins University	93.855	R01AI144997	—	230,586
Massachusetts Eye And Ear Infirmary	93.855	P01AI083214	—	32,782
University of California Los Angeles	93.855	UM1AI068636	—	225,267
National Institute of Allergy and Infectious Diseases Subtotal			2,965,910	7,366,682
National Institute of General Medical Sciences				
Biomedical Research and Research Training				
Brandeis University	93.859	Direct	1,879,330	11,352,201
Brown University	93.859	08TI010023	—	7,075
Brown University	93.859	P20GM109035	—	31,218
Brown University	93.859	P20GM130414	—	24,700
Brown University	93.859	P20GM103645	—	333,577
Brown University	93.859	U54GM115677	—	351,227
Butler Hospital	93.859	P20GM130452	—	76,537
Ocean State Research Institute, Inc.	93.859	P20GM103652	—	60,740
Women & Infants Hospital of Rhode Island	93.859	P20GM121298	—	2,787
National Institute of General Medical Sciences Subtotal			1,879,330	12,240,062

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Federal Grantor/Pass-through Grantor/Program or Cluster Title	Assistance Listing Number	Direct Award of Pass-through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
National Institute of Child Health and Human Development				
Child Health and Human Development Extramural Research		Direct	\$ 646,200	3,413,232
Brown University	93.865	R01HD092301	—	23,255
Brown University	93.865	R01HD104187	—	290,211
Brown University	93.865	R01HD086487	—	47,741
Brown University	93.865	R01HD092456	—	1,541
Children's Hospital of Philadelphia	93.865	R01HD101528	—	30,497
Children's Hospital of Philadelphia	93.865	RHD101528A	—	20,553
Kansas University Medical Center Research	93.865	R01HD093933	—	22,489
Klein Buendel, Inc.	93.865	R42HD110333	—	123,049
Mucommune	93.865	R43HD108823	—	72,037
Northeastern University	93.865	R01HD095932	—	180,998
Stanford Medical University	93.865	R01HD099296	—	98,967
National Institute of Child Health and Human Development Subtotal			646,200	4,324,570
National Institute on Aging				
Aging Research	93.866	Direct	476,808	2,837,426
Brown University	93.866	P01AG027296	—	17,847
Brown University	93.866	R01AG065722	—	23,785
Brown University	93.866	R01AG074284	—	306,991
Brown University	93.866	R01AG076933	—	8,148
Brown University	93.866	R01AG077620	—	20,852
Brown University	93.866	R01AG079295	—	13,047
Brown University	93.866	R03AG070668	—	9,642
Brown University	93.866	U54AG063546	—	23,436
Brown University	93.866	R01AG069349	—	29,792
Butler Hospital	93.866	R01AG077989	—	106,165
Echowear LLC	93.866	R41AG074835	—	118,399
Hebrew Rehabilitation Center For Aged	93.866	R37AG032982	—	4,482
Life Bio, Inc.	93.866	R43AG076341	—	64,951
University of California-San Diego	93.866	R01AG061146	—	50,566
University of Colorado	93.866	K76AG059983	—	65,900
University of Southern California	93.866	2U19AG024904	—	37,047
University of Southern California	93.866	R01AG053798	—	7,944
University of Southern California	93.866	R01AG054029	—	3,660
University of Southern California	93.866	R01AG061848	—	20,622
University of Southern California	93.866	R01AG063689	—	71,428
University of Wisconsin at Madison	93.866	R01AG078242	—	26,621
University of California Los Angeles	93.866	R01AG054366	—	1,535
National Institute on Aging Subtotal			476,808	3,870,286
National Library of Medicine				
Harvard School of Public Health	93.879	R01LM013616	—	31,101
National Library of Medicine Subtotal			—	31,101
Fogarty International Center				
International Research and Research Training	93.989	Direct	198,397	389,618
Brown University	93.989	D43TW010565	—	3,959
Brown University	93.989	D43TW011317	—	40,837
Fogarty International Center Subtotal			198,397	434,414
National Institutes of Health Subtotal			15,420,985	69,856,660
Department of Health and Human Services Total			16,652,830	74,981,040
Total Research and Development Cluster			16,797,919	76,263,114
SNAP Cluster:				
Department of Agriculture:				
Food and Nutrition Services				
Rhode Island Department of Human Services	10.561	224RI405S2514	—	11,234
Subtotal			—	11,234
Total SNAP Cluster			—	11,234
Child Nutrition Cluster:				
Department of Agriculture:				
Food and Nutrition Services				
Rhode Island Department of Education	10.553	1205620	—	37,645
Rhode Island Department of Education	10.555	1205620	—	78,572
Rhode Island Department of Education	10.555	Spon #28856	—	73,710
Rhode Island Department of Education	10.582	1205620	—	5,495
Department of Agriculture Total			—	195,422
Total Child Nutrition Cluster			—	195,422
CDBG – Entitlement Grants Cluster:				
Department of Housing and Urban Development:				
Community Development Block Grants				
City of Pawtucket, Rhode Island	14.218	CDBG grant award	—	10,565
City of Pawtucket, Rhode Island	14.218	Contract #699-39A	—	96,909
Community Development Block Grants Subtotal			—	107,474
Total CDBG – Entitlement Grants Cluster			—	107,474
Housing Voucher Cluster:				
Mainstream Vouchers				
Rhode Island Department of Housing	14.879	HUD MAINSTREAM	—	681,813
Department of Housing and Urban Development Total			—	681,813
Total Housing Voucher Cluster			—	681,813

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WIA/WIOA Adult Program Cluster:				
Department of Labor:				
WIOA Adult Program				
Rhode Island Department of Labor & Training	17.258	IG2-11-CON20	\$ —	(56)
Rhode Island Department of Labor & Training	17.258	IG5-17-CON2	—	76,144
Rhode Island Department of Labor & Training	17.258	IG5-17-CON1	—	73,022
Rhode Island Department of Labor & Training	17.258	IG5-17-CON3	—	86,340
Rhode Island Department of Labor & Training	17.258	IG5-17-CON6	—	65,578
Rhode Island Department of Labor & Training	17.258	IG5-17-CON7	—	106,606
Rhode Island Department of Labor & Training	17.258	IG5-17-CON4	—	51,185
Rhode Island Department of Labor & Training	17.258	IG5-17-CON5	—	87,717
Department of Labor Total			—	546,536
Total WIA/WIOA Adult Program Cluster			—	546,536
CCDF Cluster:				
Department of Health and Human Services:				
Administration for Children and Families				
Rhode Island Department of Health	93.575	2101RICDC6	—	204,600
Rhode Island Department of Human Services	93.575	2201R1CCDD	—	123,128
Rhode Island Department of Human Services	93.575	G2001RICCDD	—	159,075
Administration for Children and Families Subtotal			—	486,803
Total CCDF Cluster			—	486,803
Medicaid Cluster:				
Department of Health and Human Services:				
Centers for Medicare and Medicaid Services				
Medical Assistance Program				
State of Rhode Island	93.778	530 WRR	—	39,676
State of Rhode Island	93.778	530 WRR	—	32,068
Centers for Medicare and Medicaid Services Subtotal			—	71,744
Total Medicaid Cluster			—	71,744
Other Federal Awards:				
Department of Justice:				
Missing Alzheimer's Disease Patient Assistance Program				
Rhode Island Department of Justice	16.015	2021-J1-BX-0013	—	81,500
Subtotal			—	81,500
National Institute of Justice Research	16.560	Direct	99,502	146,015
Subtotal			99,502	146,015
Crime Victim Assistance				
State of Rhode Island	16.575	15POVC-21-GG-00596-ASSI	—	(2,878)
State of Rhode Island	16.575	15POVC-22-GG-00800-ASSI	—	108,011
Crime Victim Assistance Subtotal			—	105,133
Department of Justice Total			99,502	332,648
Department of the Treasury:				
COVID-19 - Coronavirus State and Local Fiscal Recovery Funds				
State of Rhode Island	21.027	810 RIDOH	—	729,752
Department of the Treasury Total			—	729,752
Department of Education				
Preschool Development Grants				
State of Rhode Island	84.419	S419B150033	—	943,390
Department of Education Total			—	943,390
AmeriCorps				
Corporation For National and Community Service				
AmeriCorps Total	94.013	Direct	—	59,102
Department of Health and Human Services:				
Agency for Healthcare Research and Quality				
Brown University	93.226	GR5235385	—	32,685
Agency for Healthcare Research and Quality Subtotal			—	32,685
Administration for Community Living				
Rhode Island Department of Education	93.044	17AARIT3SS	—	34,052
Subtotal			—	34,052
Rhode Island Department of Mental Health	93.047	1H79FG000292	—	145,755
Subtotal			—	145,755
Administration for Community Living Subtotal			—	179,807
Centers for Disease Control and Prevention				
Environmental Public Health and Emergency Response				
Rhode Island Department of Health	93.070	1NEU1EH001375	—	100,175
Subtotal			—	100,175
Prevention of Disease, Disability, and Death				
American Association of Clinical Endocrinology	93.083	NH23IP922656	—	82,922
Subtotal			—	82,922
Injury Prevention and Control Research				
Brandeis University	93.136	NU17CE925012	—	15,920
Rhode Island Department of Health	93.136	NU17CE924967	—	201,092
Injury Prevention and Control Research Subtotal			—	217,012

LIFESPAN CORPORATION AND AFFILIATES
Schedule of Expenditures of Federal Awards
Year Ended September 30, 2023

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Assistance Listing Number	Direct Award of Pass-through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
Viral Hepatitis Prevention and Control Rhode Island Department of Health	93.270	NU51P2005182	\$ —	9,453
Subtotal			—	9,453
COVID-19 - Community Health Workers for Public Health Response and Resilient State of Rhode Island	93.495	810 RIDOH	—	68,605
Subtotal			—	68,605
HIV Prevention Activities Health Department Based Rhode Island Department of Health	93.940	NU62PS924548	—	2,664
Subtotal			—	2,664
Sexually Transmitted Diseases (STD) Prevention and Control Grants Rhode Island Department of Health	93.977	6NH25PS005160	—	29,785
Subtotal			—	29,785
Centers for Disease Control and Prevention Subtotal			—	510,616
Community Programs to Improve Minority Health City of Providence	93.137	7CPIMP221328	—	33,170
Community Programs to Improve Minority Health Subtotal			—	33,170
Health Resources and Services Administration Maternal and Child Health Federal Consolidated Programs Rhode Island Department of Health	93.110	Direct U4J47123	136,580	718,191
Maternal and Child Health Federal Consolidated Programs Subtotal	93.110		—	33,751
			136,580	751,942
COVID-19 - Provider Relief Fund and American Rescue Plan	93.498	Direct	—	8,978,607
Subtotal			—	8,978,607
Maternal, Infant and Early Childhood Home Visiting Grant Rhode Island Department of Health	93.870	9OTP0058	—	185,030
Subtotal			—	185,030
Special Projects of National Significance Aids United	93.928	U90HA42153	—	188,207
Subtotal			—	188,207
Health Resources and Services Administration Subtotal			136,580	10,103,786
Substance Abuse and Mental Health Service Administration Substance Abuse and Mental Health Services Projects Rhode Island Department of Education	93.243	Direct	174,316	800,271
Rhode Island Department of Health	93.243	H79SM080973	—	12,971
State of Rhode Island	93.243	7127490	—	163,044
State of Rhode Island	93.243	1H79SM085012	—	400,000
State of Rhode Island	93.243	H79SM080253	—	918,038
Substance Abuse and Mental Health Services Projects Subtotal			174,316	2,294,324
Opioid STR: Rhode Island Department of Behavioral Health	93.788	H79TI085780	—	65,126
Rhode Island Department of Health	93.788	H79TI083281	—	(3,982)
Opioid STR Subtotal			—	61,144
Certified Community Behavioral Health Clinic Expansion Grants State of Rhode Island	93.696	Direct CCBHC – Pawtucket/Johnston/So County	—	301,011
State of Rhode Island	93.696		—	688,085
Certified Community Behavioral Health Clinic Expansion Grants Subtotal			—	989,096
Block Grants for Community Mental Health Services State of Rhode Island	93.958	IB08TI083543	—	450,000
State of Rhode Island	93.958	IB09SM083964	—	331,150
State of Rhode Island	93.958	IB09SM085990	—	358,486
Block Grants for Community Mental Health Services Subtotal			—	1,139,636
Substance Abuse and Mental Health Service Administration Subtotal			174,316	4,484,200
National Institute on Alcohol Abuse and Alcoholism New York University School of Medicine	93.279	U24NS113844	—	861
National Institute on Alcohol Abuse and Alcoholism Subtotal			—	861
National Institutes of Health Other ABT Commonwealth of Massachusetts	93.U01	D30122D00001	—	255,164
Commonwealth of Massachusetts	93.U01	VC6000196659	—	15,919
National Institutes of Health Other Subtotal			—	271,083
Department of Health and Human Services Total			310,896	15,616,208
United States Department of Homeland Security: COVID-19 - Rhode Island Emergency Management Agency	97.036	4505DR-RI	—	10,638,091
United States Department of Homeland Security Total			—	10,638,091
Total Expenditures of Other Federal Awards			410,398	28,319,191
Total Expenditures of Federal Awards			\$ 17,208,317	106,683,331

See accompanying notes schedule of expenditures of federal awards.

LIFESPAN CORPORATION AND AFFILIATES

Notes to Schedule of Expenditures of Federal Awards

Year Ended September 30, 2023

(1) Definition of Reporting Entity

The Schedule of Expenditures of Federal Awards (the Schedule) presents the activity of all federal awards of Rhode Island Hospital (RIH), The Miriam Hospital (TMH), Emma Pendleton Bradley Hospital (EPBH), and Gateway Healthcare, Inc. (Gateway), which are included in Lifespan Corporation and Affiliates (Lifespan). All federal awards received directly from federal agencies, as well as federal awards passed through other agencies, are included on the Schedule.

(2) Summary of Significant Accounting Policies*Basis of Presentation*

The accompanying Schedule of Expenditures of Federal Awards is prepared on the accrual basis of accounting.

(3) Indirect Costs

Indirect costs are charged to federal grants and contracts at federally approved predetermined rates for each applicable Lifespan affiliate. The predetermined rates for the year ended September 30, 2023, were 64.0%, 49.0%, and 34.0% for RIH, TMH, and EPBH, respectively. Indirect costs are included in reported federal expenditures. Lifespan has elected to not use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.



KPMG LLP
One Financial Plaza, Suite 2300
Providence, RI 02903

Exhibit II

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

The Board of Directors
Lifespan Corporation and Affiliates:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Lifespan Corporation and Affiliates (the Organization) which comprise the Organization's consolidated statement of financial position as of September 30, 2023, and the related consolidated statements of operations and changes in net assets, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated January 15, 2024.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Organization's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Providence, Rhode Island
January 15, 2024



KPMG LLP
One Financial Plaza, Suite 2300
Providence, RI 02903

Exhibit III

Independent Auditors' Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

The Board of Directors
Lifespan Corporation and Affiliates:

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Lifespan Corporation and Affiliates' (the Organization) compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended September 30, 2023. The Organization's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Organization complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2023.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Organization and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Organization's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the Organization's federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the



Organization's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Organization's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Organization's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Organization's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2023-001. Our opinion on each major federal program is not modified with respect to this matter.

Government Auditing Standards requires the auditor to perform limited procedures on Lifespan's response to the noncompliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. The Organization is also responsible for preparing a corrective action plan to address each audit finding included in our auditors' report. The Organization's response and corrective action plan were not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response or the corrective action plan.

Report on Internal Control Over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be significant deficiencies.



A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2023-001, to be a significant deficiency.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on the Organization's response to the internal control over the compliance finding identified in our audit described in the accompanying schedule of findings and questioned costs. The Organization is also responsible for preparing a corrective action plan to address the audit finding included in our auditors' report. The Organization's response and corrective action plan were not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response or the corrective action plan.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the consolidated financial statements of the Organization as of and for the year ended September 30, 2023, and have issued our report thereon dated January 15, 2024, which contained an unmodified opinion on those consolidated financial statements. Our audit was performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

KPMG LLP

Providence, Rhode Island
June 28, 2024

LIFESPAN CORPORATION AND AFFILIATES

Schedule of Findings and Questioned Costs

Year ended September 30, 2023

(1) Summary of Auditors' Results

Financial Statements

- a. Type of report issued on whether the consolidated financial statements were prepared in accordance with generally accepted accounting principles: **Unmodified**
- b. Internal control deficiencies over financial reporting disclosed by the audit of the consolidated financial statements:
 - Material weaknesses: **No**
 - Significant deficiencies: **None reported**
- c. Noncompliance material to the financial statements: **None**
- d. Internal control deficiencies over major programs disclosed by the audit:
 - Material weaknesses: **No**
 - Significant deficiencies: **Yes, 2023-001**
- e. Type of report issued on compliance for major programs: **Unmodified**
- f. Audit findings that are required to be reported in accordance with 2 CFR 200.516(a): **Yes, 2023-001**
- g. Major programs:
 - Research and Development Cluster – various assistance listing numbers
 - COVID-19- Provider Relief Funds – 93.498
 - COVID-19- Disaster Grants – Public Assistance Grants (Presidentially Declared Disasters) – 97.036
- h. Dollar threshold used to distinguish between Type A and Type B programs: **\$3,000,000**
- i. Auditee qualified as a low-risk auditee: **Yes**

(2) Findings Relating to the Financial Statements Reported in Accordance with Government Auditing Standards

None.

LIFESPAN CORPORATION AND AFFILIATES

Schedule of Findings and Questioned Costs

Year ended September 30, 2023

(3) Findings and Questioned Costs Relating to Federal Awards

Finding: 2023-001
Program Name: Research and Development Cluster
Federal Agency: Various
ALN: Various
Federal Award Year: Various

Compliance Requirement: Equipment and Real Property Management

Criteria:

Non-federal entities other than states must follow 2 CFR sections 200.313(c) through (e) which require that property records must be maintained and include various information including, but not limited to, a description of the property, a serial number or identification number, the location, use and condition of the property, and any ultimate disposition data including the date of disposal (2 CFR section 200.313(d)(1). Further, 2 CFR section 200.313(d)(2) required that a physical inventory of the property must be taken and the results reconciled with the property records at least once every 2 years.

When original or replacement equipment acquired under a federal award is no longer needed for a federal program, the non-federal entity must request disposition instructions from the federal awarding agency if required by the terms and conditions of the award.

Title 2 U.S. Code of Federal Regulations Part 200 (2CFR 200) Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, section 303(a) states, the non-Federal entity must establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in "Standards for Internal Control in the Federal Government" issued by the Comptroller General of the United States or the "Internal Control Integrated Framework", issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Condition:

40 items of equipment were selected from all equipment acquired under federal awards from Lifespan's property records and were physically inspected for safeguarding and proper maintenance.

Of the 40 items selected, we noted 4 items could not be located by Lifespan or evidence that the items were properly disposed could not be provided in accordance with the requirements outlined above.

Possible Asserted Cause and Effect:

In each of the four instances, Lifespan did not follow appropriate processes, procedures and internal controls to timely and appropriately maintain accurate equipment records.

LIFESPAN CORPORATION AND AFFILIATES

Schedule of Findings and Questioned Costs

Year ended September 30, 2023

Identification of Questioned Costs:

Not determinable.

Whether Sampling was Statistically Valid:

The sample was not intended to be, and was not, a statistically valid sample.

Identification of Whether the Audit Finding was a Repeat Finding:

This is not a repeat finding.

Recommendation:

We recommend that Lifespan review its current policies and procedures to ensure that equipment acquired under federal awards is appropriately inventoried and records are updated to ensure compliance with federal regulations.

Views of Responsible Officials:

Lifespan agrees with the finding as departments did not consistently follow its equipment tracking, storage, and disposal policies and procedures related to equipment purchased with federal funding.

The following steps will be taken to address the finding:

All departments of Lifespan will receive a notice from the Office of Research Administration that equipment tags, proper storage, and timely disposal of equipment are an integral part of the internal control process for capital assets. The Office of Research Administration communication will be sent to all impacted departments by July 15, 2024 and office hours will be made available for any departments that have questions.

Contact:

Lifespan Office of Research Administration:

Daniel Bryant, Director Research Operations 401-444-6893. DBryant@lifespan.org

Mindy Marshall, Director Grants and Contracts 401-444-4487. MMarshall6@lifespan.org

Leslie Simone, Research Information Systems 401-444-8696. LVarone@lifespan.org.

Expected Implementation: July 15, 2024



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Federal Award Findings and Questioned Costs

Corrective Action Plan

Year Ended September 30, 2023

Finding 2023-001 Inaccurate Property and Equipment Records

AL Numbers: Various

Program: Research and Development Cluster

Correction Action: All departments of Lifespan will receive a notice from the Office of Research Administration that equipment tags, proper storage, and timely disposal of equipment are an integral part of the internal control process for capital assets. The Office of Research Administration communication will be sent to all impacted departments by July 15, 2024 and office hours will be made available for any departments that have questions.

Contacts:

Lifespan Office of Research Administration:

Daniel Bryant, Director Research Operations 401-444-6893.
DBryant@Lifespan.org

Mindy Marshall, Director Grants and Contracts 401-444-4487.
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Leslie Simone, Research Information Systems 401-444-8696.
LVarone@Lifespan.org

Expected Implementation: July 15, 2024