KPMG

EMMA PENDLETON BRADLEY HOSPITAL AND AFFILIATE

Consolidated Financial Statements and Supplementary Information

September 30, 2016 and 2015

(With Independent Auditors' Report Thereon)

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September 30, 2016 and 2015

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KPMG LLP
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Independent Auditors' Report

The Board of Trustees
Emma Pendleton Bradley Hospital:

We have audited the accompanying consolidated financial statements of Emma Pendleton Bradley Hospital and Affiliate, which comprise the consolidated statements of financial position as of September 30, 2016 and 2015, 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.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Emma Pendleton Bradley Hospital and Affiliate as of September 30, 2016 and 2015, and the results of their operations and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP

Providence, Rhode Island
February 23, 2017

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EMMA PENDLETON BRADLEY HOSPITAL AND AFFILIATE

Consolidated Statements of Financial Position

September 30, 2016 and 2015

(In thousands)

Assets	2016	2015
Current assets:		
Cash and cash equivalents	$ 2,288	$ 2,078
Patient accounts receivable	9,021	10,521
Less allowance for doubtful accounts	(1,722)	(907)
Net patient accounts receivable	7,299	9,614
Other receivables	4,208	3,848
Total receivables	11,507	13,462
Inventories	176	195
Prepaid expenses and other current assets	112	45
Total current assets	14,083	15,780
Interest in net assets of Bradley Hospital Foundation	1,302	443
Assets limited as to use	64,911	65,991
Property and equipment, net	44,498	45,487
Other assets:		
Deferred charges and financing costs, net	178	572
Other noncurrent assets	71	78
Total other assets	249	650
Total assets	$ 125,043	$ 128,351

Liabilities and Net Assets	2016	2015
Current liabilities:		
Accounts payable	$ 1,200	$ 2,143
Accrued employee benefits and compensation	2,479	3,677
Other accrued expenses	1,829	2,498
Revolving credit loan payable	1,000	2,000
Current portion of long-term debt	1,555	400
Current portion of estimated third-party payor settlements	405	—
Estimated health care benefit self-insurance costs	972	830
Total current liabilities	9,440	11,548
Long-term debt, net of current portion	24,108	24,697
Estimated third-party payor settlements, net of current portion	75	75
Accrued pension liability	12,313	10,844
Other liabilities	97	88
Total liabilities	46,033	47,252
Net assets:		
Unrestricted	23,181	28,038
Temporarily restricted	6,897	5,263
Permanently restricted	48,932	47,798
Total net assets	79,010	81,099
Total liabilities and net assets	$ 125,043	$ 128,351

See accompanying notes to consolidated financial statements.

EMMA PENDLETON BRADLEY HOSPITAL AND AFFILIATE

Consolidated Statements of Operations and Changes in Net Assets

Years ended September 30, 2016 and 2015

(In thousands)

	2016	2015
Unrestricted revenues and other support:		
Patient service revenue, net of contractual allowances	$ 58,376	$ 55,600
Provision for bad debts	(1,316)	(1,082)
Net patient service revenue	57,060	54,518
Other revenue	21,573	23,861
Endowment earnings contributed toward community benefit	1,467	1,484
Net assets released from restrictions used for operations	779	493
Net assets released from restrictions used for research	5,179	4,807
Total unrestricted revenues and other support	86,058	85,163
Operating expenses:		
Compensation and benefits	64,423	62,738
Supplies and other expenses	7,844	7,946
Purchased services	9,666	10,167
Depreciation and amortization	2,886	2,518
Interest	1,499	1,625
Total operating expenses	86,318	84,994
(Loss) income from operations	(260)	169
Nonoperating gains and losses:		
Net realized gains on board-designated investments	41	373
Loss on advance refunding of debt	(3,294)	—
Fundraising expenses	(217)	(194)
Other nonoperating (losses) gains	(61)	7
Total nonoperating (losses) gains, net	(3,531)	186
(Deficiency) excess of revenues over expenses	$ (3,791)	$ 355

(Continued)

EMMA PENDLETON BRADLEY HOSPITAL AND AFFILIATE

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

Years ended September 30, 2016 and 2015

(In thousands)

	2016	2015
Unrestricted net assets:		
(Deficiency) excess of revenues over expenses	$ (3,791)	$ 355
Other changes in unrestricted net assets:		
Change in funded status of pension plan, other than net periodic pension cost	(1,734)	(673)
Net change in unrealized gains on investments available for sale	317	(717)
Net assets released from restrictions used for purchase of property and equipment	251	1,617
Increase in interest in net assets of Bradley Hospital Foundation	100	54
(Decrease) increase in unrestricted net assets	(4,857)	636
Temporarily restricted net assets:		
Gifts, grants, and bequests	5,816	4,759
Income from restricted investments	55	31
Increase in interest in net assets of Bradley Hospital Foundation	759	36
Transfers from Bradley Hospital Foundation	1,037	996
Net assets released from restrictions	(6,209)	(6,917)
Net realized and unrealized gains (losses) on investments	176	(96)
Increase (decrease) in temporarily restricted net assets	1,634	(1,191)
Permanently restricted net assets:		
Net change in unrealized gains on investments held in perpetual trusts by others	1,134	(2,561)
Increase (decrease) in permanently restricted net assets	1,134	(2,561)
Decrease in net assets	(2,089)	(3,116)
Net assets, beginning of year	81,099	84,215
Net assets, end of year	$ 79,010	$ 81,099

See accompanying notes to consolidated financial statements.

EMMA PENDLETON BRADLEY HOSPITAL AND AFFILIATE

Consolidated Statements of Cash Flows

Years ended September 30, 2016 and 2015

(In thousands)

	2016	2015
Cash flows from operating activities:		
Decrease in net assets	$ (2,089)	$ (3,116)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:		
Change in funded status of pension plan, other than net periodic pension cost	1,734	673
Loss on advance refunding of debt	3,294	—
Net realized and unrealized (gains) losses on investments	(1,668)	3,001
Undistributed portion of change in interest in net assets of Bradley Hospital Foundation	(859)	(90)
Transfers from Bradley Hospital Foundation	(1,037)	(996)
Depreciation and amortization	2,886	2,518
Provision for estimated health care benefit self-insurance costs	8,600	8,712
Decrease in liabilities for estimated health care benefit self-insurance costs resulting from claims paid	(8,458)	(8,599)
Net decrease (increase) in patient accounts receivable	2,315	(2,878)
(Decrease) increase in accounts payable	(943)	535
Decrease in accrued employee benefits and compensation	(1,198)	(797)
Increase (decrease) in estimated third-party payor settlements	405	(541)
(Decrease) increase in all other current and noncurrent assets and liabilities, net	(1,165)	1,912
Net cash provided by operating activities	1,817	334
Cash flows from investing activities:		
Purchase of property and equipment	(1,868)	(5,988)
Net decrease in funds held by third parties under long-term debt agreements	2,289	162
Other net decreases in assets limited as to use	459	2,306
Net cash provided by (used in) investing activities	880	(3,520)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	24,033	—
Payments to defease refunded bonds	(26,157)	—
(Payments on) proceeds from revolving credit loan payable	(1,000)	2,000
Payments on long-term debt	(400)	(394)
Transfers from Bradley Hospital Foundation	1,037	996
Net cash (used in) provided by financing activities	(2,487)	2,602
Net increase (decrease) in cash and cash equivalents	210	(584)
Cash and cash equivalents, beginning of year	2,078	2,662
Cash and cash equivalents, end of year	$ 2,288	$ 2,078
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 1,554	$ 1,629

See accompanying notes to consolidated financial statements.

(1) Description of Organization

Emma Pendleton Bradley Hospital (the Hospital), whose primary location is East Providence, Rhode Island, is a 60-bed nonprofit teaching hospital with university affiliation providing for the psychiatric treatment of adolescents and children, including some with severe developmental disabilities. The Hospital operates several major programs including acute, partial hospitalization, residential, and outpatient, as well as The Bradley School, which provides special education services to children from preschool through high school. The Hospital also operates ten other secondary sites which furnish residential and special education services. As a complement to its role in service and education, the Hospital actively supports research. The Hospital is accredited by the Joint Commission on Accreditation of Healthcare Organizations (JCAHO). The Hospital participates as a provider in Rhode Island Medicaid, various out-of-state Medicaid programs, and the State of Rhode Island's Department of Children, Youth and Families programs, as well as providing care for patients covered by private health insurers and municipal school departments. The Hospital is also a member of Voluntary Hospitals of America, Inc. (VHA).

Effective March 12, 1996, the Hospital entered into an affiliation with Lifespan Corporation, a Rhode Island nonprofit corporation. The Hospital continues to maintain its own identity, as well as its own campus and its own name. Lifespan, the sole member of the Hospital, has the responsibility for strategic planning and initiatives, capital and operating budgets, and overall governance of the consolidated organization.

The composition of the Boards of Trustees of each of the Lifespan system hospitals and of both Newport Health Care Corporation and Gateway Healthcare, Inc. is defined as those persons serving from time to time as the directors of Lifespan Corporation. As a result, the Boards of each entity are comprised of the same individuals. The Board of each entity, however, retains its responsibilities and authorities to that entity.

The Hospital is the sole member of Lifespan School Solutions, Inc. (LSS), which began operations on July 1, 2014 as a regional provider of special education services to students, their families, and municipal school systems. LSS does business as The Bradley School, a private, school-funded, educational program for children and adolescents whose psychiatric and behavioral needs cannot be met in a public school setting. Revenue generated by these services is reported as other revenue in the accompanying consolidated statements of operations and changes in net assets.

(In thousands)

(2) Charity Care and Other Community Benefits

The total net cost of charity care and other community benefits provided by the Hospital for the years ended September 30, 2016 and 2015 is summarized in the following table:

	2016	2015
Charity care	$ 145	$ 78
Medical education, net	932	920
Research	741	929
Subsidized health services	3,510	3,399
Community health improvement services and community benefit operations	151	100
Total	$ 5,479	$ 5,426

Charity Care

The Hospital 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 Department of Health and Human Services. In addition, a substantial discount consistent with Medicare program reimbursement is offered to all other uninsured patients. The Hospital 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 the Hospital to provide charity care amounted to $145 and $78 in 2016 and 2015, respectively. Charges forgone, based on established rates, amounted to $303 and $162 in 2016 and 2015, respectively.

Medical Education

The Hospital provides the setting for and substantially supports medical education in various clinical training programs. The total cost of medical education provided by the Hospital exceeded the reimbursement received from third-party payors by $932 and $920 in 2016 and 2015, respectively. In 1969, the Hospital and certain other Rhode Island hospitals entered into an affiliation agreement to participate jointly in various clinical training programs and research activities with Brown Medical School, renamed The Warren Alpert Medical School of Brown University (Brown). In 2010, Brown named Rhode Island Hospital (RIH) its Principal Teaching Hospital. The Hospital and The Miriam Hospital (TMH) continue to be designated as major teaching affiliates. The goals of the partnership are to facilitate the expansion of joint educational and research programs in order to compete both clinically and academically. The Hospital participates in the Child and Adolescent Psychiatry Fellowship as well as the Triple Board Residency Program (Pediatrics/Psychiatry/Child and Adolescent Psychiatry).

The Hospital serves as a participating site for the Brown Residency Program in Psychiatry sponsored by Butler Hospital. In addition, Behavioral Medicine at the Hospital, in collaboration with Brown, sponsors research and clinical psychology programs for interns, postdoctoral fellows, and faculty trainees.

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

Medical Education (continued)

The Hospital has clinical affiliations/student clinical training programs for pharmacy students provided through contracts with a number of colleges and universities. A majority of the pharmacy students attend the University of Rhode Island, Massachusetts College of Pharmacy and Allied Health Sciences, and Northeastern University.

The Hospital has clinical affiliations/student clinical training programs for pharmacy students provided through contracts with a number of colleges and universities.

Research

The Hospital sponsors a significant level of research activities, as indicated in the table on page 7. Federal support accounts for approximately 57% of all externally funded research at the Hospital. Researchers focus on clinical trials which investigate child and adolescent mental health concerns and brain science.

Subsidized Health Services

The Hospital substantially subsidizes and supports comprehensive mental health evaluation and treatment of children, adolescents, and families under several programs, including outpatient, day treatment, home-based, and residential.

Community Health Improvement Services and Community Benefit Operations

The Hospital also provides numerous other services to the community for which charges are not generated. These services include patient advocacy, foreign language translation, physician referral services, and charitable contributions.

(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 the Hospital and LSS. All significant intercompany accounts and transactions have been eliminated in consolidation.

The Hospital 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 February 23, 2017 and subsequent events have been evaluated through that date.

(b) Use of Estimates

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

(3) Summary of Significant Accounting Policies (continued)

(c) Cash and Cash Equivalents

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

(d) Investments and Investment Income

Financial Accounting Standards Board (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; and
- Level 3 – unobservable inputs that are used when little or no market data is available.

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

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

Cash and short-term investments: Valued at the net asset value (NAV) reported by the financial institution, 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. These investments are designated by the Hospital as trading securities.

Corporate equity securities: Valued at the closing prices reported by an active market in which the individual securities are traded. These investments are designated by the Hospital as trading securities.

Collective investment funds: Investments in collective investment funds with monthly pricing and liquidity are valued using NAV as reported by the investment manager, which approximates the market values of the underlying investments within the fund or realizable value as estimated by the investment manager. Otherwise, such investments are recorded at historical cost. The Hospital has applied the provisions of Accounting Standards Update No. 2009-12, *Investments in Certain Entities*

(3) Summary of Significant Accounting Policies (continued)

(d) Investments and Investment Income (continued)

That Calculate Net Asset Value per Share (or its Equivalent), which permits the use of NAV per share or its equivalent reported by each underlying investment fund as a practical expedient to estimate the fair value of the investment.

The Hospital has also applied the provisions of ASU No. 2015-07, *Fair Value Measurement: Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or its Equivalent)* (ASU 2015-07). Among other things, ASU 2015-07 removes the requirement to classify, within the fair value hierarchy table in Levels 2 or 3, investments in certain funds measured at net asset value (NAV) or its equivalent as a practical expedient to estimate fair value. ASU 2015-07 also requires that any NAV-measured investments excluded from the fair value hierarchy table be summarized as an adjustment to the table so that such investments can be reconciled to investments reported in the consolidated statements of financial position.

ASU No. 2015-10, *Corrections and Improvements,* amended the definition of readily determinable fair value to include equity securities in structures that are similar to mutual funds where the fair value per share is determined and published on a regular basis and is the basis for current transactions. The Hospital has reassessed the basis of fair value for its investments and concluded that certain investments have readily determinable fair values consistent with the amendment. As a result, NAV disclosures have been amended, and certain investments within the endowment and retirement plan previously accounted for using NAV as a practical expedient as of September 30, 2015 and previously excluded from the fair value hierarchy were determined to have readily determinable fair values and have been included in the fair value hierarchy. Endowment investments of approximately $235 and $1,179 have been included as Level 1 and Level 2 investments, respectively. Retirement plan investments of approximately $5,206 and $14,072 have been included as Level 1 and Level 2 investments, respectively.

Investments of less than 5% in limited partnerships are recorded at historical cost. Investments of 5% or more in limited partnerships, limited liability corporations, or similar investments are accounted for using the equity method.

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

Investments designated by the Hospital as trading securities are reported at fair value, with gains or losses resulting from changes in fair value recognized in the consolidated statements of operations and changes in net assets as realized gains or losses on investments. For investment securities other than trading, a decline in the market value of the security below its cost that is designated to be other than temporary is recognized through an impairment charge classified as a realized loss, and a new cost basis is established.

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

(3) Summary of Significant Accounting Policies (continued)

(d) Investments and Investment Income (continued)

Realized gains or losses on sales of investments are determined by the average cost method. Realized gains or losses on unrestricted investments are recorded as nonoperating gains or losses; realized gains or losses on restricted investments are recorded as an addition to or deduction from the appropriate restricted net asset category.

Investment income from funds held by third parties under long-term debt agreements is recorded as other revenue. The Hospital maintains a spending policy whereby annual distributions received from various irrevocable trusts (notes 5(c) and 6) are recorded within unrestricted revenues as endowment earnings contributed toward community benefit.

(e) Assets Limited As To Use

Assets limited as to use primarily include assets held by a trustee under various irrevocable trusts, designated assets set aside by the Hospital’s Board for future use at its discretion, and assets whose use by the Hospital has been limited by grantors or donors to a specific purpose, as well as assets held by third parties under long-term debt agreements.

(f) Property and Equipment

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

(g) Deferred Financing Costs

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

(h) Temporarily Restricted Net Assets

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

(i) (Deficiency) Excess of Revenues over Expenses

The consolidated statements of operations and changes in net assets include (deficiency) excess of revenues over expenses. Changes in unrestricted net assets which are excluded from (deficiency) excess of revenues over expenses, consistent with industry practice, include the change in the funded status of pension plan, the net change in unrealized gains on investments available-for-sale, net assets released from restrictions used for purchase of property and equipment, and the change in interest in net assets of Bradley Hospital Foundation.

(Continued)

(3) Summary of Significant Accounting Policies (continued)

(j) Net Patient Service Revenue

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

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

(k) Provision for Bad Debts

Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectibility of accounts receivable, the Hospital analyzes its past history and identifies its revenue trends for each of its major payors to estimate the appropriate allowance for doubtful accounts and the associated provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, the Hospital analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Hospital records a significant allowance for doubtful accounts and provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates, if applicable) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

The Hospital’s allowance for doubtful accounts increased from $907 at September 30, 2015 to $1,722 at September 30, 2016. The Hospital’s self-pay writeoffs for the years ended September 30, 2016 and 2015 amounted to $495 and $1,195, respectively. The Hospital did not change its charity care or uninsured discount policies during the years ended September 30, 2016 and 2015, respectively.

(3) Summary of Significant Accounting Policies (continued)

(l) Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient service revenue (see note 2).

(m) Donor-Restricted Gifts

Unconditional promises to give cash and other assets to the Hospital are reported at fair value at the date the promise is received. The gifts are reported as temporarily restricted support that increases this net asset class if they are received with stipulations that limit the use of the assets. When a donor or grantor restriction expires, that is, when a stipulated purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations and changes in net assets as net assets released from restrictions.

(n) Inventories

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

(o) Estimated Self-Insurance Costs

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

(p) Fair Value of Financial Instruments

The carrying amounts recorded in the consolidated statements of financial position for cash and cash equivalents, patient accounts receivable, assets limited as to use, accounts payable, accrued expenses, estimated third-party payor settlements, and estimated health care benefit self-insurance costs approximate their respective fair values. The estimated fair values of the Hospital's assets limited as to use, pension-related assets, and long-term debt are disclosed in notes 5, 8, and 11, respectively.

(In thousands)

(4) Disproportionate Share

The Hospital is a participant in the State of Rhode Island's Disproportionate Share Program, established in 1995 to assist hospitals which provide a disproportionate amount of uncompensated care. Under the program, Rhode Island hospitals, including the Hospital, receive federal and state Medicaid funds as additional reimbursement for treating a disproportionate share of low income patients. Total payments to the Hospital under the Disproportionate Share Program aggregated $80 in both 2016 and 2015 and are reflected as part of net patient service revenue in the accompanying consolidated statements of operations and changes in net assets.

For periods beyond 2017, the federal government is scheduled to reduce the level of federal matching funds for the Disproportionate Share Program. Accordingly, it may be necessary for the State of Rhode Island to modify the program and the reimbursement to Rhode Island hospitals under the program. At this time, the scope of such modifications or their effect on the Hospital cannot be reasonably determined.

(5) Investments

The composition of assets limited as to use at September 30, 2016 and 2015 is set forth in the following table:

	2016	2015
Unrestricted board-designated funds	$ 10,468	$ 11,321
Funds held by third parties under long-term debt agreements	11	2,300
Temporarily restricted funds	5,530	4,602
Permanently restricted funds	48,902	47,768
Total	$ 64,911	$ 65,991

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

	2016	2015
Available-for-sale	$ 58,003	$ 59,975
Trading	6,908	6,016
Total	$ 64,911	$ 65,991

Assets limited as to use are classified as trading securities if the buy/sell decision with respect to each portfolio security is the responsibility of an external investment manager. All other assets limited as to use are classified as available-for-sale securities.

(In thousands)

(5) Investments (continued)

Fair Value

The following tables summarize the Hospital's investments and assets held in trust by major category within the ASC 820-10 fair value hierarchy as of September 30, 2016 and 2015, as well as related strategy and liquidity/notice requirements:

	2016				Redemption	Days'
	Level 1	Level 2	Level 3	Total	or liquidation	notice
U.S. equities:						
Large cap value	$ 682	$ —	$ —	$ 682	Daily	One
Mid-cap value	904	—	—	904	Daily	One
Large cap growth	1,914	—	—	1,914	Daily	One
International equities:						
Developing markets	—	1,287	—	1,287	Monthly	Five - Thirty-one
Emerging markets	197	—	—	197	Daily	One
Commodities:						
Energy	302	—	—	302	Daily	One
Various	233	—	—	233	Daily	One
Real estate	—	321	—	321	Monthly	Sixteen
Fixed income:						
U.S. Treasuries	1,202	—	—	1,202	Daily	One
U.S. Government and agency	—	461	—	461	Daily	One
Domestic bonds	—	1,340	—	1,340	Daily	One
Cash and short-term investments	328	—	—	328	Daily	One
	5,762	3,409	—	9,171		
Assets held in trust (note 6)	—	—	48,872	48,872	Illiquid	N/A
Held by third parties under long-term debt agreements (note 11)	11	—	—	11	Daily	One
Total	$ 5,773	$ 3,409	$ 48,872	$ 58,054		

(In thousands)

(5) Investments (continued)

	2015				Redemption	Days'
	Level 1	Level 2	Level 3	Total	or liquidation	notice
U.S. equities:						
Large cap value	$ 712	$ —	$ —	$ 712	Daily	One
Mid-cap value	831	—	—	831	Daily	One
Large cap growth	1,805	—	—	1,805	Daily	One
International equities:						
Developed markets	—	1,179		1,179	Monthly	Five - Thirty-one
Emerging markets	22	—	—	22	Daily	One
Commodities:						
Energy	94	—	—	94	Daily	One
Various	235	—		235	Daily	One
Real estate	—	285	—	285	Monthly	Fifteen
Fixed income:						
U.S. Treasuries	712	—	—	712	Daily	One
U.S. Government and agency	—	369	—	369	Daily	One
Domestic bonds	—	1,355	—	1,355	Daily	One
Cash and short-term investments	204	—	—	204	Daily	One
	4,615	3,188	—	7,803		
Assets held in trust (note 6)	—	—	47,738	47,738	Illiquid	N/A
Held by third parties under long-term debt agreements (note 11)	2,300	—	—	2,300	Daily-Illiquid	One-N/A
Total	$ 6,915	$ 3,188	$ 47,738	$ 57,841		

The following tables reconcile NAV-measured investments to investments reported in the consolidated statements of financial position as of September 30, 2016 and 2015.

	2016	Redemption or liquidation	Days' notice
Marketable alternatives:			
Multiple strategies	$ 761	Quarterly	Sixty - Ninety
Long-short equity	478	Monthly - Illiquid	Sixty - N/A
Absolute return strategies	2,675	Semi-monthly - Annually	Five - Sixty-five
International equities:			
Developed markets	577	Monthly	Ten
Emerging markets	1,366	Monthly - Quarterly	Ten - Ninety
Fixed income:			
U.S. Treasury inflation-protected	322	Daily	Two
Total investments measured at NAV	6,179		
All other investments	58,054		
Total investments	$ 64,233		

(In thousands)

(5) Investments (continued)

	2015	Redemption or liquidation	Days' notice
Marketable alternatives:			
Multiple strategies	$ 774	Quarterly - Monthly	Sixty - Ninety
Long-short equity	357	Monthly	Sixty
Absolute return strategies	3,458	Semi-monthly - Annually	Five - Sixty-five
International equities:			
Developed markets	414	Monthly	Ten
Emerging markets	1,389	Monthly - Quarterly	Ten - Ninety
Commodities:			
Various	5	Daily - Illiquid	One - N/A
Fixed income:			
U.S. Treasury inflation-protected	305	Daily	Two
Global bonds	724	Daily	Ten
Total investments measured at NAV	7,426		
All other investments	57,841		
Total investments	$ 65,267		

Investments held by third parties under long-term debt agreements consist of money market funds invested in U.S. Government and agency obligations and other high-quality, short-term debt securities.

Investments of less than 5% in collective investment funds which do not have monthly pricing or liquidity are recorded at historical cost. Investments of less than 5% in limited partnerships are also recorded at historical cost. The aggregate historical cost of these investments, which is less than market value as reported by investment managers, amounted to $678 at September 30, 2016 and $724 at September 30, 2015.

There were no transfers between Level 1 and Level 2 fair value measurements during the years ended September 30, 2016 and 2015.

The following table presents the Hospital's activity for the years ended September 30, 2016 and 2015 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	
	2016	2015
Fair value at October 1	$ 47,738	$ 50,299
Net unrealized gains (losses)	1,134	(2,561)
Fair value at September 30	$ 48,872	$ 47,738

(In thousands)

(5) Investments (continued)

Investment Income, Gains and Losses

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

	2016	2015
Other revenue:		
Interest income	$ 211	$ 145
Endowment earnings contributed toward community benefit:		
Investment income	$ 1,467	$ 1,484
Nonoperating gains and losses:		
Net realized gains on board-designated investments	$ 41	$ 373
Other changes in unrestricted net assets:		
Net change in unrealized gains on investments available for sale	$ 317	$ (717)
Changes in temporarily restricted net assets:		
Income from restricted investments	$ 55	$ 31
Net realized and unrealized gains (losses) on investments	176	(96)
	$ 231	$ (65)
Changes in permanently restricted net assets:		
Net change in unrealized gains on investments held in perpetual trusts by others	$ 1,134	$ (2,561)

Commitments

Venture capital, private equity, and certain energy investments are made through limited partnerships. Under the terms of these agreements, the Hospital is obligated to remit additional funding periodically as capital or liquidity calls are exercised by the manager. These partnerships have a limited existence, generally ten years, and such agreements may provide for annual extensions for the purpose of disposing portfolio positions and returning capital to investors. However, depending on market conditions, the inability to execute the fund’s strategy, and other factors, a manager may extend the terms of a fund beyond its originally anticipated existence or may wind the fund down prematurely. The Hospital cannot anticipate such changes because they are based on unforeseen events, but should they occur they may result in less liquidity or return from the investment than originally anticipated. As a result, the timing and amount of future capital or liquidity calls expected to be exercised in any particular future year is uncertain. The aggregate amount of unfunded commitments associated with the above noted investment categories as of September 30, 2016 was $620.

(In thousands)

(5) Investments (continued)

Investments with Unrealized Losses

Information regarding investments with unrealized losses at September 30, 2016 and 2015 is presented below, segregated between those that have been in a continuous unrealized loss position for less than twelve months and those that have been in a continuous unrealized loss position for twelve or more months:

	Less than 12 months		12 months or longer		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
September 30, 2016:						
Unrestricted board-designated and temporarily restricted funds:						
Collective investment funds	$ 372	$ 12	$ 1,425	$ 82	$ 1,797	$ 94
Total temporarily impaired securities	$ 372	$ 12	$ 1,425	$ 82	$ 1,797	$ 94

	Less than 12 months		12 months or longer		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
September 30, 2015:						
Unrestricted board-designated and temporarily restricted funds:						
Collective investment funds	$ 2,890	$ 158	$ 1,360	$ 237	$ 4,250	$ 395
Total temporarily impaired securities	$ 2,890	$ 158	$ 1,360	$ 237	$ 4,250	$ 395

The Hospital reviewed the above investments with unrealized losses and determined that no impairment was considered to be other than temporary. In the evaluation of whether an impairment is other than temporary, the Hospital considers the reasons for the impairment, its ability and intent to hold the investment until the market price recovers, the severity and duration of the impairment, current market conditions, and expected future performance.

Endowments

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

(In thousands)

(5) Investments (continued)

Endowments (continued)

Endowment funds consist of the following at September 30, 2016:

	Unrestricted board-designated	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$ —	$ 5,530	$ 48,902	$ 54,432
Internally board-designated endowment funds	10,468	—	—	10,468
Total endowment funds	$ 10,468	$ 5,530	$ 48,902	$ 64,900

Endowment funds consist of the following at September 30, 2015:

	Unrestricted board-designated	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$ —	$ 4,602	$ 47,768	$ 52,370
Internally board-designated endowment funds	11,321	—	—	11,321
Total endowment funds	$ 11,321	$ 4,602	$ 47,768	$ 63,691

(In thousands)

(5) Investments (continued)

Endowments (continued)

Changes in endowment funds for the year ended September 30, 2016 are as follows:

	Unrestricted board-designated	Temporarily restricted	Permanently restricted	Total
Endowment funds, October 1, 2015	$ 11,321	$ 4,602	$ 47,768	$ 63,691
Interest and dividend income	204	55	—	259
Net realized and unrealized gains	358	176	1,134	1,668
Cash gifts, grants, and bequests	—	5,869	—	5,869
Transfers from Bradley Hospital Foundation	—	1,037	—	1,037
Net assets released from restrictions	—	(6,209)	—	(6,209)
Deposits	585	—	—	585
Withdrawals	(2,000)	—	—	(2,000)
Endowment funds, September 30, 2016	$ 10,468	$ 5,530	$ 48,902	$ 64,900

Changes in endowment funds for the year ended September 30, 2015 are as follows:

	Unrestricted board-designated	Temporarily restricted	Permanently restricted	Total
Endowment funds, October 1, 2014	$ 12,937	$ 5,732	$ 50,329	$ 68,998
Interest and dividend income	143	31	—	174
Net realized and unrealized losses	(344)	(96)	(2,561)	(3,001)
Cash gifts, grants, and bequests	—	4,856	—	4,856
Transfers from Bradley Hospital Foundation	—	996	—	996
Net assets released from restrictions	—	(6,917)	—	(6,917)
Deposits	585	—	—	585
Withdrawals	(2,000)	—	—	(2,000)
Endowment funds, September 30, 2015	$ 11,321	$ 4,602	$ 47,768	$ 63,691

(5) Investments (continued)

Endowments (continued)

(a) Return Objectives and Risk Parameters

Lifespan has adopted investment policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets, including both donor-restricted funds and unrestricted board-designated funds. Under this policy, as approved by Lifespan, the endowment assets are invested in a manner that is intended to produce results that exceed the total benchmark return while assuming a moderate level of investment risk. The Hospital expects its endowment funds, over a full market cycle, to provide an average annual real rate of return of approximately 5% plus inflation annually. Actual returns in any given year or period of years may vary from this amount.

(b) Strategies Employed for Achieving Objectives

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

(c) Spending Policy

The Hospital receives support from The Helen Bradley Trust and The George L. Bradley Trust (the Trusts), which were established under the wills of the late Helen and George L. Bradley. As of September 30, 2016 and 2015, the market value of the Trusts was $30,372 and $29,238, respectively (not including land). As a result of a court order in 2007, the Trusts were authorized to make annual distributions to the Hospital based on the trailing twelve-quarter average fair market value of the Trusts' investment assets in amounts equal to 7% of the average market value of the Trusts in 2007, decreasing by one-quarter of one percent per year to 4.5% in 2017.

(6) Assets Held in Trust

The Hospital is a beneficiary of two irrevocable trusts (see note 5(c) above). The fair market value of these investments at September 30, 2016 and 2015 was $48,872 and $47,738, respectively, and is reported as permanently restricted funds within assets limited as to use in the consolidated statements of financial position.

(In thousands)

(7) Property and Equipment

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

	2016	2015
Land and improvements	$ 1,025	$ 1,023
Buildings and improvements	55,344	51,985
Equipment	19,341	18,710
	75,710	71,718
Less accumulated depreciation and amortization	31,656	28,890
	44,054	42,828
Construction in progress	444	2,659
Property and equipment, net	$ 44,498	$ 45,487

Depreciation and amortization expense for the years ended September 30, 2016 and 2015 amounted to $2,886 and $2,518, respectively.

The land and the original Laufer Building in East Providence, Rhode Island where the Hospital is located are assets of the irrevocable trust established under the terms of the will of the late George L. Bradley, and are therefore not included within the Hospital's property and equipment, but rather are included in assets held in trust (see note 6).

The estimated cost of completion of construction in progress approximated $600 at September 30, 2016, comprised of various projects. In addition, the Hospital has building renovation projects pending contractual commitments with an estimated cost of completion of approximately $200.

(8) Pension Benefits

Pension Benefits

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

(In thousands)

(8) Pension Benefits (continued)

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

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

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 unrestricted net assets. 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, 2016 and 2015 funded-status amounts for the Hospital's portion of the Plan, the Hospital recorded decreases in unrestricted net assets of $1,734 and $673 in 2016 and 2015, respectively.

The estimated amounts that will be amortized from unrestricted net assets into net periodic pension cost in 2017 are as follows:

Net actuarial loss	$	706
Prior service cost		11
	$	717

(In thousands)

(8) Pension Benefits (continued)

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

	2016	2015
Change in projected benefit obligation:		
Projected benefit obligation at beginning of year	$ 697,447	$ 664,768
Service cost	24,869	24,945
Interest cost	27,606	31,413
Actuarial loss	69,601	3,875
Benefits paid	(35,456)	(27,554)
Projected benefit obligation at end of year	$ 784,067	$ 697,447

The accumulated benefit obligation at the end of 2016 and 2015 was $708,237 and $625,251, respectively.

	2016	2015
Change in plan assets:		
Fair value of plan assets at beginning of year	$ 443,024	$ 448,213
Actual return on plan assets	32,711	(12,843)
Employer contributions	42,283	35,208
Benefits paid	(35,456)	(27,554)
Fair value of plan assets at end of year	$ 482,562	$ 443,024

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

	2016	2015
Funded status, end of year:		
Fair value of plan assets	$ 482,562	$ 443,024
Projected benefit obligation	784,067	697,447
Accrued pension liability	$ (301,505)	$ (254,423)

(In thousands)

(8) Pension Benefits (continued)

Amounts recognized in the Hospital's consolidated statements of financial position at September 30, 2016 and 2015 are as follows:

	2016	2015
Accrued pension liability	$ 12,313	$ 10,844

	2016	2015
Amounts not yet reflected in Lifespan's net periodic pension cost and included in unrestricted net assets:		
Prior service benefit	$ 2,840	$ 3,383
Accumulated net actuarial loss	(260,136)	(211,560)
Amounts not yet recognized as a component of net periodic pension cost	(257,296)	(208,177)
Accumulated net periodic pension cost in excess of employer contributions	(44,209)	(46,246)
Net amount recognized by Lifespan	$ (301,505)	$ (254,423)

	2016	2015
Sources of change in Hospital's unrestricted net assets:		
Net loss arising during the year	$ (2,230)	$ (1,136)
Amortizations:		
Net actuarial loss	495	451
Prior service cost	1	12
Total unrestricted net asset loss recognized during the year	$ (1,734)	$ (673)

(In thousands)

(8) Pension Benefits (continued)

Net Periodic Pension Cost

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

	2016	2015
Service cost	$ 24,869	$ 24,945
Interest cost	27,606	31,413
Expected return on plan assets	(26,964)	(31,210)
Amortization of net actuarial loss	15,277	12,885
Amortization of prior service benefit	(543)	(541)
Net periodic pension cost for Lifespan	$ 40,245	$ 37,492
Net periodic pension cost for the Hospital	$ 1,846	$ 1,920

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

	2016	2015
Discount rate for benefit obligations	3.62%	4.38%
Discount rate for net periodic pension cost	4.38%	4.33%
Rate of compensation increase	4.50%	4.50%
Expected long-term rate of return on Plan assets	7.25%	7.50%

(In thousands)

(8) Pension Benefits (continued)

The asset allocation for the Plan at September 30, 2016 and 2015, and the target allocation for 2017, by asset category, are as follows:

Asset category	Target allocation 2017	Percentage of plan assets September 30 2016	2015
U.S. equities	22.0%	18.6%	20.0%
Marketable securities	20.0%	21.6	22.1
International equities	22.0%	22.6	20.3
Venture capital	—	0.4	0.6
Commodities	2.7%	2.6	2.8
Real estate	1.3%	1.4	1.3
Fixed income	30.0%	30.2	30.4
Cash and cash equivalents	2.0%	2.6	2.5
Total		100.0%	100.0%

The asset allocation table above does not include $107,278 and $103,593 of Plan assets at September 30, 2016 and 2015, respectively, attributable to the separate 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 will also be 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. This estimate is primarily driven by actual historical asset-class returns along with our long-term outlook for a globally diversified portfolio. Asset allocations are regularly reviewed, and if necessary, updated based on evaluations of future market returns for each asset class.

(In thousands)

(8) Pension Benefits (continued)

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, 2016 and 2015, as well as related strategy and liquidity/notice requirements:

	2016			Redemption	Days'
	Level 1	Level 2	Total	or liquidation	notice
U.S. equities:					
Mid-cap value	$ 16,598	$ —	$ 16,598	Daily	One
Large cap growth	40,346	—	40,346	Daily	One
International equities:					
Developed markets	23,019	30,193	53,212	Daily - Monthly	One - Thirty-one
Commodities:					
Energy	4,404	—	4,404	Daily	One
Various	4,660	—	4,660	Daily	One
Real estate	—	4,227	4,227	Monthly	Sixteen
Fixed income:					
U.S. Treasuries	40,852	—	40,852	Daily	One
U.S. Government and agency	—	982	982	Daily	One
Domestic bonds	—	68,623	68,623	Daily	One
Cash and cash equivalents	13,122	—	13,122	Daily	One
Fidelity mutual funds	107,278	—	107,278	Daily	One
Total	$ 250,279	$ 104,025	$ 354,304		

	2015			Redemption	Days'
	Level 1	Level 2	Total	or liquidation	notice
U.S. equities:					
Large cap value	$ 5,461	$ —	$ 5,461	Daily	One
Mid-cap value	15,258	—	15,258	Daily	One
Large cap growth	37,829	—	37,829	Daily	One
International equities:					
Developed markets	16,919	10,371	27,290	Daily - Monthly	One - Five
Commodities:					
Energy	3,249	—	3,249	Daily	One
Various	5,206	—	5,206	Daily	One
Real estate	—	3,701	3,701	Monthly	Fifteen
Fixed income:					
U.S. Treasuries	23,228	—	23,228	Daily	One
U.S. Government and agency	—	906	906	Daily	One
Domestic bonds	—	78,195	78,195	Daily	One
Cash and cash equivalents	7,696	—	7,696	Daily	One
Fidelity mutual funds	103,593	—	103,593	Daily	One
Total	$ 218,439	$ 93,173	$ 311,612		

There were no transfers between Level 1 and Level 2 fair value measurements during the years ended September 30, 2016 and 2015.

(In thousands)

(8) Pension Benefits (continued)

The following tables reconcile NAV-measured Plan investments to the total fair value of Plan assets as of September 30, 2016 and 2015.

	2016	Redemption or liquidation	Days' notice
Marketable alternatives:			
Multiple strategies	$ 10,474	Quarterly	Sixty - Ninety
Long-short equity	5,903	Monthly	Sixty
Absolute return strategies	65,192	Semi-monthly - Illiquid	Five - N/A
International equities:			
Developed markets	17,817	Monthly	Ten
Emerging markets	26,029	Monthly	Ten - Twenty
Venture capital	2,843	Illiquid	N/A
Total Plan investments measured at NAV	128,258		
All other Plan investments	354,304		
Total fair value of Plan assets	$ 482,562		

	2015	Redemption or liquidation	Days' notice
Marketable alternatives:			
Multiple strategies	$ 16,479	Quarterly - Annually	Sixty - Ninety-five
Long-short equity	5,250	Monthly	Sixty
Absolute return strategies	54,685	Semi-monthly - Illiquid	Five - N/A
International equities:			
Developed markets	27,131	Monthly	Ten - Thirty-one
Emerging markets	23,955	Monthly	Ten
Venture capital	3,912	Illiquid	N/A
Total Plan investments measured at NAV	131,412		
All other Plan investments	311,612		
Total fair value of Plan assets	$ 443,024		

(In thousands)

(8) Pension Benefits (continued)

Expected Cash Flows

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

Employer contributions:		
2017 (required for Lifespan)	$	53,120
2017 (required for the Hospital)		2,572
Expected benefit payments:		
2017	$	53,101
2018		41,302
2019		38,182
2020		39,906
2021		41,858
2022 through 2026		231,790

Management evaluates its Plan assumptions annually and the expected employer contributions in 2017 could increase.

(9) Patient Service Revenue and Related Reimbursement

The Hospital recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for charity care, the Hospital recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). The following is an approximate percentage breakdown of gross patient service revenue by payor type for the years ended September 30:

	2016	2015
Medicaid and RIte Care	58%	61%
Blue Cross	21	18
Managed care	14	15
All other	7	6
	100%	100%

The Hospital grants credit to patients, most of whom are local residents. The Hospital generally does not require collateral or other security in extending credit to patients; however, it routinely obtains assignment of (or is otherwise entitled to receive) patients' benefits payable under their health insurance programs, plans, or policies (e.g., Medicaid, Blue Cross, or managed care policies). On the basis of historical experience, a significant portion of the Hospital's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Hospital records a significant provision for bad debts related to uninsured patients in the period the services are provided.

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

Through 2010, regulations in effect required annual settlements based upon cost reports filed by the Hospital. These settlements are estimated and recorded in the accompanying consolidated financial statements. Changes in these estimates are reflected in the consolidated financial statements in the year in which they occur. Net patient service revenue in the accompanying consolidated statements of operations and changes in net assets was increased by $1,000 in 2015 to reflect changes in the estimated settlements for certain prior years.

Revenues from Medicaid programs accounted for approximately 58% of the Hospital's gross patient service revenue for the year ended September 30, 2016. Laws and regulations governing Medicaid programs are complex and subject to interpretation. The Hospital believes that it is in compliance with all applicable laws and regulations. Compliance with laws and regulations can be subject to future government review and interpretation as well as significant regulatory action; failure to comply with such laws and regulations can result in fines, penalties, and exclusion from Medicaid programs.

(10) Income Tax Status

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

The Hospital 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. The Hospital did not recognize the effect of any income tax positions in either 2016 or 2015.

(Continued)

(In thousands)

(11) Long-Term Debt

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

	2016	2015
Hospital Financing Revenue fixed rate serial and term bonds due May 15, 2017 through 2039 in annual amounts ranging from $6,540 to $42,920 at rates ranging from 4% to 5% (2016 Series – Lifespan Obligated Group)	$ 20,707	$ —
Hospital Financing Revenue fixed rate serial and term bonds due May 15, 2027 through 2039 in annual amounts ranging from $1,870 to $7,900 at rates ranging from 6.125% to 7% (2009A Series – Lifespan Obligated Group)	—	22,997
Master lease and loan and security agreement due December 14, 2016 through 2020 in semiannual amounts ranging from $3,555 to $3,766 at 1.66% (the 2013 Financing)	1,669	2,069
Unamortized premium – 2016 Series	3,287	—
Unamortized premium – 2009A Series	—	31
	25,663	25,097
Less current portion	1,555	400
Long-term debt, net of current portion	$ 24,108	$ 24,697

The estimated fair value of the Hospital's long-term debt at September 30, 2016 and 2015 approximates $23,000 and $27,000, respectively, and is estimated using discounted cash flow analyses, based on the Hospital's current incremental borrowing rates for similar types of borrowing arrangements. The fair value of long-term debt is based on significant observable inputs and is categorized as Level 2 for purposes of valuation disclosure.

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 the Hospital, RIH, TMH, Rhode Island Hospital Foundation (RIHF) and The Miriam Hospital Foundation (TMHF), $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%. The purpose of the 2016 Bonds was to refund $49,450 and $129,185 of the OG's 1996 Bonds and 2006 Bonds, respectively, and advance refund $114,985 of the OG's 2009 Bonds. These 2016 Hospital Financing Revenue Refunding Bonds are secured by a pledge of gross receipts of the Hospital, RIH, and TMH (the Obligated Group Hospitals) and by mortgage liens on RIH's and TMH's real property and all buildings,

(In thousands)

(11) Long-Term Debt (continued)

structures and improvements thereon. The OG is jointly and severally liable for repayment of the 2016 Bonds, recorded directly by the Obligated Group Hospitals as follows:

The Hospital	$	20,707
RIH		195,651
TMH		49,112
Total	$	265,470

Under the terms of the 2016 Bonds, the Obligated Group Hospitals are required to satisfy certain measures of financial performance as long as the bonds are outstanding. At September 30, 2016, management believes the Obligated Group Hospitals were in compliance with all covenants of the 2016 Bonds, including the requirement that the Obligated Group Hospitals maintain a Debt Service Coverage Ratio (DSCR) of 1.1x or higher. The DSCR is 2.66x for the year ended September 30, 2016, compared to 2.49x for the year ended September 30, 2015.

On June 14, 2013, the Hospital, RIH, and TMH entered into a tax-exempt $50,000 master lease and loan and security agreement (the 2013 Financing) with a seven-year term, to partially fund the capital costs associated with Lifespan’s multi-year information systems conversion project. The 2013 Financing is secured by a first priority lien and security interest on the equipment (excluding intellectual property), goods, and other property financed with the proceeds of the 2013 Financing. The Hospital, RIH, and TMH are jointly and severally liable for repayment of the 2013 Financing.

On July 8, 2008, the Board of Directors of Lifespan Corporation, acting as the sole corporate member of the Hospital, adopted a resolution authorizing the Hospital to become a member of the OG. The Hospital’s Board of Trustees, as well as the Boards of RIH and TMH, also authorized related resolutions.

On March 30, 2009, RIHEBC issued, on behalf of the OG, $114,985 of tax-exempt bonds (the 2009A Bonds) for the purposes of financing the acquisition, construction, renovation, expansion and equipping of certain hospital and related health care facilities owned and operated by the Obligated Group Hospitals, including the expansion, construction, renovation, equipping and furnishing of a two-story addition to the Hospital’s existing building and the renovation of vacated space in the existing building.

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

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

(In thousands)

(11) Long-Term Debt (continued)

The Hospital's aggregate maturities of long-term debt for the five fiscal years ending in September 2021 are as follows: 2017, $1,555; 2018, $1,371; 2019, $1,425; 2020, $1,483; and 2021, $1,108.

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

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

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

The balances of the Hospital's funds at September 30 are summarized as follows:

	2016	2015
Project Fund – 2016 Series	$ 10	$ —
Debt Service Reserve Fund – 2009A Series	1	2,300
Total	$ 11	$ 2,300

(12) Revolving Credit Loan Payable

The members of the Lifespan Obligated Group (OG) entered into a credit agreement, dated April 22, 2015 and amended April 20, 2016, with Citizens Bank, N.A. for a line of credit facility up to a maximum principal amount of $40,000 to finance working capital requirements. The principal outstanding bears interest per annum at 1.5% above the LIBOR Advantage rate. Interest is payable monthly and all outstanding principal and any accrued and unpaid interest is due on the maturity date of April 19, 2017. At September 30, 2016 and 2015, there was $1,000 and $2,000 outstanding under the facility at interest rates per annum of 2.031% and 1.704%, respectively. The OG is required to comply with various affirmative and negative covenants as well as maintain certain financial targets and ratios during the term of the line of credit. At September 30, 2016, the OG was in compliance with all of the associated covenants.

(In thousands)

(13) Temporarily and Permanently Restricted Net Assets

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

		2016		2015
Research	$	3,662	$	3,363
General health care service activities		2,368		1,792
Interest in net assets of Bradley Hospital Foundation (BHF)		867		108
Total	$	6,897	$	5,263

Permanently restricted net assets at September 30 are restricted to:

		2016		2015
General health care service activities	$	48,932	$	47,798

Annual distributions from permanently restricted investments held in two irrevocable trusts (see notes 5(c) and 6) are expendable to support Hospital operations.

(14) Leases

The Hospital leases building space and equipment under various noncancelable operating lease agreements. Future minimum lease payments, by year and in the aggregate, under noncancelable operating leases with terms of one year or more consist of the following at September 30, 2016:

		Amount
Year ending September 30:		
2017	$	1,105
2018		725
2019		520
2020		159
2021		121
Thereafter		998
Total minimum lease payments	$	3,628

Rental expense, including rentals under leases with terms of less than one year, for the years ended September 30, 2016 and 2015 was $1,354 and $1,288, respectively.

(15) Concentrations of Credit Risk

The Hospital maintains its cash accounts at various financial institutions. The Hospital has not experienced any losses in such accounts and evaluates the credit worthiness of the financial institutions with which it conducts business. The Hospital believes it is not exposed to significant credit risk with respect to its cash balances.

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

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

(16) Malpractice and Other Litigation

Professional Liability/Medical Malpractice and General Liability

Professional liability/medical malpractice coverage for the Hospital is supplied on a claims-made basis by Rhode Island Sound Enterprises Insurance Co. Ltd. (RISE), Lifespan's affiliated captive insurance company, which underwrites the medical malpractice risk of the Hospital. The adequacy of the coverage provided and the funding levels are reviewed annually by independent actuaries and consultants. The professional liability/medical malpractice insurance provided by RISE has liability limits of $4,000 per claim with no annual aggregate. RISE provides a second layer of coverage which has limits of an additional $2,000 per claim with a $2,000 annual aggregate. In addition, commercial umbrella excess insurance has been obtained by Lifespan to increase the professional liability limits to $32,000 per claim.

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

General liability coverage is provided to the Hospital by RISE amounting to $2,000 per claim and $4,000 in the annual aggregate. Commercial excess liability insurance has been obtained by Lifespan which provides aggregate general liability coverage of $80,000.

Workers' Compensation

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

(In thousands)

(16) Malpractice and Other Litigation (continued)

Other Litigation

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

(17) Related-Party Transactions

The Hospital was charged a management fee by Lifespan of $8,260 and $9,026 in 2016 and 2015, respectively. Lifespan provides information services, human resources, financial, and various other support services to the Hospital.

The Hospital provides the funding for 50% of Bradley Hospital Foundation's (BHF) general fundraising expenses. Such support amounted to $217 and $194 for the years ended September 30, 2016 and 2015, respectively.

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

	2016	2015
Other receivables:		
RIH	$ —	$ 73
TMH	—	54
Lifespan	72	—
BHF	—	15
Total	$ 72	$ 142
Other accrued expenses:		
Lifespan Physician Group, Inc.	$ (1,190)	$ (1,187)
Lifespan	—	(456)
Gateway Healthcare, Inc.	(25)	(31)
TMH	(22)	
RIH	(7)	—
BHF	(1)	—
Total	$ (1,245)	$ (1,674)

During the years ended September 30, 2016 and 2015, the Hospital received temporarily restricted net asset transfers from BHF amounting to $1,037 and $996, respectively.

(In thousands)

(17) Related-Party Transactions (continued)

BHF, whose sole corporate member is Lifespan Corporation, was established to engage in philanthropic activities to support the mission and purposes of Lifespan and the Hospital. Funds are distributed to the Hospital upon collection for use in conformity with purpose restrictions stipulated by donors. A summary of BHF's assets, liabilities, net assets, excess of revenues over expenses, and changes in net assets follows. The Hospital's interest in the net assets of BHF is reported as a noncurrent asset in the consolidated statements of financial position.

	2016	2015
Assets, principally assets limited as to use	$ 1,358	$ 489
Liabilities	$ 56	$ 46
Unrestricted net assets	435	335
Temporarily restricted net assets	867	108
Total liabilities and net assets	$ 1,358	$ 489
Total unrestricted revenues, gains and other support	$ 549	$ 468
Total expenses	450	396
Excess of revenues over expenses	99	72
Other increases (decreases) in unrestricted net assets	1	(18)
Unrestricted net assets, beginning of year	335	281
Unrestricted net assets end of year	$ 435	$ 335
Increase in temporarily restricted net assets	$ 759	$ 36
Temporarily restricted net assets, beginning of year	108	72
Temporarily restricted net assets, end of year	$ 867	$ 108

(In thousands)

(18) Functional Expenses

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

		2016		2015
Health care services	$	67,615	$	65,996
Research		5,920		5,736
General and administrative:				
Depreciation and amortization		2,886		2,518
Interest		1,499		1,625
Other		8,398		9,119
Total general and administrative		12,783		13,262
	$	86,318	$	84,994

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Independent Auditors' Report on Supplementary Information

The Board of Trustees
Emma Pendleton Bradley Hospital:

We have audited the consolidated financial statements of Emma Pendleton Bradley Hospital and Affiliate as of and for the years ended September 30, 2016 and 2015, and have issued our report thereon dated February 23, 2017 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 consolidating financial information is presented for purposes of additional analysis 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 auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole.

KPMG LLP

Providence, Rhode Island
February 23, 2017

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EMMA PENDLETON BRADLEY HOSPITAL AND AFFILIATE

Supplementary Consolidating Statements of Financial Position

September 30, 2016 and 2015

(In thousands)

	2016				2015			
Assets	**Emma Pendleton Bradley Hospital**	**Lifespan School Solutions, Inc.**	**Eliminations**	**Consolidated Total**	**Emma Pendleton Bradley Hospital**	**Lifespan School Solutions, Inc.**	**Eliminations**	**Consolidated Total**
Current assets:								
Cash and cash equivalents	$ 2,248	$ 40	$ —	$ 2,288	$ 2,069	$ 9	$ —	$ 2,078
Patient accounts receivable	9,021	—	—	9,021	10,521	—	—	10,521
Less allowance for doubtful accounts	(1,722)	—	—	(1,722)	(907)	—	—	(907)
Net patient accounts receivable	7,299	—	—	7,299	9,614	—	—	9,614
Other receivables	2,813	2,951	(1,556)	4,208	1,116	2,789	(57)	3,848
Total receivables	10,112	2,951	(1,556)	11,507	10,730	2,789	(57)	13,462
Inventories	176	—	—	176	195	—	—	195
Prepaid expenses and other current assets	7	105	—	112	10	35	—	45
Total current assets	12,543	3,096	(1,556)	14,083	13,004	2,833	(57)	15,780
Interest in net assets of Bradley Hospital Foundation	1,302	—	—	1,302	443	—	—	443
Assets limited as to use	64,911	—	—	64,911	65,991	—	—	65,991
Property and equipment, net	39,471	5,027	—	44,498	41,488	3,999	—	45,487
Other assets:								
Deferred charges and financing costs, net	178	—	—	178	572	—	—	572
Other noncurrent assets	71	—	—	71	78	—	—	78
Total other assets	249	—	—	249	650	—	—	650
Total assets	$ 118,476	$ 8,123	$ (1,556)	$ 125,043	$ 121,576	$ 6,832	$ (57)	$ 128,351

See accompanying independent auditors' report on supplementary information.

(Continued)

EMMA PENDLETON BRADLEY HOSPITAL AND AFFILIATE

Supplementary Consolidating Statements of Financial Position (Continued)

September 30, 2016 and 2015

(In thousands)

Liabilities and Net Assets	2016 Emma Pendleton Bradley Hospital	2016 Lifespan School Solutions, Inc.	2016 Eliminations	2016 Consolidated Total	2015 Emma Pendleton Bradley Hospital	2015 Lifespan School Solutions, Inc.	2015 Eliminations	2015 Consolidated Total
Current liabilities:								
Accounts payable	$ 748	$ 452	$ —	$ 1,200	$ 1,949	$ 194	$ —	$ 2,143
Accrued employee benefits and compensation	2,159	320	—	2,479	3,048	629	—	3,677
Other accrued expenses	1,787	1,598	(1,556)	1,829	2,476	79	(57)	2,498
Revolving credit loan payable	1,000	—	—	1,000	2,000	—	—	2,000
Current portion of long-term debt	1,555	—	—	1,555	400	—	—	400
Current portion of estimated third-party payor settlements	405	—	—	405	—	—	—	—
Estimated health care benefit self-insurance costs	694	278	—	972	591	239	—	830
Total current liabilities	8,348	2,648	(1,556)	9,440	10,464	1,141	(57)	11,548
Long-term debt, net of current portion	24,108	—	—	24,108	24,697	—	—	24,697
Estimated third-party payor settlements, net of current portion	75	—	—	75	75	—	—	75
Accrued pension liability	9,691	2,622	—	12,313	8,664	2,180	—	10,844
Other liabilities	97	—	—	97	88	—	—	88
Total liabilities	42,319	5,270	(1,556)	46,033	43,988	3,321	(57)	47,252
Net assets:								
Unrestricted	20,328	2,853	—	23,181	24,527	3,511	—	28,038
Temporarily restricted	6,897	—	—	6,897	5,263	—	—	5,263
Permanently restricted	48,932	—	—	48,932	47,798	—	—	47,798
Total net assets	76,157	2,853	—	79,010	77,588	3,511	—	81,099
Total liabilities and net assets	$ 118,476	$ 8,123	$ (1,556)	$ 125,043	$ 121,576	$ 6,832	$ (57)	$ 128,351

See accompanying independent auditors' report on supplementary information.

EMMA PENDLETON BRADLEY HOSPITAL AND AFFILIATE
Supplementary Consolidating Statements of Operations and Changes in Net Assets
Years ended September 30, 2016 and 2015
(In thousands)

	2016				2015			
	Emma Pendleton Bradley Hospital	**Lifespan School Solutions, Inc.**	**Eliminations**	**Consolidated Total**	**Emma Pendleton Bradley Hospital**	**Lifespan School Solutions, Inc.**	**Eliminations**	**Consolidated Total**
Unrestricted revenues and other support:								
Patient service revenue, net of contractual allowances	$ 58,376	$ —	$ —	$ 58,376	$ 55,600	$ —	$ —	$ 55,600
Provision for bad debts	(1,316)	—	—	(1,316)	(1,082)	—	—	(1,082)
Net patient service revenue	57,060	—	—	57,060	54,518	—	—	54,518
Other revenue	2,982	20,253	(1,662)	21,573	4,553	21,893	(2,585)	23,861
Endowment earnings contributed toward community benefit	1,467	—	—	1,467	1,484	—	—	1,484
Net assets released from restrictions used for operations	779	—	—	779	493	—	—	493
Net assets released from restrictions used for research	5,179	—	—	5,179	4,807	—	—	4,807
Total unrestricted revenues and other support	67,467	20,253	(1,662)	86,058	65,855	21,893	(2,585)	85,163
Operating expenses:								
Compensation and benefits	48,356	16,067	—	64,423	46,005	16,733	—	62,738
Supplies and other expenses	6,179	3,327	(1,662)	7,844	6,216	4,315	(2,585)	7,946
Purchased services	9,075	591	—	9,666	9,537	630	—	10,167
Depreciation and amortization	2,618	268	—	2,886	2,303	215	—	2,518
Interest	1,499	—	—	1,499	1,625	—	—	1,625
Total operating expenses	67,727	20,253	(1,662)	86,318	65,686	21,893	(2,585)	84,994
(Loss) income from operations	(260)	—	—	(260)	169	—	—	169
Nonoperating gains and losses:								
Net realized gains on board-designated investments	41	—	—	41	373	—	—	373
Loss on advance refunding of debt	(3,294)	—	—	(3,294)	—	—	—	—
Fundraising expenses	(217)	—	—	(217)	(194)	—	—	(194)
Other nonoperating (losses) gains	(61)	—	—	(61)	7	—	—	7
Total nonoperating (losses) gains. net	(3,531)	—	—	(3,531)	186	—	—	186
(Deficiency) excess of revenues over expenses	$ (3,791)	$ —	$ —	$ (3,791)	$ 355	$ —	$ —	$ 355

See accompanying independent auditors' report on supplementary information.

(Continued)

EMMA PENDLETON BRADLEY HOSPITAL AND AFFILIATE

Supplementary Consolidating Statements of Operations and Changes in Net Assets (Continued)

Years ended September 30, 2016 and 2015

(In thousands)

	2016				2015			
	Emma Pendleton Bradley Hospital	**Lifespan School Solutions, Inc.**	**Eliminations**	**Consolidated Total**	**Emma Pendleton Bradley Hospital**	**Lifespan School Solutions, Inc.**	**Eliminations**	**Consolidated Total**
Unrestricted net assets:								
(Deficiency) excess of revenues over expenses	$ (3,791)	$ —	$ —	$ (3,791)	$ 355	$ —	$ —	$ 355
Other changes in unrestricted net assets:								
Change in funded status of pension plan, other than net periodic pension cost	(1,076)	(658)	—	(1,734)	(711)	38	—	(673)
Net change in unrealized gains on investments available for sale	317	—	—	317	(717)	—	—	(717)
Net assets released from restrictions used for purchase of property and equipment	251	—	—	251	1,617	—	—	1,617
Increase in interest in net assets of Bradley Hospital Foundation	100	—	—	100	54	—	—	54
(Decrease) increase in unrestricted net assets	(4,199)	(658)	—	(4,857)	598	38	—	636
Temporarily restricted net assets:								
Gifts, grants, and bequests	5,816	—	—	5,816	4,759	—	—	4,759
Income from restricted investments	55	—	—	55	31	—	—	31
Increase in interest in net assets of Bradley Hospital Foundation	759	—	—	759	36	—	—	36
Transfers from Bradley Hospital Foundation	1,037	—	—	1,037	996	—	—	996
Net assets released from restrictions	(6,209)	—	—	(6,209)	(6,917)	—	—	(6,917)
Net realized and unrealized gains (losses) on investments	176	—	—	176	(96)	—	—	(96)
Increase (decrease) in temporarily restricted net assets	1,634	—	—	1,634	(1,191)	—	—	(1,191)
Permanently restricted net assets:								
Net change in unrealized gains on investments held in perpetual trusts by others	1,134	—	—	1,134	(2,561)	—	—	(2,561)
Increase (decrease) in permanently restricted net assets	1,134	—	—	1,134	(2,561)	—	—	(2,561)
(Decrease) increase in net assets	(1,431)	(658)	—	(2,089)	(3,154)	38	—	(3,116)
Net assets, beginning of year	77,588	3,511	—	81,099	80,742	3,473	—	84,215
Net assets, end of year	$ 76,157	$ 2,853	$ —	$ 79,010	$ 77,588	$ 3,511	$ —	$ 81,099

See accompanying independent auditors' report on supplementary information.