THE MIRIAM HOSPITAL

Financial Statements

September 30, 2016 and 2015

(With Independent Auditors' Report Thereon)

THE MIRIAM HOSPITAL

Financial Statements

September 30, 2016 and 2015

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KPMG LLP
6th Floor, Suite A
100 Westminster Street
Providence, RI 02903-2321

Independent Auditors' Report

The Board of Trustees
The Miriam Hospital:

We have audited the accompanying financial statements of The Miriam Hospital, which comprise the statements of financial position as of September 30, 2016 and 2015, and the related statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of The Miriam Hospital as of September 30, 2016 and 2015, and the results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP

Providence, Rhode Island
February 23, 2017

THE MIRIAM HOSPITAL

Statements of Financial Position

September 30, 2016 and 2015

(In thousands)

Assets	2016	2015
Current assets:		
Cash and cash equivalents	$ 41,923	$ 35,570
Patient accounts receivable	49,225	45,246
Less allowance for doubtful accounts	(11,590)	(12,322)
Net patient accounts receivable	37,635	32,924
Other receivables	4,156	3,415
Total receivables	41,791	36,339
Assets limited as to use	—	155
Inventories	4,296	5,359
Prepaid expenses and other current assets	176	168
Total current assets	88,186	77,591
Interest in net assets of The Miriam Hospital Foundation	55,944	56,581
Assets limited as to use	130,180	129,635
Less amount required to meet current obligations	—	(155)
Noncurrent assets limited as to use	130,180	129,480
Property and equipment, net	189,822	194,050
Other assets:		
Deferred financing costs, net	427	1,124
Other noncurrent assets	232	303
Total other assets	659	1,427
Total assets	$ 464,791	$ 459,129

Liabilities and Net Assets	2016	2015
Current liabilities:		
Accounts payable	$ 14,980	$ 17,941
Accrued employee benefits and compensation	15,660	14,260
Other accrued expenses	5,378	5,022
Current portion of long-term debt	4,393	3,956
Current portion of estimated third-party payor settlements	3,393	789
Estimated health care benefit self-insurance costs	3,427	2,876
Total current liabilities	47,231	44,844
Long-term debt, net of current portion	59,367	61,845
Estimated third-party payor settlements, net of current portion	3,327	3,327
Accrued pension liability	41,161	34,518
Other liabilities	310	473
Total liabilities	151,396	145,007
Net assets:		
Unrestricted	265,951	267,553
Temporarily restricted	27,538	26,870
Permanently restricted	19,906	19,699
Total net assets	313,395	314,122
Total liabilities and net assets	$ 464,791	$ 459,129

See accompanying notes to financial statements.

THE MIRIAM HOSPITAL

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	$ 406,520	$ 398,638
Provision for bad debts	(11,816)	(15,363)
Net patient service revenue	394,704	383,275
Other revenue	16,517	20,601
Endowment earnings contributed toward community benefit	4,042	3,897
Net assets released from restrictions used for operations	1,931	1,532
Net assets released from restrictions used for research	22,289	23,192
Total unrestricted revenues and other support	439,483	432,497
Operating expenses:		
Compensation and benefits	226,718	223,661
Supplies and other expenses	107,752	102,132
Purchased services	57,212	53,876
Depreciation and amortization	16,348	14,668
Interest	3,029	3,337
License fees	21,215	21,067
Total operating expenses	432,274	418,741
Income from operations	7,209	13,756
Nonoperating gains and losses:		
Net realized (losses) gains on board-designated investments	(1,773)	106
Loss on advance refunding of debt	(3,897)	—
Other nonoperating gains (losses), net	24	(124)
Total nonoperating losses, net	(5,646)	(18)
Excess of revenues over expenses	$ 1,563	$ 13,738

(Continued)

THE MIRIAM HOSPITAL

Statements of Operations and Changes in Net Assets (Continued)

Years ended September 30, 2016 and 2015

(In thousands)

	2016	2015
Unrestricted net assets:		
Excess of revenues over expenses	$ 1,563	$ 13,738
Other changes in unrestricted net assets:		
Change in funded status of pension and other postretirement plans, other than net periodic pension and postretirement benefit costs	(7,203)	(3,386)
Net change in unrealized gains on investments available for sale	2,928	(6,085)
Net assets released from restrictions used for purchase of property and equipment	1,502	1,664
Decrease in interest in net assets of The Miriam Hospital Foundation	(392)	(2,044)
(Decrease) increase in unrestricted net assets	(1,602)	3,887
Temporarily restricted net assets:		
Gifts, grants, and bequests	23,280	24,787
Income from restricted investments	239	108
Decrease in interest in net assets of The Miriam Hospital Foundation	(452)	(1,880)
Transfers from The Miriam Hospital Foundation	2,414	2,615
Transfers from Newport Hospital	—	54
Net assets released from restrictions	(25,722)	(26,388)
Net realized and unrealized gains (losses) on investments	909	(502)
Increase (decrease) in temporarily restricted net assets	668	(1,206)
Permanently restricted net assets:		
Increase in interest in net assets of The Miriam Hospital Foundation	207	130
(Decrease) increase in net assets	(727)	2,811
Net assets, beginning of year	314,122	311,311
Net assets, end of year	$ 313,395	$ 314,122

See accompanying notes to financial statements.

THE MIRIAM HOSPITAL

Statements of Cash Flows

Years ended September 30, 2016 and 2015

(In thousands)

		2016		2015
Cash flows from operating activities:				
(Decrease) increase in net assets	$	(727)	$	2,811
Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities:				
Change in funded status of pension and other postretirement plans, other than net periodic pension and postretirement benefit costs		7,203		3,386
Loss on advance refunding of debt		3,897		—
Net realized and unrealized (gains) losses on investments		(2,064)		6,481
Undistributed portion of change in interest in net assets of The Miriam Hospital Foundation		637		3,794
Transfers from The Miriam Hospital Foundation		(2,414)		(2,615)
Transfers from Newport Hospital		—		(54)
Depreciation and amortization		16,348		14,668
Provision for estimated health care benefit self-insurance costs		30,089		27,632
Decrease in liabilities for estimated health care benefit self-insurance costs resulting from claims paid		(29,538)		(27,030)
Net (increase) decrease in patient accounts receivable		(4,711)		9,137
(Decrease) increase in accounts payable		(2,961)		2,111
Increase in accrued employee benefits and compensation		1,400		54
Increase (decrease) in estimated third-party payor settlements		2,604		(5,366)
Increase in all other current and noncurrent assets and liabilities, net		162		1,899
Net cash provided by operating activities		19,925		36,908
Cash flows from investing activities:				
Purchase of property and equipment		(12,012)		(21,081)
Net decrease in funds held by third parties under long-term debt agreements		6,756		665
Other net increases in assets limited as to use		(5,237)		(5,008)
Net cash used in investing activities		(10,493)		(25,424)
Cash flows from financing activities:				
Proceeds from issuance of long-term debt		57,001		—
Payments to defease refunded bonds		(58,538)		—
Payments on long-term debt		(3,956)		(3,820)
Transfers from The Miriam Hospital Foundation		2,414		2,615
Transfers from Newport Hospital		—		54
Net cash used in financing activities		(3,079)		(1,151)
Net increase in cash and cash equivalents		6,353		10,333
Cash and cash equivalents, beginning of year		35,570		25,237
Cash and cash equivalents, end of year	$	41,923	$	35,570
Supplemental disclosure of cash flow information:				
Cash paid for interest	$	2,657	$	3,493

See accompanying notes to financial statements.

(In thousands)

(1) Description of Organization

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

Effective August 9, 1994, the Hospital and Rhode Island Hospital (RIH) of Providence, RI (719 beds) implemented a plan which included the creation of a not-for-profit parent company, Lifespan Corporation. Each hospital continues to maintain its own identity, as well as its own campus and its own name. Lifespan, the sole member of the Hospital and RIH, 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.

(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	$ 4,538	$ 4,776
Medical education, net	10,342	10,781
Research	3,174	3,894
Subsidized health services	11,416	11,167
Unreimbursed Medicaid costs	21,217	12,092
Community health improvement services and community benefit operations	405	494
Total	$ 51,092	$ 43,204

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

Charity Care

The Hospital provides full charity care for individuals at or below twice the federal poverty level, with a sliding scale for individuals 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 $4,538 and $4,776 in 2016 and 2015, respectively. Charges forgone, based on established rates, amounted to $16,568 and $17,771 in 2016 and 2015, respectively.

Medical Education

The Hospital provides the setting for and substantially supports medical education in various clinical training and nursing programs. The total cost of medical education provided by the Hospital exceeded the reimbursement received from third-party payors by $10,342 and $10,781 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 its Principal Teaching Hospital. The Hospital and EPBH 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 Brown programs in internal medicine and medicine subspecialties, general surgery and surgical subspecialties, psychiatry, emergency medicine and emergency medicine subspecialties, orthopedics and orthopedic subspecialties, and dermatology. The Hospital provides stipends to residents and physician fellows while in training.

In addition, the Hospital is a participating clinical training site for residents from other programs in anesthesiology, family medicine, hematology/oncology, obstetrics/gynecology (OB/Gyn) and OB/Gyn subspecialties, otolaryngology, pediatric dentistry, podiatry, psychiatry and its subspecialties of forensic psychiatry and geriatric psychiatry, orthopedics, rheumatology, and radiation oncology.

Various departments and specialties at the Hospital serve as clinical sites for the physician assistant schools of Johnson & Wales University, Bryant University, and the Massachusetts College of Pharmacy. In addition, Behavioral Medicine at the Hospital, in collaboration with Brown, sponsors research and clinical psychology training programs for interns, postdoctoral fellows, and faculty trainees.

With respect to nursing education, the Hospital has developed educational affiliations with the University of Rhode Island College of Nursing; Rhode Island College School of Nursing; Community College of Rhode Island (CCRI); Salve Regina University; Boston College; Yale University; Regis College; Simmons College; St. Joseph’s Health Services’ School of Nursing; the University of Massachusetts campuses at Dartmouth, Boston, Amherst, and Worcester; Framingham University; the University of Connecticut; The New England Institute of Technology; Northeastern University; Drexel University; Walden University; Georgetown University School of Nursing and Health Studies; Duke University School of Nursing; and the University of Pennsylvania, as well as other Schools of Nursing, pursuant to which their nursing students obtain clinical training and experience at the Hospital. The Hospital does not receive any compensation from the various

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

Medical Education (continued)

schools for providing a clinical setting for the student nurse training. The Hospital also serves as a clinical site for Medical Assistants.

The Lifespan School of Medical Imaging collaborates with Rhode Island College in the following programs: diagnostic medical sonography; nuclear medicine technology; radiologic technology; and magnetic resonance imaging. Students complete educational experiences at the Hospital, as well as other outpatient sites.

The Hospital sponsors training programs for a variety of allied health care professionals, including required clinical and fieldwork experiences in physical, speech, and occupational therapy, to university students in each discipline through contracts with the various universities. The Hospital acts as a clinical training site for students from CCRI in its vascular and cardiology ultrasound programs and provides training experiences for both phlebotomy students and physical therapy assistant students. The Hospital serves as a clinical training site for students from The Nuclear Medicine Institute of the University of Findlay (Ohio) and has educational affiliations with the respiratory programs at both CCRI and The New England Institute of Technology. The Hospital's EEG Department provides clinical training to neurodiagnostic technology students from Laboure College (Massachusetts).

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. In addition, the Hospital has clinical social work student contracts with Rhode Island College, Boston University, Boston College, Smith College, Simmons College, and Bridgewater State University.

Research

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

Federal support accounts for approximately 80% of all externally funded research at the Hospital. Researchers focus on clinical trials which investigate prevention and treatment of HIV/AIDS, obesity, cancer, diabetes, cardiac disease, and mental health concerns.

Subsidized Health Services

The Hospital substantially subsidizes various health services including the following programs: adult psychiatry, tuberculosis, and certain other specialty services.

 (Continued)

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

Unreimbursed Medicaid Costs

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

Community Health Improvement Services and Community Benefit Operations

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

(3) Summary of Significant Accounting Policies

(a) Basis of Presentation

The financial statements are prepared on the accrual basis of accounting.

The Hospital considers events and transactions that occur after the statement of financial position date, but before the financial statements are issued, to provide additional evidence relative to certain estimates or to identify matters that require additional disclosure. These financial statements were issued on February 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 financial statements and accompanying notes. Actual results could differ from those estimates.

(c) Cash and Cash Equivalents

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

(3) Summary of Significant Accounting Policies (continued)

(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 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.

(3) Summary of Significant Accounting Policies (continued)

(d) Investments and Investment Income (continued)

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 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 $1,806 and $9,083 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 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 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 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 excess of revenues over expenses.

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

(3) Summary of Significant Accounting Policies (continued)

(d) Investments and Investment Income (continued)

Investment income from funds held by third parties under long-term debt agreements is recorded as other revenue. The Hospital maintains a spending policy for certain of its board-designated funds which provides that investment income from such funds is recorded within unrestricted revenues as endowment earnings contributed toward community benefit.

(e) Assets Limited as to Use

Assets limited as to use primarily include designated assets set aside by the Hospital's Board for future capital improvements, over which the Board retains control and may at its discretion subsequently use for other purposes, and assets whose use by the Hospital has been limited by grantors or donors to a specific purpose, as well as assets held by third parties under long-term debt agreements. Amounts required to meet current liabilities of the Hospital are reported in current assets in the statements of financial position.

(f) Property and Equipment

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

Goodwill and intangible assets determined to have indefinite lives are not subject to amortization. Goodwill and indefinite-lived intangible assets are reviewed for impairment on an annual basis or more frequently if circumstances indicate a potential impairment exists or has occurred.

(i) 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.

(Continued)

(3) Summary of Significant Accounting Policies (continued)

(j) Excess of Revenues over Expenses

The statements of operations and changes in net assets include excess of revenues over expenses. Changes in unrestricted net assets which are excluded from excess of revenues over expenses, consistent with industry practice, include the change in the funded status of pension and other postretirement plans, the 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 The Miriam Hospital Foundation.

(k) Net Patient Service Revenue

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

Medicare 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 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. The Hospital has classified a portion of accrued estimated third-party payor settlements as long-term because such amounts, by their nature or by virtue of regulation or legislation, will not be paid within one year. Changes in the Medicare and Medicaid programs, such as the reduction of reimbursement, could have an adverse impact on the Hospital.

(3) Summary of Significant Accounting Policies (continued)

(l) 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 for self-pay patients increased from 74% of self-pay accounts receivable at September 30, 2015 to 76% of self-pay accounts receivable at September 30, 2016. The Hospital’s self-pay writeoffs for the years ended September 30, 2016 and 2015 amounted to $11,677 and $15,414, respectively. The Hospital did not change its charity care or uninsured discount policies during the years ended September 30, 2016 and 2015, respectively.

(m) 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).

(n) 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 statements of operations and changes in net assets as net assets released from restrictions.

(3) Summary of Significant Accounting Policies (continued)

(o) Inventories

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

(p) 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.

(q) Fair Value of Financial Instruments

The carrying amounts recorded in the statements of financial position for cash and cash equivalents, patient accounts receivable, assets limited as to use, accounts payable, accrued expenses, estimated third-party payor settlements, and estimated health care benefit self-insurance costs approximate their respective fair values. The estimated fair values of the Hospital's assets limited as to use, pension-related assets, and long-term debt are disclosed in notes 5, 7, and 10, respectively.

(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 $5,487 and $10,070 in 2016 and 2015, respectively, and are reflected as part of net patient service revenue in the accompanying 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.

(In thousands)

(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	$	109,502	$	103,727
Funds held by third parties under long-term debt agreements		25		6,782
Temporarily restricted funds		20,653		19,126
Total	$	130,180	$	129,635

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

		2016		2015
Available-for-sale	$	74,090	$	83,309
Trading		56,090		46,326
Total	$	130,180	$	129,635

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**	**Total**	**or liquidation**	**notice**
U.S. equities:					
Large cap value	$ 5,538	$ —	$ 5,538	Daily	One
Mid-cap value	7,339	—	7,339	Daily	One
Large cap growth	15,539	—	15,539	Daily	One
International equities:					
Developing markets	—	10,451	10,451	Monthly	Five - Thirty-one
Emerging markets	1,601	—	1,601	Daily	One
Commodities:					
Energy	2,456	—	2,456	Daily	One
Various	1,890	—	1,890	Daily	One
Real estate	—	2,608	2,608	Monthly	Sixteen
Fixed income:					
U.S. Treasuries	9,760	—	9,760	Daily	One
U.S. Government and agency	—	3,745	3,745	Daily	One
Domestic bonds	—	10,877	10,877	Daily	One
Cash and short-term investments	2,662	—	2,662	Daily	One
	46,785	27,681	74,466		
Held by third parties under long-term debt agreements (note 10)	25	—	25	Daily	One
Total	$ 46,810	$ 27,681	$ 74,491		

(In thousands)

(5) Investments (continued)

	2015 Level 1	2015 Level 2	2015 Total	Redemption or liquidation	Days' notice
U.S. equities:					
Large cap value	$ 5,481	$ —	$ 5,481	Daily	One
Mid-cap value	6,403	—	6,403	Daily	One
Large cap growth	13,897	—	13,897	Daily	One
International equities:					
Developed markets	—	9,083	9,083	Daily	Five - Thirty-one
Emerging markets	171	—	171	Daily	One
Commodities:					
Energy	725	—	725	Daily	One
Various	1,806	—	1,806	Daily	One
Real estate	—	2,191	2,191	Monthly	Fifteen
Fixed income:					
U.S. Treasuries	5,482	—	5,482	Daily	One
U.S. Government and agency	—	2,841	2,841	Daily	One
Domestic bonds	—	10,433	10,433	Daily	One
Cash and short-term investments	1,575	—	1,575	Daily	One
	35,540	24,548	60,088		
Held by third parties under long-term debt agreements (note 10)	6,782	—	6,782	Daily-Illiquid	One-N/A
Total	$ 42,322	$ 24,548	$ 66,870		

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

	2016	Redemption or liquidation	Days' notice
Marketable alternatives:			
Multiple strategies	$ 6,179	Quarterly	Sixty - Ninety
Long-short equity	3,880	Monthly - Illiquid	Sixty - N/A
Absolute return strategies	21,721	Semi-monthly - Annually	Five - Sixty-five
International equities:			
Developed markets	4,684	Monthly	Ten
Emerging markets	11,094	Monthly - Quarterly	Ten - Ninety
Fixed income:			
U.S. Treasury inflation-protected	2,609	Daily	Two
Total investments measured at NAV	50,167		
All other investments	74,491		
Total investments	$ 124,658		

(In thousands)

(5) Investments (continued)

	2015	Redemption or liquidation	Days' notice
Marketable alternatives:			
Multiple strategies	$ 5,961	Quarterly - Monthly	Sixty - Ninety
Long-short equity	2,748	Monthly	Sixty
Absolute return strategies	26,626	Semi-monthly - Annually	Five - Sixty-five
International equities:			
Developed markets	3,190	Monthly	Ten
Emerging markets	10,698	Monthly - Quarterly	Ten - Ninety
Commodities:			
Various	40	Daily - Illiquid	One - N/A
Fixed income:			
U.S. Treasury inflation-protected	2,349	Daily	Two
Global bonds	5,574	Daily	Ten
Total investments measured at NAV	57,186		
All other investments	66,870		
Total investments	$ 124,056		

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 $5,522 at September 30, 2016 and $5,579 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.

(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:		
Investment income	$ 153	$ 51
Endowment earnings contributed toward community benefit:		
Interest and dividend income	$ 4,042	$ 3,897
Nonoperating gains and losses:		
Net realized (losses) gains on board-designated investments	$ (1,773)	$ 106
Other changes in unrestricted net assets:		
Net change in unrealized gains on investments available for sale	$ 2,928	$ (6,085)
Changes in temporarily restricted net assets:		
Income from restricted investments	$ 239	$ 108
Net realized and unrealized gains (losses) on investments	909	(502)
	$ 1,148	$ (394)

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 $5,034.

(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	$ 3,023	$ 95	$ 11,568	$ 662	$ 14,591	$ 757
Total temporarily impaired securities	$ 3,023	$ 95	$ 11,568	$ 662	$ 14,591	$ 757

	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	$ 22,257	$ 1,220	$ 10,473	$ 1,827	$ 32,730	$ 3,047
Total temporarily impaired securities	$ 22,257	$ 1,220	$ 10,473	$ 1,827	$ 32,730	$ 3,047

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.

(In thousands)

(5) Investments (continued)

Endowments

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

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

	Unrestricted board-designated	Temporarily restricted	Total
Donor-restricted endowment funds	$ —	$ 20,653	$ 20,653
Internally board-designated endowment funds	109,502	—	109,502
Total endowment funds	$ 109,502	$ 20,653	$ 130,155

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

	Unrestricted board-designated	Temporarily restricted	Total
Donor-restricted endowment funds	$ —	$ 19,126	$ 19,126
Internally board-designated endowment funds	103,727	—	103,727
Total endowment funds	$ 103,727	$ 19,126	$ 122,853

(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	Total
Endowment funds, October 1, 2015	$ 103,727	$ 19,126	$ 122,853
Interest and dividend income	4,123	239	4,362
Net realized and unrealized gains	1,155	909	2,064
Cash gifts, grants, and bequests	—	23,687	23,687
Transfers from The Miriam Hospital Foundation	—	2,414	2,414
Net assets released from restrictions	—	(25,722)	(25,722)
Deposits	497	—	497
Endowment funds, September 30, 2016	$ 109,502	$ 20,653	$ 130,155

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

	Unrestricted board-designated	Temporarily restricted	Total
Endowment funds, October 1, 2014	$ 105,261	$ 19,065	$ 124,326
Interest and dividend income	3,948	108	4,056
Net realized and unrealized losses	(5,979)	(502)	(6,481)
Cash gifts, grants, and bequests	—	24,174	24,174
Transfers from The Miriam Hospital Foundation	—	2,615	2,615
Transfers from Newport Hospital	—	54	54
Net assets released from restrictions	—	(26,388)	(26,388)
Deposits	497	—	497
Endowment funds, September 30, 2015	$ 103,727	$ 19,126	$ 122,853

(In thousands)

(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.

(6) Property and Equipment

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

	2016	2015
Land and improvements	$ 5,415	$ 5,407
Buildings and improvements	234,665	228,562
Equipment	160,809	154,417
	400,889	388,386
Less accumulated depreciation and amortization	214,262	198,475
	186,627	189,911
Construction in progress	3,195	4,139
Property and equipment, net	$ 189,822	$ 194,050

Depreciation and amortization expense for the years ended September 30, 2016 and 2015 amounted to $16,348 and $14,668, respectively.

The estimated cost of completion of construction in progress approximated $3,900 at September 30, 2016, comprised of various projects. In addition, the Hospital has several building renovation projects pending contractual commitments with an estimated cost of completion of approximately $2,700.

(In thousands)

(7) Pension and Other Postretirement 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 (the TMH Plan). Upon completion of the merger, the new plan was renamed and is governed by provisions of the Plan. Each employee who was a participant in the TMH Plan and was an eligible employee on January 1, 1996 continues to be a participant on and after January 1, 1996, subject to the provisions of the Plan. Employees are included in the Plan on the first of the month which is the later of their first anniversary of employment or the attainment of age 18.

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 $7,221 and $3,412 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	$	2,302
Prior service cost		24
	$	2,326

(In thousands)

(7) Pension and Other Postretirement 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)

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

	2016	2015
Accrued pension liability	$ 41,161	$ 34,518

(In thousands)

(7) Pension and Other Postretirement Benefits (continued)

		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 the Hospital's unrestricted net assets:				
Net loss arising during the year	$	(8,738)	$	(4,710)
Amortizations:				
Net actuarial loss		1,501		1,271
Prior service cost		16		27
Total unrestricted net asset loss recognized during the year	$	(7,221)	$	(3,412)

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	$	6,134	$	6,184

(In thousands)

(7) Pension and Other Postretirement Benefits (continued)

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%

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 alternatives	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.

(Continued)

(In thousands)

(7) Pension and Other Postretirement Benefits (continued)

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.

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		

(In thousands)

(7) Pension and Other Postretirement Benefits (continued)

	2015				
	Level 1	**Level 2**	**Total**	**Redemption or liquidation**	**Days' 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.

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		

(In thousands)

(7) Pension and Other Postretirement Benefits (continued)

		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		

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)		8,667
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.

Other Postretirement Benefits

In addition to providing pension benefits, the Hospital provides certain health care benefits to retired employees. As of December 31, 2004, health care postretirement benefits were eliminated for all active employees of the Hospital with fewer than fifteen years of consecutive service.

The Hospital recognizes in its statements of financial position an asset for a benefit plan's overfunded status or a liability for a plan's underfunded status, and recognizes changes in that funded status in the year in which the changes occur through changes in unrestricted net assets. The funded-status amount is measured

(In thousands)

(7) Pension and Other Postretirement Benefits (continued)

Other Postretirement Benefits (continued)

as the difference between the fair value of plan assets and the benefit obligation including all actuarial gains and losses and prior service cost. Based on September 30, 2016 and 2015 funded-status amounts for the Hospital's postretirement benefit plan, the Hospital recorded increases in unrestricted net assets of $18 and $26 in 2016 and 2015, respectively.

Benefit Obligations

	2016	2015
Change in accumulated postretirement benefit obligation:		
Accumulated postretirement benefit obligation at beginning of year	$ 154	$ 171
Service cost	3	3
Interest cost	7	7
Benefits paid	(7)	(5)
Actuarial gain	(18)	(22)
Accumulated postretirement benefit obligation at end of year	$ 139	$ 154

Funded Status

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

	2016	2015
Benefit obligations	$ 139	$ 154
Funded status	$ (139)	$ (154)
Accrued postretirement benefit cost recognized in the statements of financial position	$ 139	$ 154

Amounts recognized in the statements of financial position at September 30, 2016 and 2015 consist of:

	2016	2015
Accrued postretirement benefit cost:		
Current (included in accrued employee benefits and compensation)	$ 9	$ 8
Noncurrent (included in other liabilities)	130	146
Total accrued postretirement benefit cost	$ 139	$ 154

(In thousands)

(7) Pension and Other Postretirement Benefits (continued)

	2016	2015
Accumulated net actuarial loss not yet recognized as a component of net periodic postretirement benefit cost	$ (6)	$ (25)
Accumulated net periodic postretirement benefit cost	(133)	(129)
Net amount recognized	$ (139)	$ (154)

	2016	2015
Sources of change in unrestricted net assets:		
Net gain arising during the year	$ 18	$ 22
Amortizations:		
Net actuarial loss	—	4
Total unrestricted net asset gain recognized during the year	$ 18	$ 26

Net Periodic Postretirement Benefit Cost

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

	2016	2015
Service cost	$ 3	$ 3
Interest cost	7	7
Amortization of net actuarial loss	—	4
Net periodic postretirement benefit cost	$ 10	$ 14

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

	2016	2015
Discount rate for benefit obligations	3.06%	4.38%
Discount rate for net periodic postretirement benefit cost	4.38%	4.33%

(In thousands)

(8) 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
Medicare and Senior Care	51%	52%
Blue Cross	18	18
Medicaid and RIte Care	15	14
Managed care	10	10
Commercial, self-pay, and other	6	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., Medicare, Medicaid, Blue Cross, managed care, or commercial insurance 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.

Medicare cost reports filed annually with The Centers for Medicare and Medicaid Services (CMS) are subject to audit prior to final settlement. The 2016 Medicare cost report has not been filed and, therefore, is not settled. In addition, the Medicare cost reports for 2014 and 2015 have not been settled.

Regulations in effect require annual settlements based upon cost reports filed by the Hospital. These settlements are estimated and recorded in the accompanying financial statements. Changes in these estimates are reflected in the financial statements in the year in which they occur. Net patient service revenue in the accompanying statements of operations and changes in net assets was increased by $1,480 and $7,865 in 2016 and 2015, respectively, to reflect changes in the estimated settlements for certain prior years.

Revenues from Medicare and Medicaid programs accounted for approximately 51% and 15%, respectively, of the Hospital's gross patient service revenue for the year ended September 30, 2016. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. The Hospital believes that it is in compliance with all applicable laws and regulations. Compliance with laws and regulations can be subject to future government review and interpretation as well as significant regulatory action; failure to comply with such laws and regulations can result in fines, penalties, and exclusion from Medicare and Medicaid programs.

(In thousands)

(9) Income Tax Status

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

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.

(10) 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)	$ 49,112	$ —
Hospital Financing Revenue fixed rate serial and term bonds due May 15, 2016 through 2032 in annual amounts ranging from $10,710 to $15,020 at rates ranging from 4% to 5% (2006A Series – Lifespan Obligated Group)	—	28,259
Hospital Financing Revenue fixed rate serial and term bonds due May 15, 2027 through 2039 in annual amounts ranging from $1,870 to $7,900 at rates ranging from 6.125% to 7% (2009A Series – Lifespan Obligated Group)	—	19,547
Hospital Financing Revenue fixed rate serial and term bonds due May 15, 2016 through 2026 in annual amounts ranging from $855 to $14,705 at rates ranging from 5.25% to 5.75% (1996 Series – Lifespan Obligated Group)	—	8,803
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)	6,851	8,495
Unamortized premium – 2016 Series	7,797	—
Unamortized premium – 2006A Series	—	671
Unamortized premium – 2009A Series	—	26
	63,760	65,801
Less current portion	4,393	3,956
Long-term debt, net of current portion	$ 59,367	$ 61,845

(Continued)

(In thousands)

(10) Long-Term Debt (continued)

The estimated fair value of the Hospital's long-term debt at September 30, 2016 and 2015 approximates $55,000 and $67,000, 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, EPBH, 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 EPBH (the Obligated Group Hospitals) and by mortgage liens on the Hospital's and RIH's real property and all buildings, structures and improvements thereon. The OG is jointly and severally liable for repayment of the 2016 Bonds, recorded directly by the Obligated Group Hospitals as follows:

The Hospital	$	49,112
RIH		195,651
EPBH		20,707
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 EPBH 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 EPBH 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 EPBH, adopted a resolution authorizing EPBH to become a member of the OG. The EPBH Board of Trustees, as well as the Boards of the Hospital and RIH, 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,

(In thousands)

(10) Long-Term Debt (continued)

including the expansion, construction, renovation, equipping and furnishing of a two-story addition to EPBH's existing building and the renovation of vacated space in the existing building.

On February 14, 2006, RIHEBC issued, on behalf of the OG, which consisted of the Hospital and RIH, $192,135 of tax-exempt bonds (the 2006A Bonds) for the purpose of refunding $123,405 and $65,315 of the 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 Boards of Trustees of each of the Foundations, as well as the then existing members of the OG, the Hospital and RIH, 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, the Hospital's and RIH's 1996, 1997, 1998, and 1999 expenditures for routine capital equipment and facility renovation/replacement, and to advance refund $8,455 of the Hospital's 1989 Series A bonds, $1,900 of the Hospital's 1992 Series A bonds, and $10,065 of the Hospital's 1992 Series B bonds.

The Hospital's aggregate maturities of long-term debt for the five fiscal years ending in September 2021 are as follows: 2017, $4,393; 2018, $3,967; 2019, $4,110; 2020, $4,257; and 2021, $2,628.

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 statements of financial position, as follows:

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

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

Debt Service Reserve 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	$ 24	$ —
Project Fund – 2009A Series	—	4,672
Bond Fund – 1996 Series	—	155
Debt Service Reserve Fund – 2009A Series	1	1,955
Total	$ 25	$ 6,782

(In thousands)

(11) 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 $29,000 and $40,000 outstanding under the facility ($28,000-RIH and $1,000-EPBH in 2016 and $38,000-RIH and $2,000-EPBH in 2015) 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.

(12) Temporarily and Permanently Restricted Net Assets

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

	2016	2015
Research	$ 13,904	$ 14,771
General health care service activities	7,995	6,008
Interest in net assets of The Miriam Hospital Foundation	5,639	6,091
Total	$ 27,538	$ 26,870

Permanently restricted net assets at September 30 consist of:

	2016	2015
Interest in net assets of The Miriam Hospital Foundation	$ 19,906	$ 19,699

(In thousands)

(13) 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	$	7,413
2018		3,632
2019		2,981
2020		2,618
2021		1,366
Thereafter		2,983
Total minimum lease payments	$	20,993

Rental expense, including rentals under leases with terms of less than one year, for the years ended September 30, 2016 and 2015 was $8,998 and $8,504, respectively.

(14) 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 Medicare, Blue Cross, Medicaid, and various managed care entities. The Hospital has not historically incurred any significant concentrated credit losses in the normal course of business.

(15) 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.

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.

(In thousands)

(16) Related-Party Transactions

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

		2016		2015
Laundry and linen	$	1,262	$	1,209
Rental expense		916		887
Total	$	2,178	$	2,096

The Hospital also rents space to RIH. Included in the Hospital's other revenue in the statement of operations and changes in net assets in both 2016 and 2015 is rental income of $594 and $555, respectively, arising from transactions with RIH.

The Hospital was charged a management fee by Lifespan of $43,487 and $38,325 in 2016 and 2015, respectively. Lifespan provides information services, human resources, financial, and various other support services to the Hospital.

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

		2016		2015
Other receivables:				
RIH	$	1,322	$	1,352
Lifespan Physician Group, Inc.		—		418
EPBH		22		—
Total	$	1,344	$	1,770
Other accrued expenses:				
Lifespan Physician Group, Inc.	$	(1,899)	$	—
Lifespan		(1,634)		(2,404)
Hospital Properties, Inc.		(443)		(443)
Newport Hospital		(2)		(69)
EPBH		—		(54)
Total	$	(3,978)	$	(2,970)

During the years ended September 30, 2016 and 2015, the Hospital received temporarily restricted net asset transfers from TMHF amounting to $2,414 and $2,615, respectively. In addition, the Hospital received grants from the Foundation amounting to $368 and $455 in 2016 and 2015, respectively, in support of the Hospital's research activities. Such grants are included in other revenue in the accompanying statements of operations and changes in net assets.

(In thousands)

(16) Related-Party Transactions (continued)

TMHF, 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, or as determined by the Boards of Trustees of the Hospital and TMHF. A summary of TMHF's assets, liabilities, net assets, deficiency of revenues over expenses, and changes in net assets follows. The Hospital's interest in the net assets of TMHF is reported as a noncurrent asset in the statements of financial position.

	2016	2015
Assets, principally assets limited as to use	$ 56,363	$ 56,900
Liabilities	$ 419	$ 319
Unrestricted net assets	30,398	30,790
Temporarily restricted net assets	5,640	6,092
Permanently restricted net assets	19,906	19,699
Total liabilities and net assets	$ 56,363	$ 56,900
Total unrestricted revenues, gains and other support	$ 194	$ 1,097
Total expenses	1,407	1,302
Deficiency of revenues over expenses	(1,213)	(205)
Other increases (decreases) in unrestricted net assets	821	(1,839)
Unrestricted net assets, beginning of year	30,790	32,834
Unrestricted net assets, end of year	$ 30,398	$ 30,790
Decrease in temporarily restricted net assets	$ (452)	$ (1,880)
Temporarily restricted net assets, beginning of year	6,092	7,972
Temporarily restricted net assets, end of year	$ 5,640	$ 6,092
Increase in permanently restricted net assets	$ 207	$ 130
Permanently restricted net assets, beginning of year	19,699	19,569
Permanently restricted net assets, end of year	$ 19,906	$ 19,699

(Continued)

(In thousands)

(17) License Fees

In 2016 and 2015, the State of Rhode Island has assessed a license fee to all Rhode Island hospitals, based on each hospital's 2014 and 2013 net patient service revenue, respectively, as defined. The Hospital's license fee expense was $21,215 in 2016 and $21,067 in 2015.

(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	$ 342,508	$ 334,535
Research	25,463	27,086
General and administrative:		
Depreciation and amortization	16,348	14,668
Interest	3,029	3,337
Other	44,926	39,115
Total general and administrative	64,303	57,120
	$ 432,274	$ 418,741