LIFESPAN CORPORATION AND AFFILIATES

Consolidated Financial Statements

September 30, 2016 and 2015

(With Independent Auditors' Reports Thereon)

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Consolidated 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 Directors
Lifespan Corporation:

We have audited the accompanying consolidated financial statements of Lifespan Corporation and Affiliates, which comprise the consolidated statements of financial position as of September 30, 2016 and 2015, and the related consolidated statements of operations, 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.

KPMG

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Lifespan Corporation and Affiliates 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 17, 2017

LIFESPAN CORPORATION AND AFFILIATES

Consolidated Statements of Financial Position

September 30, 2016 and 2015

(In thousands)

Assets	**2016**	**2015**
Current assets:		
Cash and cash equivalents	$ 121,391	$ 105,141
Patient accounts receivable	256,539	258,343
Less allowance for doubtful accounts	(65,056)	(60,967)
Net patient accounts receivable	191,483	197,376
Other receivables	19,994	16,340
Current portion of contributions receivable, net	2,094	2,371
Total receivables	213,571	216,087
Assets limited as to use	35,405	35,094
Inventories	26,018	25,184
Prepaid expenses and other current assets	14,393	13,071
Total current assets	410,778	394,577
Assets limited as to use	1,125,550	1,122,108
Less amount required to meet current obligations	(35,405)	(35,094)
Noncurrent assets limited as to use	1,090,145	1,087,014
Property and equipment, net	877,275	906,009
Other assets:		
Contributions receivable, net	2,368	2,728
Deferred charges and financing costs, net	2,428	6,265
Other noncurrent assets	23,075	18,593
Total other assets	27,871	27,586
Total assets	$ 2,406,069	$ 2,415,186

Liabilities and Net Assets	**2016**	**2015**
Current liabilities:		
Accounts payable	$ 89,104	$ 95,499
Accrued employee benefits and compensation	81,029	71,465
Other accrued expenses	10,494	15,215
Revolving credit loan payable	29,000	40,000
Current portion of long-term debt	23,309	20,162
Current portion of estimated third-party payor settlements	15,721	6,746
Current portion of estimated malpractice and other self-insurance costs	48,838	48,117
Total current liabilities	297,495	297,204
Long-term debt, net of current portion	340,435	353,176
Estimated third-party payor settlements, net of current portion	29,993	29,993
Estimated malpractice self-insurance costs, net of current portion	76,460	76,192
Accrued pension liability	301,505	254,423
Other liabilities	49,051	43,996
Total liabilities	1,094,939	1,054,984
Net assets:		
Unrestricted	812,857	872,535
Temporarily restricted	340,676	332,184
Permanently restricted	157,597	155,483
Total net assets	1,311,130	1,360,202
Total liabilities and net assets	$ 2,406,069	$ 2,415,186

See accompanying notes to consolidated financial statements.

LIFESPAN CORPORATION AND AFFILIATES

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	$ 1,888,468	$ 1,752,716
Provision for bad debts	(64,076)	(65,188)
Net patient service revenue	1,824,392	1,687,528
Other revenue	112,871	103,466
Endowment earnings contributed toward community benefit	14,720	15,017
Net assets released from restrictions used for operations	21,687	19,335
Net assets released from restrictions used for research	80,396	78,395
Total unrestricted revenues and other support	2,054,066	1,903,741
Operating expenses:		
Compensation and benefits	1,265,166	1,172,281
Supplies and other expenses	480,452	451,546
Purchased services	124,938	140,858
Depreciation and amortization	78,795	72,887
Interest	17,202	18,910
License fees	85,287	79,832
Total operating expenses	2,051,840	1,936,314
Income (loss) from operations	2,226	(32,573)
Nonoperating gains and losses:		
Unrestricted gifts and bequests	2,961	6,399
Unrestricted income from board-designated investments	1,408	720
Net realized (losses) gains on board-designated investments	(7,015)	2,471
Loss on advance refunding of debt	(22,161)	—
Grants to outside agencies	(34)	(32)
Fundraising expenses	(4,012)	(3,622)
Other nonoperating (losses) gains, net	(2,416)	17,143
Total nonoperating (losses) gains, net	(31,269)	23,079
Deficiency of revenues over expenses	$ (29,043)	$ (9,494)

(Continued)

LIFESPAN CORPORATION AND AFFILIATES

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 of revenues over expenses	$ (29,043)	$ (9,494)
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	(50,268)	(36,411)
Net change in unrealized gains on investments available for sale	12,190	(33,503)
Net assets released from restrictions used for purchase of property and equipment	7,418	7,549
Other increases	25	101
Decrease in unrestricted net assets	(59,678)	(71,758)
Temporarily restricted net assets:		
Gifts, grants, and bequests	99,951	95,799
Income from restricted endowment and other restricted investments	4,610	2,193
Net assets released from restrictions	(109,501)	(105,279)
Net realized and unrealized gains (losses) on investments	15,863	(7,967)
Fundraising expenses	(1,505)	(1,803)
Grants to outside agencies	(869)	(977)
Other decreases	(57)	(30)
Increase (decrease) in temporarily restricted net assets	8,492	(18,064)
Permanently restricted net assets:		
Gifts and bequests	488	421
Net change in unrealized gains on investments held in perpetual trusts by others	1,626	(3,874)
Increase (decrease) in permanently restricted net assets	2,114	(3,453)
Decrease in net assets	(49,072)	(93,275)
Net assets, beginning of year	1,360,202	1,453,477
Net assets, end of year	$ 1,311,130	$ 1,360,202

See accompanying notes to consolidated financial statements.

LIFESPAN CORPORATION AND AFFILIATES

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	$ (49,072)	$ (93,275)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:		
Change in funded status of pension and other postretirement plans, other than net periodic pension and postretirement benefit costs	50,268	36,411
Loss on advance refunding of debt	22,161	—
Loss on disposal of property and equipment	1,426	—
Net realized and unrealized (gains) losses on investments	(22,664)	42,873
Permanently restricted gifts and bequests	(488)	(421)
Depreciation and amortization	78,795	72,887
Provision for estimated self-insurance costs	170,210	165,170
Decrease in liabilities for estimated self-insurance costs resulting from claims paid	(169,221)	(152,142)
Net decrease in patient accounts receivable	5,893	10,494
(Decrease) increase in accounts payable	(6,395)	14,076
Increase (decrease) in accrued employee benefits and compensation	9,564	(3,419)
Increase (decrease) in estimated third-party payor settlements	8,975	(21,703)
Decrease in all other current and noncurrent assets and liabilities, net	(11,075)	(5,829)
Net cash provided by operating activities	88,377	65,122
Cash flows from investing activities:		
Purchase of property and equipment	(51,487)	(109,450)
Net decrease in funds held by third parties under long-term debt agreements	18,582	3,342
Other net decreases in assets limited as to use	640	31,978
Net cash used in investing activities	(32,265)	(74,130)
Cash flows from financing activities:		
(Payments on) proceeds from revolving credit loan payable	(11,000)	40,000
Proceeds from issuance of long-term debt	310,644	24,390
Payments to defease refunded bonds	(317,352)	(20,733)
Payments on long-term debt	(22,642)	(19,582)
Permanently restricted gifts and bequests	488	421
Net cash (used in) provided by financing activities	(39,862)	24,496
Net increase in cash and cash equivalents	16,250	15,488
Cash and cash equivalents at:		
Beginning of year	105,141	89,653
End of year	$ 121,391	$ 105,141
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 15,478	$ 20,018

See accompanying notes to consolidated financial statements.

(1) Description of Organization

Lifespan Corporation and Affiliates (Lifespan), established in August 1994, is an integrated regional health care delivery system comprised of teaching hospitals, a community hospital, a psychiatric hospital, community mental and behavioral health providers, and other care givers, with locations throughout Rhode Island. As a complement to its role in service and education, Lifespan actively supports research. Lifespan Corporation (Lifespan Corp.) is a nonprofit company located in Providence, Rhode Island, which operates for the benefit of and to support each of its nonprofit charitable hospitals and other affiliated corporations.

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 Corp. 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. Certain other affiliates of Lifespan Corp. are governed by Boards of Trustees which are elected annually by Lifespan Corp.'s directors.

Affiliated corporations of Lifespan Corp. are as follows:

Member, Shareholder, or Entity with Reserved Powers	Affiliate
Lifespan Corp.	Rhode Island Hospital (RIH)
	The Miriam Hospital (TMH)
	Emma Pendleton Bradley Hospital (Bradley)
	Newport Hospital (NH)
	Newport Hospital Foundation, Inc. (NHF)
	Newport Health Care Corporation (NHCC)
	R.I. Sound Enterprises Insurance Co. Ltd. (RISE)
	Lifespan Risk Services, Inc. (LRS)
	RIH Ventures (RIHV), d/b/a Lifespan Laboratories
	Lifespan Physician Group, Inc. (LPG)
	NHCC Medical Associates, Inc. (NHCCMA)
	Gateway Healthcare, Inc.
	Lifespan Diversified Services, Inc. (LDS)
	Hospital Properties, Inc. (HPI)
	Rhode Island Hospital Foundation (RIHF)
	The Miriam Hospital Foundation (TMHF)
	Bradley Hospital Foundation (BHF)
	Lifespan Foundation (LF)
	Gateway Foundation (GF)
	Lifespan Management Services Organization, Inc. (MSO)
	Lifespan of Massachusetts, Inc. (Lifespan MA)

(1) Description of Organization (continued)

Member, Shareholder, or Entity with Reserved Powers	Affiliate
Rhode Island Hospital	Radiosurgery Center of Rhode Island, LLC (RCRI) Lifespan Pharmacy, LLC
Emma Pendleton Bradley Hospital	Lifespan School Solutions, Inc. (LSS), d/b/a The Bradley School
Newport Health Care Corporation (NHCC)	Newport Health Property Management, Inc.
Gateway Healthcare, Inc. (Gateway)	Alternative Living Concepts, Inc. Human Services Realty, Inc. Families Reaching into Each New Day, Inc., d/b/a FRIENDS WAY The Autism Project Capital City Community Centers, Inc. Bayberry Courts, Inc. JM Apartments, Inc. JRR Housing LJR Corporation Mill River Community Housing Corporation Obed Apartments, Inc. Pathways, Inc. Shore Courts, Inc. Westerly Courts, Inc. TLR Realty Wentworth Corporation Gateway Professional Group, Inc.
Lifespan Diversified Services, Inc. (LDS)	VNA Technicare, Inc., d/b/a Lifespan Home Medical

The consolidated financial statements include the financial information of Lifespan Physician Group, Inc. (LPG), a physician entity with a Board comprised entirely of physicians which was formed and became an affiliate of Lifespan Corp. on May 25, 2012. Two Lifespan physician-designees are selected by Lifespan Corp. to serve on the LPG Board and hold designated reserved powers.

(In thousands)

(2) Charity Care and Other Community Benefits

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

		2016		2015
Charity care	$	26,444	$	28,797
Medical education, net		58,876		57,038
Research		15,471		17,301
Subsidized health services		30,103		31,637
Community health improvement services and community benefit operations		1,769		1,735
Unreimbursed Medicaid costs		63,140		35,352
Total	$	195,803	$	171,860

Charity Care

Lifespan provides full charity care for individuals at or below twice the federal poverty level, with a sliding scale for individuals based upon the federal poverty level guidelines, as set by the Department of Health and Human Services. In addition, a substantial discount consistent with Medicare program reimbursement is offered to all other uninsured patients. Lifespan determines the costs associated with providing charity care by aggregating the applicable direct and indirect costs, including compensation and benefits, supplies, and other operating expenses, based on data from its costing system. The total cost, excluding medical education and research, incurred by Lifespan to provide charity care amounted to $26,444 and $28,797 in 2016 and 2015, respectively. The decline in 2016 is due largely to the January 1, 2014 expansion of Medicaid eligibility and the continued growth of health insurance exchanges. Charges forgone, based on established rates, amounted to $90,545 and $99,202 in 2016 and 2015, respectively.

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

Medical Education

Lifespan provides the setting for and substantially supports medical education in various clinical training and nursing programs. The total cost of medical education provided by Lifespan exceeded the reimbursement received from third-party payors by $58,876 and $57,038 in 2016 and 2015, respectively. In 1969, RIH, TMH, Bradley, and certain other Rhode Island hospitals entered into an affiliation agreement to participate jointly in various clinical training programs and research activities with Brown Medical School, renamed The Warren Alpert Medical School of Brown University (Brown). In 2010, Brown named RIH its Principal Teaching Hospital. TMH and Bradley 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. RIH currently sponsors 49 graduate medical education programs accredited by or under the auspices of the Accreditation Council for Graduate Medical Education (ACGME), while also sponsoring another 34 hospital-approved residency and fellowship programs. RIH serves as the principal setting for these clinical training programs, which encompass the following disciplines: internal medicine and medicine subspecialties, including hematology and oncology; orthopedics and orthopedic subspecialties; clinical neurosciences and related subspecialties; general surgery and surgical subspecialties; pediatrics and pediatric subspecialties, including hematology and oncology; dermatology; radiology and radiology subspecialties; pathology; child psychiatry; emergency medicine and emergency medicine subspecialties; dentistry; and medical physics. TMH 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. RIH and TMH provide stipends to residents and physician fellows while in training. Bradley participates in the Child and Adolescent Psychiatry Fellowship as well as the Triple Board Residency Program (Pediatrics/Psychiatry/Child and Adolescent Psychiatry).

In addition, RIH and TMH are participating clinical training sites 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. Bradley serves as a participating site for the Brown Residency Program in Psychiatry sponsored by Butler Hospital. NH serves as an elective site for both RIH-sponsored programs and other residencies.

Various departments and specialties at RIH, TMH, NH, and Bradley 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 RIH, TMH, and Bradley, in collaboration with Brown, sponsors research and clinical psychology training programs for interns, postdoctoral fellows, and faculty trainees.

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

Medical Education (continued)

With respect to nursing education, RIH, TMH, and NH have 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 RIH, TMH, and NH. RIH, TMH, and NH do not receive any compensation from the various schools for providing a clinical setting for the student nurse training. RIH also serves as a clinical site for Certified Nursing Assistants, while TMH 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 RIH, TMH, and NH, as well as other outpatient sites. RIH also sponsors training programs in computed tomography and mammography.

At RIH, clinical affiliations/student clinical training programs are provided through contracts with a number of colleges and universities in the professional areas of speech-language pathology and audiology, physical therapy, physical therapy assistants, occupational therapy, and certified occupational therapy assistants. RIH has clinical training affiliations in respiratory therapy with The New England Institute of Technology and CCRI. In addition, RIH serves as the clinical setting for training programs in histology, cytology, phlebotomy, child development, and medical laboratory science (medical technology); related clinical affiliations with the University of Rhode Island, Salve Regina University, and Rhode Island College allow students to obtain clinical education and experience on site at RIH.

TMH 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. TMH 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. TMH 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 therapy programs at both CCRI and The New England Institute of Technology. TMH's EEG Department provides clinical training to neurodiagnostic technology students from Laboure College (Massachusetts).

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

Medical Education (continued)

RIH, TMH, NH, and Bradley have 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 RIH Pharmacy Department co-sponsors second-year postgraduate specialized residency programs in oncology and ambulatory care pharmacy. Lifespan pharmacists participate in the education of pharmacy, nursing, and physician assistant students by providing didactic lectures at the University of Rhode Island's College of Pharmacy, Rhode Island College's Advanced Practice Nursing Program, Johnson & Wales University's Center for Physician Assistant Studies, and Bryant University's Physician Assistant Program. In addition, RIH and TMH have clinical social work student contracts with Rhode Island College, Boston University, Boston College, Smith College, Simmons College, and Bridgewater State University. NH has clinical social work student contracts with Boston University and the University of New England.

Research

Lifespan conducts extensive medical research, with RIH and TMH in the forefront of biomedical health care delivery research and among the leaders nationally in the National Institutes of Health programs. Lifespan also sponsors a significant level of these research activities, as indicated in the table on page 9.

Federal support accounts for approximately 69% of all externally funded research at Lifespan. Researchers focus on clinical trials which investigate prevention and treatment of HIV/AIDS, obesity, cancer, diabetes, cardiac disease, neurological problems, orthopedic advancements, mental health concerns, and brain science. Researchers work in the laboratory or with patients, or both.

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

Subsidized Health Services

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

Community Health Improvement Services and Community Benefit Operations

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

Unreimbursed Medicaid Costs

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

(3) Summary of Significant Accounting Policies

(a) Basis of Presentation

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

Lifespan considers events and transactions that occur after the consolidated statement of financial position date, but before the consolidated financial statements are issued, to provide additional evidence relative to certain estimates or to identify matters that require additional disclosure. These consolidated financial statements were issued on February 17, 2017 and subsequent events have been evaluated through that date.

(3) Summary of Significant Accounting Policies (continued)

(b) Use of Estimates

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

(c) Cash and Cash Equivalents

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

(d) Investments and Investment Income

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, Lifespan 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.

(3) Summary of Significant Accounting Policies (continued)

(d) Investments and Investment Income (continued)

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 Lifespan 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 Lifespan 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. Lifespan 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.

Lifespan 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. Lifespan 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 $13,509,000 and $67,947,000 have been included as Level 1 and Level 2 investments, respectively. Retirement plan investments of approximately $5,206,000 and $14,072,000 have been included as Level 1 and Level 2 investments, respectively.

(3) Summary of Significant Accounting Policies (continued)

(d) Investments and Investment Income (continued)

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 Lifespan 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.

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 available for self-insurance liabilities and funds held by third parties under long-term debt agreements is recorded as other revenue. Lifespan maintains a spending policy for certain board-designated funds of its patient care affiliates, which provides that investment income from such funds is recorded within unrestricted revenues as endowment earnings contributed toward community benefit.

Income from permanently restricted investments is recorded within nonoperating gains when unrestricted by the donor and as an addition to the net assets of the appropriate temporarily restricted fund when restricted by the donor.

(3) Summary of Significant Accounting Policies (continued)

(e) Assets Limited as to Use

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

(f) Property and Equipment

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

FASB ASC Subtopic 958-250 (ASC 958-250) provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and also requires disclosures about endowment funds, including donor-restricted endowment funds and board-designated endowment funds.

Lifespan is incorporated in and subject to the laws of Rhode Island, which adopted UPMIFA effective as of June 30, 2009. Under UPMIFA, the assets of a donor-restricted endowment fund may be appropriated for expenditure by Lifespan in accordance with the standard of prudence prescribed by UPMIFA. As a result of this law and ASC 958-250, Lifespan has classified its net assets as follows:

Permanently restricted net assets contain donor-imposed stipulations that neither expire with the passage of time nor can be fulfilled or otherwise removed by actions of Lifespan and primarily consist of the historic dollar value of contributions to establish or add to donor-restricted endowment funds.

(3) Summary of Significant Accounting Policies (continued)

(i) Classification of Net Assets (continued)

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. Net assets of donor-restricted endowment funds in excess of their historic dollar value are classified as temporarily restricted net assets until appropriated by Lifespan and spent in accordance with the standard of prudence imposed by UPMIFA.

Unrestricted net assets contain no donor-imposed restrictions and are available for the general operations of Lifespan. Such net assets may be designated by Lifespan for specific purposes, including functioning as endowment funds.

See note 5 for more information about Lifespan's endowment.

(j) (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 and other postretirement plans, the net change in unrealized gains on investments available-for-sale, and net assets released from restrictions used for purchase of property and equipment.

(k) Net Patient Service Revenue

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

Medicare 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.

(3) Summary of Significant Accounting Policies (continued)

(k) Net Patient Service Revenue (continued)

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

(l) Provision for Bad Debts

Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectibility of accounts receivable, Lifespan 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, Lifespan 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), Lifespan 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.

Lifespan’s allowance for doubtful accounts for self-pay patients increased from 73% of self-pay accounts receivable at September 30, 2015 to 86% of self-pay accounts receivable at September 30, 2016. Lifespan’s self-pay writeoffs for the years ended September 30, 2016 and 2015 amounted to $55,001 and $69,140, respectively. Lifespan did not change its charity care or uninsured discount policies during the years ended September 30, 2016 and 2015, respectively.

(m) Charity Care

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

(3) Summary of Significant Accounting Policies (continued)

(n) Donor-Restricted Gifts

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

Amounts received that are restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a donor or grantor restriction expires, that is, when a stipulated purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations and changes in net assets as net assets released from restrictions.

(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

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

Lifespan provides self-insured health benefit options to the employees of all affiliates. Lifespan has recorded a provision for estimated claims, which is based on Lifespan's own experience. The provision for these self-insured losses includes estimates of the ultimate costs for both reported claims and claims incurred but not reported.

(3) Summary of Significant Accounting Policies (continued)

(q) Fair Value of Financial Instruments

The carrying amounts recorded in the consolidated statements of financial position for cash and cash equivalents, patient accounts receivable, contributions receivable, assets limited as to use, accounts payable, accrued expenses, estimated third-party payor settlements, and estimated self-insurance costs approximate their respective fair values. The estimated fair values of Lifespan's assets limited as to use, pension-related assets, and long-term debt are disclosed in notes 5, 8, and 12, respectively.

(r) Reclassifications

Certain 2015 amounts have been reclassified to conform to the 2016 reporting format.

(4) Disproportionate Share

RIH, TMH, Bradley, and NH (the Hospitals) are participants in the State of Rhode Island's Disproportionate Share Program, established in 1995 to assist hospitals which provide a disproportionate amount of uncompensated care. Under the program, Rhode Island hospitals, including the Hospitals, receive federal and state Medicaid funds as additional reimbursement for treating a disproportionate share of low income patients. Total payments to the Hospitals under the Disproportionate Share Program aggregated $62,437 and $73,565 in 2016 and 2015, respectively, 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 Hospitals 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
Funds available for self-insurance liabilities	$	137,273	$	133,580
Unrestricted board-designated funds		499,122		491,542
Funds held by third parties under long-term debt agreements		136		18,718
Temporarily restricted funds		331,565		322,971
Permanently restricted funds		157,454		155,297
Total	$	1,125,550	$	1,122,108

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

		2016		2015
Available-for-sale	$	620,699	$	686,224
Trading		504,851		435,884
Total	$	1,125,550	$	1,122,108

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 Lifespan'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	$ 45,268	$ —	$ —	$ 45,268	Daily	One
Mid-cap value	52,899	—	—	52,899	Daily	One
Large cap growth	116,974	—	—	116,974	Daily	One
International equities:						
Developed markets	—	75,024	—	75,024	Monthly	Five - Thirty-one
Emerging markets	11,494	—	—	11,494	Daily	One
Commodities:						
Energy	17,633	—	—	17,633	Daily	One
Various	13,566	—	—	13,566	Daily	One
Real estate	—	18,722	—	18,722	Monthly	Sixteen
Fixed income:						
U.S. Treasuries	93,734	—	—	93,734	Daily	One
U.S. Government and agency	—	26,879	—	26,879	Daily	One
Domestic bonds	—	143,581	—	143,581	Daily	One
Cash and short-term investments	26,257	—	—	26,257	Daily	One
	377,825	264,206	—	642,031		
Assets held in trust (note 6)	—	—	62,693	62,693	Illiquid	N/A
Held by third parties under long-term debt agreements (note 12)	136	—	—	136	Daily	One
Total	$ 377,961	$ 264,206	$ 62,693	$ 704,860		

(In thousands)

(5) Investments (continued)

	2015					
	Level 1	Level 2	Level 3	Total	Redemption or liquidation	Days' notice
U.S. equities:						
Large cap value	$ 45,570	$ —	$ —	$ 45,570	Daily	One
Mid-cap value	48,114	—	—	48,114	Daily	One
Large cap growth	109,045	—	—	109,045	Daily	One
International equities:						
Developed markets	—	67,947	—	67,947	Monthly	Five - Thirty-one
Emerging markets	1,281	—	—	1,281	Daily	One
Commodities:						
Energy	5,424	—	—	5,424	Daily	One
Various	13,509	—	—	13,509	Daily	One
Real estate	—	16,391	—	16,391	Monthly	Fifteen
Fixed income:						
U.S. Treasuries	59,586	—	—	59,586	Daily	One
U.S. Government and agency	—	21,254	—	21,254	Daily	One
Domestic bonds	—	137,822	—	137,822	Daily	One
Cash and short-term investments	18,169	—	—	18,169	Daily	One
	300,698	243,414	—	544,112		
Assets held in trust (note 6)	—	—	61,068	61,068	Illiquid	N/A
Held by third parties under long-term debt agreements (note 12)	18,718	—	—	18,718	Daily - Illiquid	One - N/A
Total	$ 319,416	$ 243,414	$ 61,068	$ 623,898		

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

	2016	Redemption or liquidation	Days' notice
Marketable alternatives:			
Multiple strategies	$ 54,162	Quarterly	Sixty - Ninety
Long-short equity	27,850	Monthly - Illiquid	Sixty - N/A
Absolute return strategies	155,927	Semi-monthly - Annually	Five - Sixty-five
International equities:			
Developed markets	44,308	Monthly	Ten
Emerging markets	79,639	Monthly - Quarterly	Ten - Ninety
Fixed income:			
U.S. Treasury inflation-protected	18,727	Daily	Two
Total investments measured at NAV	380,613		
All other investments	704,860		
Total investments	$ 1,085,473		

(In thousands)

(5) Investments (continued)

	2015	Redemption or liquidation	Days' notice
Marketable alternatives:			
Multiple strategies	$ 61,156	Quarterly - Monthly	Sixty - Ninety
Long-short equity	20,559	Monthly	Sixty
Absolute return strategies	199,191	Semi-monthly - Annually	Five - Sixty-five
International equities:			
Developed markets	35,451	Monthly	Ten
Emerging markets	80,030	Monthly - Quarterly	Ten - Ninety
Commodities:			
Various	300	Daily - Illiquid	One - N/A
Fixed income:			
U.S. Treasury inflation-protected	17,572	Daily	Two
Global bonds	41,702	Daily	Ten
Total investments measured at NAV	455,961		
All other investments	623,898		
Total investments	$ 1,079,859		

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 $40,077 at September 30, 2016 and $42,249 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 Lifespan'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	$ 61,068	$ 64,815
Net unrealized gains (losses)	1,625	(3,747)
Fair value at September 30	$ 62,693	$ 61,068

(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	$	6,473	$	4,780
Endowment earnings contributed toward community benefit:				
Interest and dividend income	$	14,720	$	15,017
Nonoperating gains and losses:				
Unrestricted income from board-designated investments	$	1,408	$	720
Net realized (losses) gains on board-designated investments		(7,015)		2,471
	$	(5,607)	$	3,191
Other changes in unrestricted net assets:				
Net change in unrealized gains on investments available for sale	$	12,190	$	(33,503)
Changes in temporarily restricted net assets:				
Income from restricted endowment and other restricted investments	$	4,610	$	2,193
Net realized and unrealized gains (losses) on investments		15,863		(7,967)
	$	20,473	$	(5,774)
Changes in permanently restricted net assets:				
Net change in unrealized gains on investments held in perpetual trusts by others	$	1,626	$	(3,874)

(In thousands)

(5) Investments (continued)

Commitments

Venture capital, private equity, and certain energy investments are made through limited partnerships. Under the terms of these agreements, Lifespan is obligated to remit additional funding periodically as capital or liquidity calls are exercised by the manager. These partnerships have a limited existence, generally ten years, and such agreements may provide for annual extensions 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. Lifespan cannot anticipate such changes because they are based on unforeseen events, but should they occur they may result in less liquidity or return from the investment than originally anticipated. As a result, the timing and amount of future capital or liquidity calls expected to be exercised in any particular future year is uncertain. The aggregate amount of unfunded commitments associated with the above noted investment categories as of September 30, 2016 was $36,136.

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	$ 21,700	$ 684	$ 83,041	$ 4,752	$ 104,741	$ 5,436
Total temporarily impaired securities	$ 21,700	$ 684	$ 83,041	$ 4,752	$ 104,741	$ 5,436

	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	$ 166,503	$ 9,129	$ 78,345	$ 13,670	$ 244,848	$ 22,799
Total temporarily impaired securities	$ 166,503	$ 9,129	$ 78,345	$ 13,670	$ 244,848	$ 22,799

(In thousands)

(5) Investments (continued)

Lifespan 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, Lifespan 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

Lifespan's endowment consists of approximately 488 individual funds established for a variety of purposes, including both donor-restricted endowment funds and funds designated by Lifespan to function as endowments. Investments associated with endowment funds, including funds designated by Lifespan to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

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

	Unrestricted board-designated	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$ —	$ 331,565	$ 157,454	$ 489,019
Internally board-designated endowment funds	499,122	—	—	499,122
Total endowment funds	$ 499,122	$ 331,565	$ 157,454	$ 988,141

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

	Unrestricted board-designated	Temporarily restricted	Permanently restricted	Total
Donor-restricted endowment funds	$ —	$ 322,971	$ 155,297	$ 478,268
Internally board-designated endowment funds	491,542	—	—	491,542
Total endowment funds	$ 491,542	$ 322,971	$ 155,297	$ 969,810

(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	$ 491,542	$ 322,971	$ 155,297	$ 969,810
Interest and dividend income	14,498	4,610	—	19,108
Net realized and unrealized gains	7,382	15,863	1,626	24,871
Cash gifts, grants, and bequests	2,961	100,053	531	103,545
Net assets released from restrictions	—	(109,501)	—	(109,501)
Deposits	2,924	—	—	2,924
Withdrawals	(20,185)	—	—	(20,185)
Other decreases	—	(2,431)	—	(2,431)
Endowment funds, September 30, 2016	$ 499,122	$ 331,565	$ 157,454	$ 988,141

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	$ 522,426	$ 341,381	$ 158,421	$ 1,022,228
Interest and dividend income	13,685	2,193	—	15,878
Net realized and unrealized losses	(25,812)	(7,967)	(3,874)	(37,653)
Cash gifts, grants, and bequests	2,963	95,453	750	99,166
Net assets released from restrictions	—	(105,279)	—	(105,279)
Deposits	2,924	—	—	2,924
Withdrawals	(24,644)	—	—	(24,644)
Other decreases	—	(2,810)	—	(2,810)
Endowment funds, September 30, 2015	$ 491,542	$ 322,971	$ 155,297	$ 969,810

(5) Investments (continued)

Endowments (continued)

(a) ***Interpretation of Relevant Law***

The portion of donor-restricted endowment funds that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the applicable Lifespan affiliates in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, these Lifespan affiliates consider the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

(b) ***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. Lifespan 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.

(c) ***Strategies Employed for Achieving Objectives***

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

(In thousands)

(5) Investments (continued)

Endowments (continued)

(d) Spending Policy

Lifespan invests its endowment funds in accordance with the total return concept. Applicable endowments include unrestricted board-designated endowment funds and donor-restricted endowment funds. The governing Boards of certain Lifespan affiliates have approved an endowment spending rate of 4% based on all of the above factors. This spending rate is applied to the average fair value of the applicable endowments for the immediately preceding three years.

(6) Assets Held in Trust

Certain Lifespan affiliates (Bradley, RIH, and NH) are beneficiaries of various irrevocable charitable and split-interest trusts. The fair market value of these investments at September 30, 2016 and 2015 was $62,693 and $61,068, respectively, and is reported as permanently restricted funds within assets limited as to use in the consolidated statements of financial position.

(7) Property and Equipment

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

	2016	2015
Land and improvements	$ 48,921	$ 49,192
Buildings and improvements	1,213,366	1,199,570
Equipment	725,020	698,995
	1,987,307	1,947,757
Less accumulated depreciation and amortization	1,123,518	1,055,671
	863,789	892,086
Construction in progress	13,486	13,923
Property and equipment, net	$ 877,275	$ 906,009

Depreciation and amortization expense for the years ended September 30, 2016 and 2015 amounted to $78,795 and $72,887, respectively.

The estimated cost of completion of construction in progress approximated $13,937 at September 30, 2016, comprised principally of RIH ($8,400) and TMH ($3,900) projects. In addition, RIH, TMH, and EPBH have several building renovation projects pending contractual commitments with estimated costs of completion of approximately $4,500, $2,700, and $200, respectively.

(8) Pension and Other Postretirement Benefits

Pension Benefits – Lifespan Corporation Retirement Plan

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

Effective December 31, 1997, the Pension Plan for Employees of Newport Health Care Corporation and Subsidiaries (the NHCC Plan) merged into the Plan. Each employee who was a participant in the NHCC Plan and was an eligible employee on December 31, 1997 continues to be a participant in the Plan on and after December 31, 1997, subject to the provisions of the Plan. In 2011, the Plan was amended to freeze NHCC defined benefit accruals effective October 31, 2011. NHCC participants continue to accrue benefits under the separate account balance component of the Plan.

The Plan is intended to constitute a plan described in Section 414(k) of the Internal Revenue Code, under which benefits are derived from employer contributions based on the separate account balances of participants in addition to the defined benefits provided under the Plan, which are based on an employee’s years of credited service and annual compensation. Lifespan’s funding policy is to contribute amounts to the Plan sufficient to meet minimum funding requirements set forth in the Employee Retirement Income Security Act of 1974 (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 RIH, TMH, Bradley, NHCC, Gateway, and Lifespan Corp. 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.

(In thousands)

(8) Pension and Other Postretirement Benefits (continued)

Based on September 30, 2016 and 2015 funded-status amounts for the Plan, Lifespan recorded decreases in unrestricted net assets of $49,117 and $35,584 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	$	21,320
Prior service benefit		(599)
	$	20,721

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

(In thousands)

(8) Pension and Other Postretirement Benefits (continued)

The funded status of the Plan and amounts recognized in the 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)

	2016	2015
Amounts not yet reflected in 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	$ (301,505)	$ (254,423)

	2016	2015
Sources of change in unrestricted net assets:		
Net loss arising during the year	$ (63,851)	$ (47,928)
Amortizations:		
Net actuarial loss	15,277	12,885
Prior service benefit	(543)	(541)
Total unrestricted net asset loss recognized during the year	$ (49,117)	$ (35,584)

(In thousands)

(8) Pension and Other Postretirement 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	$ 40,245	$ 37,492

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).

(In thousands)

(8) Pension and Other Postretirement Benefits (continued)

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.

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)

(8) Pension and Other Postretirement Benefits (continued)

	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.

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)

(8) 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)	$	53,120
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, RIH and TMH provide certain health care and life insurance benefits to retired employees. As of December 31, 2003, health care and life insurance postretirement benefits were eliminated for all active RIH employees with fewer than fifteen years of consecutive service. As of December 31, 2004, health care postretirement benefits were eliminated for all active TMH employees with fewer than fifteen years of consecutive service.

Lifespan recognizes in its consolidated 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 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 postretirement benefit plan, Lifespan recorded decreases in unrestricted net assets of $1,151 in 2016 and $827 in 2015. Approximately $176 of net actuarial gain will be amortized from unrestricted net assets into net periodic postretirement benefit cost in 2017.

(In thousands)

(8) Pension and Other Postretirement Benefits (continued)

Benefit Obligations

		2016		2015
Change in accumulated postretirement benefit obligation:				
Accumulated postretirement benefit obligation at beginning of year	$	15,941	$	15,590
Service cost		204		228
Interest cost		673		650
Benefits paid		(985)		(1,012)
Actuarial loss		868		485
Accumulated postretirement benefit obligation at end of year	$	16,701	$	15,941

Funded Status

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

		2016		2015
Benefit obligations	$	16,701	$	15,941
Funded status	$	(16,701)	$	(15,941)
Accrued postretirement benefit cost recognized in the consolidated statements of financial position	$	16,701	$	15,941

Amounts recognized in the consolidated 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)	$	1,077	$	1,157
Noncurrent (included in other liabilities)		15,624		14,784
Total accrued postretirement benefit cost	$	16,701	$	15,941

(In thousands)

(8) Pension and Other Postretirement Benefits (continued)

	2016	2015
Amounts not yet reflected in net periodic postretirement benefit cost and included in unrestricted net assets:		
Accumulated net actuarial gain	$ 2,410	$ 3,563
Amounts not yet recognized as a component of net periodic postretirement benefit cost	2,410	3,563
Accumulated net periodic postretirement benefit cost	(19,111)	(19,504)
Net amount recognized	$ (16,701)	$ (15,941)

	2016	2015
Sources of change in unrestricted net assets:		
Net loss arising during the year	$ (865)	$ (466)
Amortizations:		
Net actuarial gain	(286)	(361)
Total unrestricted net asset loss recognized during the year	$ (1,151)	$ (827)

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	$ 204	$ 228
Interest cost	673	650
Amortization of net actuarial gain	(286)	(361)
Net periodic postretirement benefit cost	$ 591	$ 517

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) Pension and Other Postretirement Benefits (continued)

Assumed Health Care Cost Trend Rates at September 30:

	2016	2015
Health care cost trend rate assumed for next year	6.63%	7.22%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	4.50%	4.50%
Year that the rate reaches the ultimate trend rate	2030	2030

Assumed health care cost trend rates have a significant effect on the amounts reported. A one-percentage-point change in assumed health care cost trend rates would have the following effects as of September 30, 2016:

	One-Percentage-Point Increase	One-Percentage-Point Decrease
Effect on total of service cost and interest cost	$ 69	$ (61)
Effect on accumulated postretirement benefit obligation	1,194	(915)

Expected Cash Flows

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

Expected benefit payments:	
2017	$ 1,077
2018	1,272
2019	1,442
2020	1,512
2021	1,554
2022 through 2026	7,232

Supplemental Executive Retirement Plan

Lifespan Corp. maintains a nonqualified supplemental executive retirement plan for executive management.

(9) Estimated Self-Insurance Costs

Professional Liability/Medical Malpractice and General Liability

Professional liability/medical malpractice coverage for RIH, TMH, Bradley, NH, Gateway, LPG, and all other Lifespan affiliates is supplied on a claims-made basis by RISE, Lifespan's affiliated captive insurance company, which underwrites the medical malpractice risk of Lifespan (including a contractual commitment to indemnify certain eligible nonemployed physicians). 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 to increase the professional liability limits to $32,000 per claim. Also covered under the Lifespan professional liability/medical malpractice policy are 676 nonemployed physicians. Each of these physicians is provided with a $2,000 indemnification per claim and a $6,000 annual indemnification aggregate.

General liability coverage is provided to RIH, TMH, Bradley, NH, Gateway, LPG, and all other Lifespan affiliates by RISE amounting to $2,000 per claim and $4,000 in the annual aggregate. Commercial excess liability insurance has been obtained by Lifespan which provides aggregate general liability coverage of $80,000.

Lifespan has recorded a provision for estimated losses on professional liability/medical malpractice and general liability incidents, based on actuarial studies and its own experience. The actuarial studies include an assumed inflation rate of 4%. The amounts accrued for estimated professional liability/medical malpractice and general liability self-insurance costs at September 30, 2016 and 2015 have been discounted at 4%. Had Lifespan provided for losses at undiscounted levels, estimated self-insurance liabilities would have been increased by approximately $6,651 and $6,861 at September 30, 2016 and 2015, respectively.

Workers' Compensation

Lifespan has recorded a provision for workers' compensation losses, based on actuarial studies and its own experience. The actuarial studies include an assumed inflation rate of 4%. The amounts accrued for estimated workers' compensation self-insurance costs at September 30, 2016 and 2015 have been discounted at 4%. Had such losses been provided for at undiscounted levels, estimated self-insurance liabilities would have been increased by approximately $809 and $892 at September 30, 2016 and 2015, respectively. Lifespan has a standby letter of credit at September 30, 2016 in the amount of $7,000 supporting the estimated unpaid liability.

(In thousands)

(10) Patient Service Revenue and Related Reimbursement

Lifespan 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, Lifespan 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	42%	43%
Blue Cross	17	17
Medicaid and RIte Care	22	21
Managed care	10	10
Commercial, self-pay, and other	9	9
	100%	100%

Lifespan grants credit to patients, most of whom are local residents. Lifespan generally does not require collateral or other security in extending credit to patients; however, it routinely obtains assignment of (or is otherwise entitled to receive) patients' benefits payable under their health insurance programs, plans, or policies (e.g., Medicare, Medicaid, Blue Cross, managed care, or commercial insurance policies). On the basis of historical experience, a significant portion of Lifespan's uninsured patients will be unable or unwilling to pay for the services provided. Thus, Lifespan 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 reports have not been filed and, therefore, are not settled.

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

	RIH	TMH	NH
2015	X	X	X
2014	X	X	X
2013			X

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

Regulations in effect require annual settlements based upon cost reports filed by the Lifespan hospitals. These settlements are estimated and recorded in the accompanying consolidated financial statements. Changes in these estimates are reflected in the consolidated financial statements in the year in which they occur. Net patient service revenue in the accompanying consolidated statements of operations and changes in net assets was increased by $11,180 and $25,088 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 42% and 22%, respectively, of Lifespan'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. Lifespan 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.

(11) Income Tax Status

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

Lifespan recognizes the effect of income tax positions only if those positions are more likely than not to be sustained. Recognized income tax positions are measured at the largest amount of benefit that is greater than fifty percent likely to be realized upon settlement. Changes in measurement are reflected in the period in which the change in judgment occurs. Lifespan did not recognize the effect of any income tax positions in either 2016 or 2015.

(In thousands)

(12) 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)	$ 265,470	$ —
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)	—	139,895
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)	—	114,985
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)	—	50,305
Master lease and loan and security agreement due December 14, 2016 through 2020 in semiannual amounts ranging from $3,496 to $3,766 at 1.66% (the 2013 Financing)	29,278	36,300
Private placement debt due July 1, 2017 through 2029 in annual amounts ranging from $1,159 to $1,629 at a fixed rate of 2.85% (2014 Series- NH)	17,971	19,097
Other long-term debt	8,881	9,279
Unamortized premium – 2016 Series	42,144	—
Unamortized premium – 2006A Series	—	3,323
Unamortized premium – 2009A Series	—	154
	363,744	373,338
Less current portion	23,309	20,162
Long-term debt, net of current portion	$ 340,435	$ 353,176

(12) Long-Term Debt (continued)

The estimated fair value of Lifespan's long-term debt at September 30, 2016 and 2015 approximates $356,000 and $383,000, respectively, and is estimated using discounted cash flow analyses, based on Lifespan'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 issued, on behalf of the OG, which consists of RIH, TMH, Bradley, RIHF and 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 the gross receipts of the RIH, TMH, and Bradley (the Obligated Group Hospitals) and by mortgage liens on RIH's and TMH's real property and all buildings, structures and improvements thereon. The OG is jointly and severally liable for repayment of the 2016 Bonds.

Under the terms of the 2016 Bonds, the Obligated Group Hospitals are required to satisfy certain measures of financial performance 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, RIH, TMH, and Bradley 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. RIH, TMH, and Bradley are jointly and severally liable for repayment of the 2013 Financing. NH indirectly participated in the 2013 Financing via an intercompany payable of $4,500 to RIH.

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

(12) Long-Term Debt (continued)

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 RIH, TMH, and Bradley (the Obligated Group Hospitals), including the expansion, construction, renovation, equipping and furnishing of a two-story addition to Bradley'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 Corp., 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, 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.

On February 1, 1999, RIHEBC issued, on behalf of NH, $30,000 of tax-exempt bonds (the 1999 Bonds) to finance the acquisition, construction, renovation and equipping of various NH facilities. On November 5, 2014, RIHEBC issued, on behalf of NH, $20,390 of fixed rate 2.85% tax-exempt bonds (the 2014 Bonds) in a private placement for the purpose of advance refunding $20,275 of the 1999 Bonds. A total of $20,390 of the net proceeds of the 2014 bond issue and $343 of the refunded bonds' unspent debt service funds was deposited into a trust for the purpose of this refunding. The 2014 Bonds are secured by a pledge of the gross receipts of NH. Payment of the principal and interest on the 2014 Bonds when due is guaranteed by Newport Hospital Foundation, Inc. Under the terms of the 2014 Bonds, NH is required to satisfy certain measures of financial performance as long as the bonds are outstanding. At September 30, 2016, management believes NH was in compliance with all covenants of the bonds.

Lifespan's aggregate maturities of long-term debt for the five fiscal years ending in September 2021 are as follows: 2017, $23,309; 2018, $21,024; 2019, $21,737; 2020, $22,542; and 2021, $15,766.

(In thousands)

(12) Long-Term Debt (continued)

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

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

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

	2016	2015
RIH, TMH, and Bradley:		
Project Fund – 2016 Series	$ 131	$ —
Project Fund – 2009A Series	—	6,334
Bond Fund – 1996 Series	—	885
Debt Service Reserve Fund – 2009A Series	5	11,499
Total	$ 136	$ 18,718

(13) 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 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)

(14) Temporarily and Permanently Restricted Net Assets

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

		2016		2015
General health care service activities	$	272,350	$	265,037
Research		68,326		67,147
Total	$	340,676	$	332,184

Permanently restricted net assets at September 30 are restricted to:

		2016		2015
General health care service activities	$	148,451	$	146,337
Research		9,146		9,146
Total	$	157,597	$	155,483

Income from permanently restricted investments is expendable to support donor-restricted purposes.

(15) Leases

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

		Amount
Year ending September 30:		
2017	$	26,506
2018		18,726
2019		15,263
2020		12,836
2021		9,099
Thereafter		10,458
Total minimum lease payments	$	92,888

Rental expense, including rentals under leases with terms of less than one year, for the years ended September 30, 2016 and 2015 was $25,143 and $23,610, respectively.

(16) Concentrations of Credit Risk

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

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

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

(17) Malpractice and Other Litigation

Certain Lifespan hospitals or their indemnified physicians have been named as defendants 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 each hospital's malpractice insurance coverage provided by RISE and/or commercial excess carriers. Lifespan is involved in a number of miscellaneous suits and general liability suits arising in the course of business. After consultation with legal counsel, management estimates any outstanding matters will be resolved without material adverse effect on Lifespan's future financial position or results from operations.

Included in other nonoperating gains in 2015 is $17,660 in proceeds from a general liability insurance settlement.

(In thousands)

(18) 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 Hospitals' license fee expense was $85,287 in 2016 and $79,832 in 2015.

(19) Functional Expenses

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

	2016	2015
Health care services	$ 1,651,392	$ 1,550,140
Research	95,867	95,696
General and administrative:		
Depreciation and amortization	78,795	72,887
Interest	17,202	18,910
Other	208,584	198,681
Total general and administrative	304,581	290,478
	$ 2,051,840	$ 1,936,314

(In thousands)

(20) Promises to Give

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

	2016	2015
Capital campaigns	$ 1,440	$ 1,335
Other restricted	3,404	4,230
Unconditional promises to give before unamortized discount and allowance for collectibles	4,844	5,565
Less: unamortized discount at rates ranging from 0.6% to 2.6%	(143)	(200)
Subtotal	4,701	5,365
Less: allowance for uncollectibles	(239)	(266)
Net unconditional promises to give	$ 4,462	$ 5,099
Amounts due in:		
Less than one year	$ 2,112	$ 2,402
One to five years	2,698	2,626
More than five years	34	537
Total	$ 4,844	$ 5,565