

# **The St. George Corporation and Subsidiaries**

Consolidated Financial Report  
December 31, 2017

## Contents

---

Independent auditor's report	1-2
------------------------------	-----

---

Consolidated financial statements	
Consolidated balance sheets	3
Consolidated statements of operations	4
Consolidated statements of changes in net assets	5
Consolidated statements of cash flows	6
Notes to consolidated financial statements	7-26

---

Supplementary information	
Consolidating balance sheet information – 2017	27-28
Consolidating statement of operations information – 2017	29
Consolidating statement of changes in net assets information – 2017	30
Consolidating balance sheet information – 2016	31-32
Consolidating statement of operations information – 2016	33
Consolidating statement of changes in net assets information – 2016	34

---

## **Independent Auditor's Report**

Board of Directors  
The St. George Corporation

### **Report on the Financial Statements**

We have audited the accompanying consolidated financial statements of The St. George Corporation and Subsidiaries, which comprise the consolidated balance sheets as of December 31, 2017 and 2016, 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 (collectively, the financial statements).

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The St. George Corporation and Subsidiaries as of December 31, 2017 and 2016, and the results of their operations, their changes in net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matter**

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The consolidating information is presented for purposes of additional analysis rather than to present the financial position, results of operations and changes in net assets of the individual companies and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The consolidating information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*RSM US LLP*

Chicago, Illinois  
April 9, 2018

## The St. George Corporation and Subsidiaries

### Consolidated Balance Sheets December 31, 2017 and 2016 (Dollars in Thousands)

	2017	2016
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 8,864	\$ 8,299
Investments	84,425	131,418
Patient accounts receivable, net of allowance for doubtful accounts of \$12,155 in 2017 and \$19,501 in 2016	60,466	64,117
Inventories	5,504	2,400
Assets limited as to use - internally designated for self-insurance	5,720	6,315
Assets limited as to use - trustee held	4,361	3,600
Other current assets	3,098	4,639
<b>Total current assets</b>	<b>172,438</b>	<b>220,788</b>
Investments and assets limited as to use:		
Investments internally designated for capital purposes	761,638	676,441
Investments internally designated for self-insurance, net of amounts required to meet current obligations	33,154	34,316
<b>Total investments and assets limited as to use</b>	<b>794,792</b>	<b>710,757</b>
Property and equipment:		
Land and land improvements	18,020	18,386
Buildings	529,485	499,338
Equipment	213,834	206,731
Construction in progress	66,446	45,342
	827,785	769,797
Less accumulated depreciation	(274,526)	(245,498)
<b>Property and equipment, net</b>	<b>553,259</b>	<b>524,299</b>
Other assets, net	4,837	8,512
<b>Total assets</b>	<b>\$ 1,525,326</b>	<b>\$ 1,464,356</b>
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Current portion of long-term debt	\$ 10,365	\$ 9,920
Accounts payable	19,477	18,793
Accrued liabilities and other	42,962	42,896
Due to third-party payors	38,557	43,677
Current portion of professional liability	5,720	6,473
<b>Total current liabilities</b>	<b>117,081</b>	<b>121,759</b>
Professional liability, less current portion	29,219	35,210
Long-term debt, less current portion	349,825	360,274
<b>Total liabilities</b>	<b>496,125</b>	<b>517,243</b>
Commitments and contingencies (Note 11)		
Net assets:		
Unrestricted net assets	1,028,847	946,793
Temporarily restricted net assets	354	320
<b>Total net assets</b>	<b>1,029,201</b>	<b>947,113</b>
<b>Total liabilities and net assets</b>	<b>\$ 1,525,326</b>	<b>\$ 1,464,356</b>

See notes to consolidated financial statements.

**The St. George Corporation and Subsidiaries**

**Consolidated Statements of Operations  
Years Ended December 31, 2017 and 2016  
(Dollars in Thousands)**

	2017	2016
Revenue:		
Net patient service revenue	\$ 384,382	\$ 388,956
Provision for doubtful accounts	(18,135)	(19,109)
Net patient service revenue, less provision for doubtful accounts	<u>366,247</u>	369,847
Medicaid assessment program revenue	<u>12,601</u>	10,329
<b>Total net patient service revenue</b>	<b>378,848</b>	380,176
Investment income	25,595	67,705
Other revenue	<u>7,239</u>	9,441
<b>Total revenue</b>	<b><u>411,682</u></b>	<u>457,322</u>
Expenses:		
Salaries and employee benefits	219,018	223,954
Supplies and other	105,223	100,433
Physicians' fees	1,910	3,212
Interest and financing costs	10,533	10,706
Depreciation and amortization	31,845	29,203
Insurance	5,696	9,452
Utilities	4,019	4,351
Medicaid assessment program expense	<u>13,309</u>	12,081
<b>Total expenses</b>	<b><u>391,553</u></b>	<u>393,392</u>
<b>Operating income</b>	<b>20,129</b>	63,930
Nonoperating gains:		
Unrestricted contributions	<u>454</u>	759
<b>Excess of revenue over expenses</b>	<b>20,583</b>	64,689
Net changes in unrealized gains and losses on investments	<u>61,471</u>	(30,836)
<b>Increase in unrestricted net assets</b>	<b><u>\$ 82,054</u></b>	<u>\$ 33,853</u>

See notes to consolidated financial statements.

**The St. George Corporation and Subsidiaries**

**Consolidated Statements of Changes in Net Assets**  
**Years Ended December 31, 2017 and 2016**  
**(Dollars in Thousands)**

	2017	2016
Unrestricted net assets:		
Excess of revenue over expenses	\$ 20,583	\$ 64,689
Net changes in unrealized gains and losses on investments	<u>61,471</u>	<u>(30,836)</u>
<b>Increase in unrestricted net assets</b>	<b><u>82,054</u></b>	<b><u>33,853</u></b>
Temporarily restricted net assets:		
Contributions	104	175
Net assets released from restriction	<u>(70)</u>	<u>(65)</u>
<b>Increase in temporarily restricted net assets</b>	<b><u>34</u></b>	<b><u>110</u></b>
<b>Increase in net assets</b>	<b><u>82,088</u></b>	<b><u>33,963</u></b>
Net assets:		
Beginning of year	<u>947,113</u>	<u>913,150</u>
End of year	<b><u>\$ 1,029,201</u></b>	<b><u>\$ 947,113</u></b>

See notes to consolidated financial statements.

**The St. George Corporation and Subsidiaries**

**Consolidated Statements of Cash Flows**  
**Years Ended December 31, 2017 and 2016**  
**(Dollars in Thousands)**

	2017	2016
Cash flows from operating activities:		
Change in net assets	\$ 82,088	\$ 33,963
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net changes in unrealized gains and losses on investments	(61,471)	30,836
Realized gain on investments	(8,507)	(52,019)
Loss on disposal of property and equipment	264	30
Change in undistributed income of investment in joint venture	1,708	(41)
Depreciation and amortization	31,761	29,169
Provision for doubtful accounts	18,135	19,109
Change in operating assets and liabilities:		
Patient accounts receivable	(14,484)	(36,833)
Other assets	404	(938)
Accounts payable	(2,255)	2,985
Accrued liabilities and other	66	(13,777)
Due to third-party payors	(5,120)	(1,028)
Professional liability	(6,744)	706
<b>Net cash provided by operating activities</b>	<b>35,845</b>	<b>12,162</b>
Cash flows from investing activities:		
Construction and other additions to property and equipment	(58,130)	(66,388)
Purchase of investments and assets limited as to use	(683,827)	(731,896)
Proceeds from sales of investments and assets limited as to use	716,597	800,500
<b>Net cash (used in) provided by investing activities</b>	<b>(25,360)</b>	<b>2,216</b>
Cash flows from financing activities:		
Principal payments of long-term debt	(9,920)	(9,425)
<b>Net cash used in financing activities</b>	<b>(9,920)</b>	<b>(9,425)</b>
<b>Net increase in cash and cash equivalents</b>	<b>565</b>	<b>4,953</b>
Cash and cash equivalents:		
Beginning of year	8,299	3,346
End of year	\$ 8,864	\$ 8,299
Supplemental disclosure of cash flow information:		
Cash paid for interest, net of amounts capitalized	\$ 11,893	\$ 10,735
Supplemental schedule of non-cash investing and financing activities:		
Property and equipment additions included in accounts payable and accrued liabilities	\$ 8,941	\$ 6,002

See notes to consolidated financial statements.

## The St. George Corporation and Subsidiaries

### Notes to Consolidated Financial Statements (Dollars in Thousands)

---

#### Note 1. Nature of Organization and Significant Accounting Policies

**Organization and nature of business:** The St. George Corporation, an Illinois not-for-profit corporation (St. George), is the sole corporate member of Palos Community Hospital (the Hospital), also an Illinois not-for-profit corporation. Palos Medical Group (PMG) is a limited liability company whose sole member is the Hospital. In January 2015, St. George Assurance, Ltd. (SGA) was incorporated as a Cayman Islands-based captive insurance company that provides professional liability coverage to the Hospital and PMG. Chicago Health Colleagues, LLC (CHC), a limited liability company, was formed and began operations in 2015. CHC will facilitate collaboration between the Hospital and physicians to measure quality through the delivery of evidence-based care and provide value by coordinating care efficiently. Palos Imaging, LLC (the Imaging Center), a limited liability company, was formed in November 2014. It began operations in late 2016 and currently offers MRI, CT, and PET scanning, ultrasound and diagnostic x-ray services in an ambulatory setting. In February 2017, Sigma PSO, LLC (Sigma), a limited liability company, was formed. Sigma will improve patient safety and the quality of healthcare delivery. St. George is the sole member of Sigma. The Hospital is the sole member of SGA, the Imaging Center and CHC.

St. George, together with the Hospital (collectively, the Obligated Group), are members of an obligated group under the terms of a Master Trust Indenture (Indenture) for purposes of long-term borrowing. All members of the Obligated Group are jointly and severally obligated to pay all debt issued under the Indenture.

In February 2010, a primary care physician group practice was purchased by St. George to form the initial group for PMG. PMG, a physician practice that was established as a separate corporate entity outside of the Obligated Group, employs primary care physicians and select specialists to help better serve the needs of the community as it relates to the projected shortages of such physicians.

St. George's purpose is to solicit and receive contributions on behalf of the Hospital and PMG, support educational activities related to rendering health care services and to support the Hospital and PMG and their respective purposes. The Hospital is a licensed 425-bed acute care facility located in Palos Heights, Illinois, providing inpatient, outpatient, and emergency care services primarily to residents of the southwest suburbs of Chicago. PMG employs physicians to provide services to the community. The Imaging Center provides diagnostic imaging services to the community.

St. George was the sole corporate member of the St. George Wellness Center (the Wellness Center), an Illinois not-for-profit corporation. In order to expand an outpatient center at the Wellness Center's location, on January 3, 2017, St. George transferred ownership of the Wellness Center facility, equipment and land to the Village of Orland Park, Illinois. In 2017, the St. George Wellness Center was dissolved.

Significant accounting policies are as follows:

**Principles of consolidation:** The accompanying consolidated financial statements include the accounts of St. George, the Hospital, PMG, the Wellness Center, SGA, CHC, the Imaging Center, and Sigma (collectively, the Corporation). All significant intercompany transactions in these consolidated financial statements have been eliminated.

**Accounting policies:** The Corporation follows accounting standards established by the Financial Accounting Standards Board (FASB) to ensure consistent reporting of financial condition, results of operations, and cash flows. References to Generally Accepted Accounting Principles (U.S. GAAP) in these footnotes are to the *FASB Accounting Standards Codification*<sup>™</sup>, sometimes referred to as the Codification or ASC.

## The St. George Corporation and Subsidiaries

### Notes to Consolidated Financial Statements (Dollars in Thousands)

---

#### Note 1. Nature of Organization and Significant Accounting Policies (Continued)

**Use of estimates:** The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. The use of estimates and assumptions in the preparation of the accompanying consolidated financial statements is primarily related to the determination of the net patient accounts receivable and settlements with third-party payors, and the accrual for professional liability. Due to uncertainties inherent in the estimation and assumption process, it is at least reasonably possible that changes in these estimates and assumptions in the near-term would be material to the consolidated financial statements.

**Basis of presentation:** The Corporation may classify its net assets into three categories, which are unrestricted, temporarily restricted and permanently restricted.

Unrestricted net assets are reflective of revenues and expenses associated with the principal operating activities of the Corporation and are not subject to donor-imposed stipulations.

Temporarily restricted net assets are subject to donor-imposed stipulations that may or will be met either by actions of the Corporation and/or the passage of time. When a donor restriction expires, 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 restriction.

Permanently restricted net assets are subject to donor-imposed stipulations that they be maintained permanently by the Corporation.

The Corporation had temporarily restricted net assets of \$354 and \$320 at December 31, 2017 and 2016, respectively, whose use has been restricted to the Hospital's animal-assisted therapy program, special events, and nursing scholarships.

The Corporation had no permanently restricted net assets at December 31, 2017 and 2016.

**Donor-restricted gifts:** Unconditional promises to give cash and other assets to the Corporation are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or 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 restriction. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying consolidated financial statements.

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support and are excluded from the excess of revenue over expenses unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

## The St. George Corporation and Subsidiaries

### Notes to Consolidated Financial Statements (Dollars in Thousands)

---

#### Note 1. Nature of Organization and Significant Accounting Policies (Continued)

**Cash and cash equivalents:** All investments that are not externally managed with an original maturity of three months or less at the time of acquisition are reflected as cash equivalents.

Throughout the year, the Corporation may have amounts on deposit with financial institutions in excess of those insured by the Federal Deposit Insurance Corporation (FDIC).

**Patient accounts receivable, allowance for doubtful accounts and due from/to third-party payors:**

The collection of receivables from third-party payors and patients are the Hospital's, PMG's and the Imaging Center's primary source of cash for operations and are critical to their operating performance. The primary collection risks relate to uninsured patient accounts and patient accounts for which the primary insurance payor has paid, but patient responsibility amounts (deductibles and copayments) remain outstanding.

Patient receivables due directly from patients are carried at the original charge for the service provided less amounts covered by third-party payors and less estimated allowances for doubtful accounts. Management estimates the allowance for doubtful accounts based on the aging of its accounts receivable and its historical collection experience for each payor type. Recoveries of accounts receivable previously written off as uncollectible are recorded as a reduction of the provision for doubtful accounts when received. For receivables associated with services provided to patients who have third-party coverage, the Hospital analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for doubtful accounts if necessary (for example, for unexpected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Hospital records a significant provision for doubtful accounts 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. Patients who meet certain criteria under the Hospital's charity care policy are eligible for discounts from the Hospital's established rates. The difference between the standard rates (or the discounted rates if applicable) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

The past due status of receivables is determined on a case-by-case basis depending on the payor responsible. Interest is generally not charged on past due accounts.

The Hospital's allowance for doubtful accounts for self-pay patients was approximately 18 and 24 percent of patient accounts receivable at December 31, 2017 and 2016, respectively. The Hospital's self-pay write-offs were \$24,848 and \$25,485 in 2017 and 2016, respectively. The decrease in the allowance for doubtful accounts is primarily the result of allowance adjustments based upon observed collection results throughout the year and the result of the resolution of accounts from the prior patient accounting system that had been included in the allowances in 2016. The Hospital does not maintain a material allowance for uncollectible accounts from third-party payors, nor did it have significant write-offs from third-party payors.

## The St. George Corporation and Subsidiaries

### Notes to Consolidated Financial Statements (Dollars in Thousands)

---

#### Note 1. Nature of Organization and Significant Accounting Policies (Continued)

Receivables or payables related to estimated settlements on various payor contracts, primarily Medicare and Blue Cross, are reported as amounts due from or to third-party payors. Significant changes in payor mix, business office operations, economic conditions or trends in federal and state governmental health care coverage could affect the Hospital's collection of accounts receivable, cash flows and results of operations.

**Inventories:** Inventories are stated at the lower of cost (first-in, first-out method) or net realizable value. Inventories consist mainly of supplies and pharmaceuticals.

**Investments and assets limited as to use:** Investments, including investments held as assets limited as to use, consist of debt and equity securities recorded at fair value. Investments classified as assets limited as to use include investments set aside by the board of directors for future capital replacement and expansion and self-insurance over which the board of directors retains control and may, at its discretion, subsequently use for other purposes. Assets limited as to use also include trustee held investments related to the Corporation's deferred compensation plan. All other investments are classified as current assets and are available for current operations. Investment income and realized gains and losses are included in investment income in the accompanying consolidated statements of operations. Unrealized gains and losses in the fair value of investments other than alternative investments, are reflected as increases or decreases in unrestricted net assets in the accompanying consolidated statements of operations and changes in net assets unless such unrealized losses are deemed to be an "other-than-temporary decline" in which case the decline is recognized as an investment loss included in investment income in the accompanying consolidated statements of operations. All realized and unrealized gains on alternative investments are included in investment income.

The Corporation assesses whether a decline in an investment value is other-than-temporary on a quarterly basis. The Corporation considers factors affecting the investee, factors affecting the industry the investee operates within, and general debt and equity trends. The Corporation considers the length of time an investment's fair value has been below carrying value, the near-term prospects for recovery to carrying value, and whether it is more likely than not that the Corporation will be required to sell the security before recovery is realized. If and when a determination is made that a decline in fair value below the cost basis is other-than-temporary, the related investment is written down to its estimated fair value and included as a realized loss in excess of revenue over expenses. During 2017 and 2016, the Corporation recorded other-than-temporary declines of \$2,307 and \$7,150, respectively, which adjusted the cost basis for those investments. When the investments are sold, the realized gain or loss will be based upon the adjusted cost basis.

**Joint ventures:** The Hospital's joint venture arrangement with the Southwest Hospitals MRI, Inc. which included a 50 percent interest in the entity, was divested and dissolved during 2017. This investment was accounted for on the equity method and is included in other assets in the accompanying 2016 consolidated balance sheet.

St. George has a joint venture arrangement with Palos Surgicenter, LLC, which includes a 39 percent interest in the entity. This investment is accounted for on the equity method and is included in other assets in the accompanying consolidated balance sheets.

In February 2017, the Hospital formed a joint venture arrangement, South Campus Partners, Inc. (SC Partners), which includes a 51 percent interest in the entity. SC Partners had no activity in 2017. This investment will be accounted for on the equity method.

## The St. George Corporation and Subsidiaries

### Notes to Consolidated Financial Statements (Dollars in Thousands)

---

#### Note 1. Nature of Organization and Significant Accounting Policies (Continued)

**Property and equipment:** Property and equipment are recorded at cost and depreciated using the straight-line method. The estimated useful lives of depreciable property and equipment range from 10 to 20 years for land improvements, 8 to 40 years for buildings, building components and improvements, and 3 to 25 years for equipment.

Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

**Deferred financing costs:** Deferred financing costs are amortized using the effective interest method over the period which the related debt is expected to be outstanding and are reported as a reduction of long-term debt in the accompanying consolidated balance sheets.

**Accrued professional liability:** The provision for accrued professional liability includes estimates of the ultimate costs of claims incurred but not reported and is actuarially determined.

**Net patient service revenue:** The Hospital, PMG, and the Imaging Center have agreements with third-party payors that provide for payments to them at amounts different from their established rates. Contractual adjustments under third-party reimbursement programs represent the difference between the Hospital's, PMG's and the Imaging Center's billings at list price and the amounts reimbursed by Medicare, Medicaid, Blue Cross, and certain other third-party payors; and any differences between estimated third-party reimbursement settlements for prior years and subsequent final settlements. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, per diem payments, and per procedure payments. 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 third-party payors. Contractual adjustments under third-party reimbursement programs are accrued on an estimated basis in the period the related services are rendered and are adjusted in future periods as final settlements are determined.

**Uncompensated care and community service:** The Corporation provides care to all patients regardless of their ability to pay. Uncompensated care and community service provided by the Corporation are excluded from net patient service revenue.

**Operating income:** The consolidated statements of operations include operating income. Changes in unrestricted net assets that are excluded from operating income include unrestricted contributions and other gains and losses, which management views as outside of normal activity.

**Excess of revenue over expenses:** The consolidated statements of operations include excess of revenue over expenses that represents the results of operations. Changes in unrestricted net assets that are excluded from excess of revenue over expenses include net changes in unrealized gains and losses on investments not designated as trading securities.

## The St. George Corporation and Subsidiaries

### Notes to Consolidated Financial Statements (Dollars in Thousands)

---

#### Note 1. Nature of Organization and Significant Accounting Policies (Continued)

**Income taxes:** St. George, the Hospital, and the Wellness Center have received determination letters from the Internal Revenue Service (IRS) stating that they are exempt from the payment of income taxes under Section 501(c)(3) of the Internal Revenue Code. PMG is a disregarded entity and is considered part of the Hospital for income tax filing purposes. SGA is incorporated under the laws of the Cayman Islands, which imposes no tax on income or capital gains. However, SGA is subject to U.S. federal corporate taxation to the extent that it generates income that is effectively connected with a U.S. trade or business. SGA is not engaged in any such trade or business in the U.S. Accordingly, income taxes are not provided for in the accompanying consolidated financial statements. CHC, the Imaging Center and Sigma are also disregarded entities for income tax purposes.

The Corporation follows the FASB-issued guidance for accounting for uncertainty in income taxes. St. George, the Hospital and the Wellness Center each file a Form 990 (Return of Organization Exempt from Income Tax) annually. When these returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would ultimately be sustained. Examples of tax positions common to health systems include such matters as the following: the tax exempt status of each entity, the continued tax exempt status of bonds issued by the obligated group, the nature, characterization and taxability of joint venture income and various positions relative to potential sources of unrelated business taxable income (UBTI). UBTI is reported on Form 990-T, as appropriate. The benefit of a tax position is recognized in the consolidated financial statements in the period during which, based on all available evidence, management believes that it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any.

Tax positions are not offset or aggregated with other positions. Tax positions that meet the “more-likely-than-not” recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely to be realized on settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying consolidated balance sheets along with any associated interest and penalties that would be payable to the taxing authorities upon examination. Upon the adoption of the FASB-issued guidance at January 1, 2007, and since that date through December 31, 2017, there were no unrecognized tax benefits identified and recorded as a liability.

Forms 990 and 990-T filed by St. George, the Hospital and the Wellness Center are subject to examination by the IRS up to three years from the extended due date of each return. Forms 990 and 990-T filed by St. George, the Hospital and the Wellness Center are no longer subject to examination for the years 2013 and prior.

**Newly adopted accounting pronouncement:** In May 2015, the FASB issued Accounting Standards Update (ASU) 2015-07, *Fair Value Measurement (Topic 850): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, which removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. ASU 2015-07 also limits certain disclosures to investments for which the Corporation has elected to measure the fair value using the practical expedient. The Corporation adopted the provisions of ASU 2015-07 in 2017, which also required retrospective application to the prior year presented. See Note 12.

## The St. George Corporation and Subsidiaries

### Notes to Consolidated Financial Statements (Dollars in Thousands)

---

#### Note 1. Nature of Organization and Significant Accounting Policies (Continued)

**Recent accounting pronouncements:** In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. ASU 2016-18 applies to all entities that have restricted cash or restricted cash equivalents and are required to present a statement of cash flows. Its provisions require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. As a result, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The new standard will be effective for the Corporation's December 31, 2019, consolidated financial statements. Early adoption is permitted. ASU 2016-18 requires a retrospective transition method. The Corporation is currently evaluating the effect of the new standard on the consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. ASU 2016-15 provides guidance on how certain cash receipts and cash payments should be presented and classified in the statement of cash flows with the objective of reducing existing diversity in practice with respect to these items. The new standard will be effective for the Corporation's December 31, 2019, consolidated financial statements. Early adoption is permitted. ASU 2016-15 requires a retrospective transition method. However, if it is impracticable to apply the amendments retrospectively for some of the issues, the amendments for those issues would be applied prospectively as of the earliest date practicable. The Corporation is currently evaluating the effect of the new standard on the consolidated financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Key elements of the ASU 2016-14 include a reduction in the number of net asset categories from three to two, conforming requirements on releases of capital restrictions, several new requirements related to expense presentation and disclosure (including investment expenses), and new required disclosures communicating information useful in assessing liquidity. ASU 2016-14 will be effective for the Corporation's December 31, 2018, consolidated financial statements. Retrospective application is required for many provisions of this guidance. The Corporation is currently evaluating the effect of the new standard on the consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of operations. The new standard is effective for the Corporation's December 31, 2019, consolidated financial statements. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Corporation is currently evaluating the impact of the pending adoption of the new standard on the consolidated financial statements.

## The St. George Corporation and Subsidiaries

### Notes to Consolidated Financial Statements (Dollars in Thousands)

---

#### Note 1. Nature of Organization and Significant Accounting Policies (Continued)

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, which changes how entities account for equity investments that do not result in consolidation and are not accounted for under the equity method of accounting. Entities will be required to measure these investments at fair value at the end of each reporting period and recognize changes in fair value in net income. ASU 2016-01 also changes certain disclosure requirements and other aspects of current U.S. GAAP. ASU 2016-01 will be effective for the Corporation's December 31, 2019, consolidated financial statements. In 2015, the Corporation elected to early adopt the amendment within ASU 2016-01 that no longer requires disclosure of the fair value of financial instruments that are not measured at fair value and as such, these disclosures are not included herein. The Corporation is currently evaluating the effect of the pending adoption of the remaining provisions of ASU 2016-01 on the consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP, including industry-specific guidance, when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. The updated standard will be effective for the Corporation's December 31, 2018, consolidated financial statements. The Corporation adopted ASU 2014-09 on January 1, 2018, using the modified retrospective method of transition. The effect on the Corporation's consolidated financial statements of adopting ASU 2014-09 is considered immaterial as revenue recognition under the new standard is not materially different compared to our current practice. The primary effect is certain amounts previously reported as provision for doubtful accounts will now be considered implicit price concessions reported as a reduction of gross patient service revenue. The remaining provision for doubtful accounts is reported as an operating expense under the new revenue recognition standard rather than as a reduction of net patient service revenue.

**Reclassifications:** Certain prior year amounts have been reclassified to conform to the current year presentation, with no effect on the excess of revenue over expenses or net assets.

**Subsequent events:** The Corporation has evaluated subsequent events for potential recognition and/or disclosure through April 9, 2018, the date the consolidated financial statements were issued.

#### Note 2. Net Patient Service Revenue

A summary of the basis of reimbursement with major third-party payors follows:

**Medicare:** The Hospital is paid for inpatient acute care and outpatient care services, and the Imaging Center is paid for its services, rendered to Medicare program beneficiaries under prospectively determined rates per discharge (Prospective Payment Systems). These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. The Hospital's classification of patients under Prospective Payment Systems and the appropriateness of the patient's admissions are subject to validation reviews. The Hospital is reimbursed for cost reimbursable items, such as Medicare patient bad debts, at tentative rates with final settlement determined after submission of annual reimbursement reports by the Hospital and audits by the Medicare fiscal intermediary. PMG is reimbursed based on the Current Procedural Terminology (CPT) codes billed by the physicians for the services provided to Medicare patients.

## The St. George Corporation and Subsidiaries

### Notes to Consolidated Financial Statements (Dollars in Thousands)

---

#### Note 2. Net Patient Service Revenue (Continued)

**Medicaid:** The Hospital is reimbursed at prospectively determined rates for each Medicaid inpatient discharge. Hospital outpatient services and Imaging Center services are reimbursed based on established fee screens. For inpatient acute care services, payment rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. The prospectively determined rates are not subject to retroactive adjustment. PMG is reimbursed based on the CPT codes billed by the physicians for the services provided. Medicaid reimbursement may be subject to periodic adjustment, as well as to changes in existing payment levels and rates, based on the amount of funding available to the Medicaid program.

Commencing in 2014, the State of Illinois mandated certain regions of the state, which included Chicagoland, to enroll all Medicaid recipients into managed care health plans. The Hospital has contractual arrangements with various Medicaid managed care health plans which call for the Hospital to be paid for covered services at negotiated rates which at a minimum must be equal to the Medicaid rate.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The Hospital, PMG and the Imaging Center believe that they are in compliance with all applicable laws and regulations and are not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs. Net patient service revenue was increased in 2017 and 2016 by the impact of third-party settlements and changes in allowance estimates in the amounts of \$4,190 and \$467, respectively.

**Illinois Medicaid reform:** On June 16, 2014, the Governor of Illinois signed legislation to reform Illinois Medicaid. The legislation codified Medicaid rate reform and payment system changes proposed by the Illinois Department of Healthcare and Family Services (IDHFS). It included protections to prevent future rate reductions by IDHFS and a transition period of four years until June 30, 2018. It extended the current and enhanced Medicaid hospital tax assessment programs through June 30, 2018, and included new funding to hospitals which was used to attract additional Federal matching funds on the expanded Medicaid population.

IDHFS is currently redesigning the Illinois Medicaid hospital reimbursement system, including the Hospital tax assessment program payments described below, which are scheduled to sunset effective June 30, 2018. The effects of the redesign cannot currently be estimated, however, changes to payments received and made by the Hospital under this program could have an adverse effect on the Hospital's operations.

**Medicaid hospital tax assessment program:** The Hospital participates in the State of Illinois hospital tax assessment program which is administered by IDHFS. The provider assessment program payments are in effect for the state fiscal years ending each June 30. The laws and regulations authorizing this program have been extended through June 30, 2018. For the years ended December 31, 2017 and 2016, the Hospital has recorded \$12,601 and \$10,329, respectively, in assessment revenue and \$13,309 and \$12,081, respectively, in assessment expense (Medicaid tax).

## The St. George Corporation and Subsidiaries

### Notes to Consolidated Financial Statements (Dollars in Thousands)

---

#### Note 2. Net Patient Service Revenue (Continued)

**Blue Cross:** Substantially all of the Hospital's, PMG's and the Imaging Center's reimbursement from Blue Cross is derived from two managed care contracts, which reimburse the Hospital and the Imaging Center based on a combination of discounts from established charges and prospectively determined rates, and PMG on a per procedure rate determined by CPT code. The Hospital also participates as a provider of health care services under a cost-based reimbursement agreement with Blue Cross.

**Managed care organizations:** The Hospital, PMG and the Imaging Center have also entered into reimbursement agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment under these agreements includes discounts from established charges and prospectively determined per diem, per case and per procedure rates.

#### Note 3. Concentration of Credit Risk

The Corporation grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of net receivables from patients and third-party payors, before consideration of the allowance for doubtful accounts, at December 31, 2017 and 2016, was as follows:

	2017	2016
Blue Cross managed care	12 %	13 %
Commercial and managed care, other than Blue Cross	28	28
Self-pay	36	35
Medicare	20	19
Medicaid	4	5
	<u>100 %</u>	<u>100 %</u>

The mix of the Corporation's patient service revenue, before provision for uncollectible accounts, from patients and third-party payors in 2017 and 2016, was as follows:

	2017	2016
Blue Cross managed care	27 %	31 %
Commercial and managed care, other than Blue Cross	13	17
Self-pay	6	4
Medicare	51	44
Medicaid	3	4
	<u>100 %</u>	<u>100 %</u>

Medicare and Medicaid managed care activity is reflected in Medicare and Medicaid in the above tables.

## The St. George Corporation and Subsidiaries

### Notes to Consolidated Financial Statements (Dollars in Thousands)

---

#### Note 4. Community Commitment and Charity Care

In the ordinary course of business, the Corporation renders services to patients who are financially unable to pay for medical care. The Corporation provides care to these patients who meet certain criteria under its charity care policy without charge or at amounts less than the established rates. Charity care eligibility is established based on limited or no insurance coverage, income compared to published poverty levels and family size, as well as other factors. Because the Corporation does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The Corporation maintains records to identify and monitor the level of charity care it provides. Charity care is measured based on the Corporation's estimated direct and indirect costs of providing charity care services. That estimate is made by calculating a ratio of cost to gross charges, applied to the uncompensated charges associated with providing charity care to patients. The estimated cost of charity care provided during 2017 and 2016 was \$2,365 and \$2,066, respectively.

#### Note 5. Investments and Assets Limited as to Use

The composition of investments and assets limited as to use (including amounts classified as current assets) at December 31, 2017 and 2016, consists of the following:

	2017	2016
U.S. Government and agency securities	\$ 108,844	\$ 171,730
Equities	416,155	346,693
Corporate bonds	216,478	238,973
Collateralized mortgage obligations	109,314	50,828
Cash and cash equivalents	34,520	38,856
Accrued interest and other	2,419	2,686
Alternative investments	1,568	2,324
	<u>\$ 889,298</u>	<u>\$ 852,090</u>

Investment income for 2017 and 2016 consists of the following:

	2017	2016
Interest and other investment income	\$ 17,460	\$ 15,812
Realized gain, net (including other-than-temporary impairment loss of \$2,307 in 2017 and \$7,150 in 2016)	8,507	52,019
Loss on alternative investments	(372)	(126)
	<u>\$ 25,595</u>	<u>\$ 67,705</u>

The Corporation has invested in certain alternative investments (international bond funds) which are structured as commingled funds and are included in investments and assets limited as to use in the consolidated balance sheets.

## The St. George Corporation and Subsidiaries

### Notes to Consolidated Financial Statements (Dollars in Thousands)

#### Note 5. Investments and Assets Limited as to Use (Continued)

Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, such as the collateralized mortgage obligations, it is reasonably possible that changes in the fair value of investment securities will occur in the near-term and that such change could materially affect amounts reported in the consolidated balance sheets.

The following table summarizes the unrealized losses and fair value of the Corporation's investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2017 and 2016.

	Less Than Twelve Months		Twelve Months or Longer	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<b>2017</b>				
U.S. Government and agency securities	\$ 24,517	\$ 146	\$ 17,058	\$ 137
Equities	733	137	10,364	1,039
Corporate bonds	26,089	130	50,319	344
Collateralized mortgage obligations	8,405	50	11,928	482
Total	<u>\$ 59,744</u>	<u>\$ 463</u>	<u>\$ 89,669</u>	<u>\$ 2,002</u>
	Less Than Twelve Months		Twelve Months or Longer	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<b>2016</b>				
U.S. Government and agency securities	\$ 74,963	\$ 1,906	\$ 39,838	\$ 1,624
Equities	23,695	1,444	-	-
Corporate bonds	123,847	1,792	48,711	546
Collateralized mortgage obligations	8,884	140	11,960	175
Total	<u>\$ 231,389</u>	<u>\$ 5,282</u>	<u>\$ 100,509</u>	<u>\$ 2,345</u>

**U.S. Government and agency securities:** The contractual cash flows of these investments are guaranteed by an agency of the U.S. Government. Accordingly, it is expected that the securities would not be settled at a price less than the amortized cost of the Corporation's investment. Because the decline in market value is attributable to changes in interest rates and not credit quality and because it is not more likely than not that the Corporation will be required to sell these investments before a recovery of fair value, which may be maturity, the Corporation does not consider these investments to be other-than-temporarily impaired at December 31, 2017.

**Equities:** The Corporation's investments in marketable equity securities consist of various investments in common stock. Because it is not more likely than not that the Corporation will be required to sell these investments before a forecasted recovery of fair value, the Corporation does not consider these investments to be other-than-temporarily impaired at December 31, 2017.

## The St. George Corporation and Subsidiaries

### Notes to Consolidated Financial Statements (Dollars in Thousands)

---

#### Note 5. Investments and Assets Limited as to Use (Continued)

**Corporate bonds:** The Corporation's unrealized losses on investments in corporate bonds relate to current economic conditions. The unrealized losses were primarily caused by decreases in profitability and near-term profit forecasts by industry analysts. Because it is not more likely than not that the Corporation will be required to sell these investments before a recovery of fair value, which may be maturity, the Corporation does not consider these investments to be other-than-temporarily impaired at December 31, 2017.

**Collateralized mortgage obligations:** The unrealized losses on the Corporation's investments in collateralized mortgage obligations were caused by current economic conditions. Because it is not more likely than not that the Corporation will be required to sell these investments before a recovery of fair value, which may be maturity, the Corporation does not consider these investments to be other-than-temporarily impaired at December 31, 2017.

**Derivative financial instruments:** To enhance investment return and manage risk associated with fixed income securities, the Corporation has entered into various futures and options contracts as a part of its investment portfolio. The Corporation backs these positions with liquid investments from its investment accounts. At December 31, 2017 and 2016, the Corporation had contracts to buy securities for \$46,107 and \$34,829, respectively, and contracts to sell securities for \$148,794 and \$69,036, respectively. The fair value of these contracts is insignificant and is included in cash and cash equivalents.

#### Note 6. Investments in Joint Ventures

Investments in joint ventures, included in other assets on the consolidated balance sheets, total \$1,184 and \$2,892 at December 31, 2017 and 2016, respectively. These investments are accounted for under the equity method. Net income from these investments is included in other revenue in the Corporation's consolidated statements of operations as these investments are directly related to the Corporation's core business. Summarized (unaudited) information as to assets, liabilities, total equity, and net income (loss) of the investees as of and for the years ended December 31, 2017 and 2016, is presented below:

	2017		2016	
	Palos Surgicenter, LLC	Southwest Hospitals MRI, Inc.	Palos Surgicenter, LLC	Southwest Hospitals MRI, Inc.
Assets	\$ 4,067	\$ -	\$ 4,262	\$ 4,205
Liabilities	1,294	-	1,686	9
Total equity	2,773	-	2,576	4,196
Net income (loss)	639	-	(1)	(95)

Palos Surgicenter, LLC, a limited liability company owned 39 percent by St. George, performs outpatient surgical procedures.

Southwest Hospitals MRI, Inc., a not-for-profit corporation in which the Hospital had a 50 percent interest, provided diagnostic MRI tests.

## The St. George Corporation and Subsidiaries

### Notes to Consolidated Financial Statements (Dollars in Thousands)

#### Note 6. Investments in Joint Ventures (Continued)

SC Partners is a not-for-profit corporation in which the Hospital maintains a 51 percent interest, with the remaining 49 percent interest maintained by Loyola University Health System (Loyola). SC Partners' purpose is to develop ambulatory programs and services to assure quality care for patients of the region with services primarily located at the Corporation's South Campus in Orland Park, Illinois. SC Partners owns the Palos Health Surgery Center (PHSC) currently under construction at the South Campus. SC Partners also intends to own and operate, under a management/clinical agreement with Loyola, radiation oncology services, which are also currently under development at the South Campus.

#### Note 7. Long-Term Debt and Pledged Assets

Long-term debt at December 31, 2017 and 2016, consists of the following:

	2017	2016
Illinois Finance Authority Revenue Bonds, Series 2010C, bearing interest at fixed rates ranging from 5% to 5.37%, varying principal payments due through May 2035	\$ 131,880	\$ 139,900
Illinois Finance Authority Revenue Bonds, Series 2015B, variable interest at a LIBOR-based rate (1.575% at December 31, 2017), varying principal payments due beginning October 2019 through October 2040	57,260	57,260
Illinois Finance Authority Revenue Bonds, Series 2015C, variable interest at a LIBOR-based rate (1.585% at December 31, 2017), varying principal payments due beginning October 2019 through October 2040	43,215	43,215
Illinois Finance Authority Revenue Bonds, Series 2015D, bearing interest at a fixed interest rate of 2.25%, varying principal payments due beginning October 2019 through October 2037	44,790	44,790
Illinois Finance Authority Revenue Bonds, Series 2015E, bearing interest at a fixed interest rate of 2.32%, varying principal payments due beginning October 2019 through October 2037	36,970	36,970
Illinois Finance Authority Revenue Bonds, Series 2015F, bearing interest at a fixed rate of 2.99%, varying principal payments due through October 2037	46,080	47,980
	<u>360,195</u>	<u>370,115</u>
Add: unamortized bond premium	2,314	2,523
Less: unamortized deferred financing costs	(2,319)	(2,444)
	<u>360,190</u>	<u>370,194</u>
Less: current portion	(10,365)	(9,920)
Long-term debt	<u>\$ 349,825</u>	<u>\$ 360,274</u>

The revenue bonds are collateralized by substantially all assets of the Obligated Group. The provisions of the Indenture require the Obligated Group to maintain certain financial covenants, including a minimum debt service coverage level, number of days cash on hand, and a specified maximum funded indebtedness ratio.

## The St. George Corporation and Subsidiaries

### Notes to Consolidated Financial Statements (Dollars in Thousands)

---

#### Note 7. Long-Term Debt and Pledged Assets (Continued)

Scheduled repayments of long-term debt are as follows:

Years ending December 31:

2018	\$	10,365
2019		10,060
2020		10,470
2021		10,875
2022		11,325
Thereafter		307,100
		<u>\$ 360,195</u>

Interest and financing costs in 2017 and 2016 are comprised of the following:

	<u>2017</u>	<u>2016</u>
Interest	\$ 11,771	\$ 11,875
Less amounts capitalized	(1,154)	(1,086)
Amortization of bond premium	(209)	(209)
Amortization of deferred financing costs	125	126
	<u>\$ 10,533</u>	<u>\$ 10,706</u>

#### Note 8. Retirement and Deferred Compensation Plans

The Corporation has a contributory retirement plan (the Plan) covering eligible employees. The Plan is a defined contribution plan whereby benefits are determined by the accumulation of contributions made on each employee's behalf prior to retirement. Under the Plan, the Corporation is obligated to provide a matching contribution up to 7.5 percent. Annual contributions are based on a percentage of the eligible employee's salary. Expense related to the Corporation's contributions to the Plan was \$8,424 and \$8,717 in 2017 and 2016, respectively.

The Corporation maintains a deferred compensation plan under Section 457(b) of the Internal Revenue Code to provide enhanced benefits to eligible executives and physicians. Deferred amounts plus earnings are maintained in a trust and are available to participants or their beneficiaries at retirement, termination of employment, unforeseeable emergency or death. Amounts in the trust totaled \$4,361 and \$3,600 at December 31, 2017 and 2016, respectively, and are reported as assets limited to use – trustee held, in the accompanying consolidated balance sheets. Related deferred compensation liabilities are included in accrued liabilities and other current liabilities in the accompanying consolidated balance sheets.

## The St. George Corporation and Subsidiaries

### Notes to Consolidated Financial Statements (Dollars in Thousands)

---

#### Note 9. Professional Liability Insurance

Through the normal course of operations, the Hospital and PMG become subject to claims alleging professional malpractice. Since July 1, 1985, the Hospital has been self-insured for professional malpractice liability claims. Commercial coverage is maintained for losses in excess of a per-claim self-insured retention. PMG's professional malpractice liability exposures are covered within the same program.

Beginning January 1, 2015, SGA assumed the historical professional liability under the Hospital's self-insurance program for claims reported before January 1, 2015, and those reported thereafter arising out of occurrences from July 1, 1985 through December 31, 2014, under a Loss Portfolio Transfer Agreement (LPT). The LPT is subject to a retrospective rating plan between the Hospital, PMG and SGA such that risk is not transferred to SGA. Accordingly, the Hospital and PMG continue to accrue the liability for both claims reported and estimated claims incurred but not reported.

The Hospital and PMG have recorded a discounted liability of \$34,939 and \$41,683 at December 31, 2017 and 2016, respectively, for professional and general liability insurance, of which \$29,219 and \$35,210 is recorded as a noncurrent liability at December 31, 2017 and 2016, respectively. The discount rate used was 4.25 percent and 4.5 percent in 2017 and 2016, respectively. The related undiscounted liability is approximately \$5,793 and \$7,298 higher at December 31, 2017 and 2016, respectively.

Insurance recoveries receivable of \$3,426 and \$5,462 have been recorded as of December 31, 2017 and 2016, respectively, and are included in other assets in the accompanying consolidated balance sheets.

In the opinion of management, the ultimate disposition of claims covered under its professional liability coverage will not have a material adverse effect on the financial position of the Corporation.

#### Note 10. Functional Expenses

The Corporation's expenses related to providing health care services to its patients for 2017 and 2016, including allocations of depreciation and interest expense, are as follows:

	2017	2016
Health care services	\$ 305,162	\$ 313,039
General and administrative	86,200	80,222
Fundraising	191	131
	<u>\$ 391,553</u>	<u>\$ 393,392</u>

#### Note 11. Commitments and Contingencies

**Litigation:** The Corporation is a defendant in various lawsuits arising in the ordinary course of business. Although the outcome of the lawsuits cannot be determined with certainty, management believes the ultimate disposition of such matters will not have a material effect on the Corporation's consolidated financial statements.

## The St. George Corporation and Subsidiaries

### Notes to Consolidated Financial Statements (Dollars in Thousands)

---

#### Note 11. Commitments and Contingencies (Continued)

**Regulatory investigations:** The U.S. Department of Justice, other federal agencies and the Illinois Department of Public Aid routinely conduct regulatory investigations and compliance audits of health care providers. The Hospital is subject to these regulatory efforts. Management is currently unaware of any regulatory matters which may have a material effect on the Corporation's financial position or results from operations.

**Construction in progress:** The Hospital is currently in the process of the redevelopment of its South Campus in Orland Park. This redevelopment includes the construction of a 75,000 square foot ambulatory care center, connected with the existing South Campus facilities, which will incorporate clinical offices to be occupied by Loyola physician specialists, a radiology oncology center housing the first MRI-guided linear accelerator in the State of Illinois, and an ambulatory surgery center which will be operated as a joint venture with Loyola and syndicated with physician investors. The redevelopment will include new campus access points, roadways and parking improvement which will improve ease of access for patients and staff. Construction for the redevelopment project started in 2016 and is expected to be concluded by November 2018.

At December 31, 2017, the Corporation had entered into commitments totaling approximately \$80,197 related to construction projects and technology upgrades, of which \$52,229 had been paid and \$7,765 has been accrued as of December 31, 2017.

**Regulatory environment including fraud and abuse matters:** The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity continues with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the Hospital, PMG and the Imaging Center are in compliance with fraud and abuse, as well as other applicable government laws and regulations. While no regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or asserted at this time.

**Centers for Medicare and Medicaid Services (CMS) recovery audit contractor program:** Congress passed the Medicare Modernization Act in 2003, which among other things established a three-year demonstration of the Medicare Recovery Audit Contractor (RAC) program. The RAC identified and corrected a significant amount of improper overpayments to providers. In 2006, Congress passed the Tax Relief and Health Care Act of 2006 which authorized the expansion of the RAC program to all 50 states by 2010. CMS implemented the RAC program in Illinois in 2010. Management does not believe that Medicare RAC audits will have a material effect on the Hospital's results of operations or cash flows. The Corporation has recorded a reserve for estimated amounts that will be repaid under the RAC program based on the Hospital's RAC program experience to date.

## The St. George Corporation and Subsidiaries

### Notes to Consolidated Financial Statements (Dollars in Thousands)

---

#### Note 11. Commitments and Contingencies (Continued)

**Property and sales tax exemption:** On June 14, 2012, the Governor of Illinois signed into law legislation that governs property and sales tax exemption for not-for-profit hospitals. The law, which was codified in Section 15-86 of the Illinois *Property Tax Code* and Section 3-8 of the *Service Occupation Tax Act*, took effect on the date it was signed. Under the law, in order to maintain its property and sales tax exemption, the value of specified services and activities of a not-for-profit hospital must equal or exceed the estimated value of the hospital's property tax liability, as determined under a formula in the law. The specified services are those that address the health care needs of low-income or underserved individuals or relieve the burden of government with regard to health care services, and include: the cost of free or discounted services provided pursuant to the hospital's financial assistance policy; other unreimbursed costs of addressing the health needs of low-income and underserved individuals; direct or indirect financial or in-kind subsidies of State and local governments; the unreimbursed cost of treating Medicaid and other means-tested program recipients; the unreimbursed cost of treating dual-eligible Medicare/Medicaid patients; and other activities that the Illinois Department of Revenue determines relieve the burden of government or address the health of low-income or underserved individuals.

On January 5, 2016, the Fourth District Appellate Court of Illinois ruled that Section 15-86 of the Illinois *Property Tax Code* is unconstitutional. This decision was appealed to the Illinois Supreme Court, which on March 23, 2017, vacated the Fourth District Appellate Court's ruling, citing a lack of jurisdiction, and remanded the case to circuit court for reconsideration. However, in its decision the Illinois Supreme Court did not rule on the constitutionality of Section 15-86 of the Illinois *Property Tax Code*, and additional legal challenges to this law may occur. Management continues to believe that the Hospital meets the requirements under the law to maintain its property and sales tax exemption; however, such requirements may change based on the outcome of such future legal challenges.

#### Note 12. Fair Value Disclosures

**Fair value measurements:** U.S. GAAP defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Corporation uses various methods including market, income and cost approaches. Based on these approaches, the Corporation often utilizes certain assumptions that market participants would use in pricing the asset or liability, assuming that market participants act in their economic best interest, including assumptions about risk and or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable inputs. The Corporation utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques, the Corporation is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1: Quoted prices for identical instruments in active markets.

Level 2: Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third-party pricing services for identical or similar assets or liabilities.

Level 3: Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

## The St. George Corporation and Subsidiaries

### Notes to Consolidated Financial Statements (Dollars in Thousands)

---

#### Note 12. Fair Value Disclosures (Continued)

For 2017 and 2016, the application of valuation techniques applied to similar assets and liabilities has been consistent. The following is a description of the valuation techniques and inputs used for instruments measured at fair value:

##### *Investments in Marketable Securities*

The fair value of investments in marketable securities is the market value based on quoted market prices in active markets, when available, or market prices provided by recognized broker-dealers. If listed prices or quotes are not available, fair value is based upon externally developed models that use unobservable inputs due to the limited market activity of the instrument.

##### *Alternative Investments*

Alternative investments with no market activity are valued using the net asset values reported by the investment funds, which in turn is based on the most recent information available to the fund manager for the underlying investments held by the investment fund. The Corporation may make daily redemptions from all of the funds classified as alternative investments at December 31, 2017. At December 31, 2017, there are no unfunded commitments relating to the Corporation's alternative investments.

In determining the appropriate levels, the Corporation performs a detailed analysis of the assets and liabilities that are subject to the fair value hierarchy. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3.

##### Fair Value on a Recurring Basis

The table below presents the balances of assets measured at fair value on a recurring basis, as of December 31, 2017 and 2016.

	December 31, 2017			Total
	Level 1	Level 2	Level 3	
U.S. Government and agency securities	\$ -	\$ 108,844	\$ -	\$ 108,844
Equities <sup>A</sup>	416,155	-	-	416,155
Corporate bonds	220	216,258	-	216,478
Collateralized mortgage obligations	-	109,314	-	109,314
	<u>\$ 416,375</u>	<u>\$ 434,416</u>	<u>\$ -</u>	850,791
Investment measured at NAV:				
International bond fund				1,568
Cash and cash equivalents				34,520
Accrued interest and other				2,419
				<u>\$ 889,298</u>

<sup>A</sup> The investment objective for equities is both growth and value.

**The St. George Corporation and Subsidiaries**

**Notes to Consolidated Financial Statements  
(Dollars in Thousands)**

---

**Note 12. Fair Value Disclosures (Continued)**

	December 31, 2016			Total
	Level 1	Level 2	Level 3	
U.S. Government and agency securities	\$ -	\$ 171,730	\$ -	\$ 171,730
Equities <sup>A</sup>	346,693	-	-	346,693
Corporate bonds	90	238,883	-	238,973
Collateralized mortgage obligations	-	50,828	-	50,828
	<u>\$ 346,783</u>	<u>\$ 461,441</u>	<u>\$ -</u>	<u>808,224</u>
Investment measured at NAV:				
International bond fund				2,324
Cash and cash equivalents				38,856
Accrued interest and other				2,686
				<u>\$ 852,090</u>

<sup>A</sup> The investment objective for equities is both growth and value.

## **Supplementary Information**

The St. George Corporation and Subsidiaries

Consolidating Balance Sheet Information

December 31, 2017

(Dollars in Thousands)

	The St. George Corporation	Palos Community Hospital	Eliminations	Obligated Group	Palos Medical Group	St. George Assurance	Chicago Health Colleagues	St. George Wellness Center	Palos Imaging	Eliminations	Consolidated
<b>Assets</b>											
Current assets:											
Cash and cash equivalents	\$ 26	\$ 6,821	\$ -	\$ 6,847	\$ 678	\$ -	\$ -	\$ -	\$ 1,339	\$ -	\$ 8,864
Investments	-	84,425	-	84,425	-	-	-	-	-	-	84,425
Patient accounts receivable, net	-	56,940	-	56,940	2,192	-	-	-	1,334	-	60,466
Inventories	-	5,504	-	5,504	-	-	-	-	-	-	5,504
Assets limited as to use - internally designated for self-insurance	-	5,720	-	5,720	-	-	-	-	-	-	5,720
Assets limited as to use - trustee held	-	4,361	-	4,361	-	-	-	-	-	-	4,361
Other current assets	-	2,869	-	2,869	-	3,143	-	-	-	(2,914)	3,098
Due from affiliated organizations	2,201	39,491	(3,220)	38,472	5,466	-	301	-	-	(44,239)	-
<b>Total current assets</b>	<b>2,227</b>	<b>206,131</b>	<b>(3,220)</b>	<b>205,138</b>	<b>8,336</b>	<b>3,143</b>	<b>301</b>	<b>-</b>	<b>2,673</b>	<b>(47,153)</b>	<b>172,438</b>
Investments and assets limited as to use:											
Investments internally designated for capital purposes	761,638	-	-	761,638	-	-	-	-	-	-	761,638
Investments internally designated for self-insurance, net of amounts required to meet current obligations	-	-	-	-	-	33,154	-	-	-	-	33,154
<b>Total investments and assets limited as to use</b>	<b>761,638</b>	<b>-</b>	<b>-</b>	<b>761,638</b>	<b>-</b>	<b>33,154</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>794,792</b>
Property and equipment:											
Land and land improvements	1,399	16,621	-	18,020	-	-	-	-	-	-	18,020
Buildings	4,523	524,962	-	529,485	-	-	-	-	-	-	529,485
Equipment	-	213,109	-	213,109	725	-	-	-	-	-	213,834
Construction in progress	-	66,446	-	66,446	-	-	-	-	-	-	66,446
	5,922	821,138	-	827,060	725	-	-	-	-	-	827,785
Less accumulated depreciation	(1,745)	(272,336)	-	(274,081)	(445)	-	-	-	-	-	(274,526)
<b>Property and equipment, net</b>	<b>4,177</b>	<b>548,802</b>	<b>-</b>	<b>552,979</b>	<b>280</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>553,259</b>
Other assets, net	1,184	7,306	-	8,490	227	-	-	-	-	(3,880)	4,837
<b>Total assets</b>	<b>\$ 769,226</b>	<b>\$ 762,239</b>	<b>\$ (3,220)</b>	<b>\$ 1,528,245</b>	<b>\$ 8,843</b>	<b>\$ 36,297</b>	<b>\$ 301</b>	<b>\$ -</b>	<b>\$ 2,673</b>	<b>\$ (51,033)</b>	<b>\$ 1,525,326</b>

(Continued)

The St. George Corporation and Subsidiaries

Consolidating Balance Sheet Information (Continued)

December 31, 2017

(Dollars in Thousands)

	The St. George Corporation	Palos Community Hospital	Eliminations	Obligated Group	Palos Medical Group	St. George Assurance	Chicago Health Colleagues	St. George Wellness Center	Palos Imaging	Eliminations	Consolidated
<b>Liabilities and Net Assets</b>											
Current liabilities:											
Current portion of long-term debt	\$ -	\$ 10,365	\$ -	\$ 10,365	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 10,365
Accounts payable	152	19,174	-	19,326	129	-	13	-	9	-	19,477
Accrued liabilities and other	815	40,989	-	41,804	1,667	1,963	1	-	441	(2,914)	42,962
Due to third-party payors	-	38,557	-	38,557	-	-	-	-	-	-	38,557
Current portion of professional liability	-	5,562	-	5,562	158	-	-	-	-	-	5,720
Due to affiliated organizations	3,220	300	(3,220)	300	4,619	34,234	1,783	-	3,303	(44,239)	-
<b>Total current liabilities</b>	<b>4,187</b>	<b>114,947</b>	<b>(3,220)</b>	<b>115,914</b>	<b>6,573</b>	<b>36,197</b>	<b>1,797</b>	<b>-</b>	<b>3,753</b>	<b>(47,153)</b>	<b>117,081</b>
Professional liability, less current portion	-	26,589	-	26,589	2,630	-	-	-	-	-	29,219
Long-term debt, less current portion	-	349,825	-	349,825	-	-	-	-	-	-	349,825
<b>Total liabilities</b>	<b>4,187</b>	<b>491,361</b>	<b>(3,220)</b>	<b>492,328</b>	<b>9,203</b>	<b>36,197</b>	<b>1,797</b>	<b>-</b>	<b>3,753</b>	<b>(47,153)</b>	<b>496,125</b>
Net assets:											
Unrestricted net assets (deficit)	765,039	270,524	-	1,035,563	(360)	100	(1,496)	-	(1,080)	(3,880)	1,028,847
Temporarily restricted net assets	-	354	-	354	-	-	-	-	-	-	354
<b>Total net assets (deficit)</b>	<b>765,039</b>	<b>270,878</b>	<b>-</b>	<b>1,035,917</b>	<b>(360)</b>	<b>100</b>	<b>(1,496)</b>	<b>-</b>	<b>(1,080)</b>	<b>(3,880)</b>	<b>1,029,201</b>
<b>Total liabilities and net assets</b>	<b>\$ 769,226</b>	<b>\$ 762,239</b>	<b>\$ (3,220)</b>	<b>\$ 1,528,245</b>	<b>\$ 8,843</b>	<b>\$ 36,297</b>	<b>\$ 301</b>	<b>\$ -</b>	<b>\$ 2,673</b>	<b>\$ (51,033)</b>	<b>\$ 1,525,326</b>

The St. George Corporation and Subsidiaries

Consolidating Statement of Operations Information  
Year Ended December 31, 2017  
(Dollars in Thousands)

	The St. George Corporation	Palos Community Hospital	Eliminations	Obligated Group	Palos Medical Group	St. George Assurance	Chicago Health Colleagues	St. George Wellness Center	Palos Imaging	Eliminations	Consolidated
Revenue:											
Patient service revenue	\$ -	\$ 363,471	\$ -	\$ 363,471	\$ 15,160	\$ -	\$ -	\$ -	\$ 5,751	\$ -	\$ 384,382
Provision for doubtful accounts	-	(17,502)	-	(17,502)	-	-	-	-	(633)	-	(18,135)
Net patient service revenue	-	345,969	-	345,969	15,160	-	-	-	5,118	-	366,247
Medicaid assessment program revenue	-	12,601	-	12,601	-	-	-	-	-	-	12,601
<b>Total net patient service revenue</b>	-	358,570	-	358,570	15,160	-	-	-	5,118	-	378,848
Investment income	23,648	1,930	-	25,578	-	17	-	-	-	-	25,595
Other revenue	727	9,358	(128)	9,957	-	-	224	886	-	(3,828)	7,239
<b>Total revenue</b>	<b>24,375</b>	<b>369,858</b>	<b>(128)</b>	<b>394,105</b>	<b>15,160</b>	<b>17</b>	<b>224</b>	<b>886</b>	<b>5,118</b>	<b>(3,828)</b>	<b>411,682</b>
Expenses:											
Salaries and employee benefits	-	196,002	-	196,002	19,767	-	555	34	2,660	-	219,018
Supplies and other	1,316	100,952	(128)	102,140	3,534	-	85	-	3,292	(3,828)	105,223
Physicians' fees	-	1,857	-	1,857	-	17	36	-	-	-	1,910
Interest and financing costs	-	10,533	-	10,533	-	-	-	-	-	-	10,533
Depreciation and amortization	199	31,593	-	31,792	53	-	-	-	-	-	31,845
Insurance	-	4,106	-	4,106	1,590	-	-	-	-	-	5,696
Utilities	106	3,912	-	4,018	-	-	-	1	-	-	4,019
Medicaid assessment program expense	-	13,309	-	13,309	-	-	-	-	-	-	13,309
<b>Total expenses</b>	<b>1,621</b>	<b>362,264</b>	<b>(128)</b>	<b>363,757</b>	<b>24,944</b>	<b>17</b>	<b>676</b>	<b>35</b>	<b>5,952</b>	<b>(3,828)</b>	<b>391,553</b>
<b>Operating income (loss)</b>	<b>22,754</b>	<b>7,594</b>	<b>-</b>	<b>30,348</b>	<b>(9,784)</b>	<b>-</b>	<b>(452)</b>	<b>851</b>	<b>(834)</b>	<b>-</b>	<b>20,129</b>
Nonoperating gains:											
Unrestricted contributions	-	454	-	454	-	-	-	-	-	-	454
<b>Excess (deficiency) of revenue over expenses</b>	<b>22,754</b>	<b>8,048</b>	<b>-</b>	<b>30,802</b>	<b>(9,784)</b>	<b>-</b>	<b>(452)</b>	<b>851</b>	<b>(834)</b>	<b>-</b>	<b>20,583</b>
Other changes in unrestricted net assets:											
Net asset transfers	6	(12,307)	-	(12,301)	12,301	-	-	-	-	-	-
Net changes in unrealized gains and losses on investments	61,220	251	-	61,471	-	-	-	-	-	-	61,471
<b>Increase (decrease) in unrestricted net assets</b>	<b>\$ 83,980</b>	<b>\$ (4,008)</b>	<b>\$ -</b>	<b>\$ 79,972</b>	<b>\$ 2,517</b>	<b>\$ -</b>	<b>\$ (452)</b>	<b>\$ 851</b>	<b>\$ (834)</b>	<b>\$ -</b>	<b>\$ 82,054</b>

The St. George Corporation and Subsidiaries

Consolidating Statement of Changes in Net Assets Information  
Year Ended December 31, 2017  
(Dollars in Thousands)

	The St. George Corporation	Palos Community Hospital	Eliminations	Obligated Group	Palos Medical Group	St. George Assurance	Chicago Health Colleagues	St. George Wellness Center	Palos Imaging	Eliminations	Consolidated
Unrestricted net assets:											
Excess (deficiency) of revenue over expenses	\$ 22,754	\$ 8,048	\$ -	\$ 30,802	\$ (9,784)	\$ -	\$ (452)	\$ 851	\$ (834)	\$ -	\$ 20,583
Net asset transfers	6	(12,307)	-	(12,301)	12,301	-	-	-	-	-	-
Net changes in unrealized gains and losses on investments	61,220	251	-	61,471	-	-	-	-	-	-	61,471
<b>Increase (decrease) in unrestricted net assets</b>	<b>83,980</b>	<b>(4,008)</b>	<b>-</b>	<b>79,972</b>	<b>2,517</b>	<b>-</b>	<b>(452)</b>	<b>851</b>	<b>(834)</b>	<b>-</b>	<b>82,054</b>
Temporarily restricted net assets:											
Contributions	-	104	-	104	-	-	-	-	-	-	104
Net assets released from restriction	-	(70)	-	(70)	-	-	-	-	-	-	(70)
<b>Increase in temporarily restricted net assets</b>	<b>-</b>	<b>34</b>	<b>-</b>	<b>34</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>34</b>
<b>Increase (decrease) in net assets</b>	<b>83,980</b>	<b>(3,974)</b>	<b>-</b>	<b>80,006</b>	<b>2,517</b>	<b>-</b>	<b>(452)</b>	<b>851</b>	<b>(834)</b>	<b>-</b>	<b>82,088</b>
Net assets (deficit):											
Beginning of year	681,059	274,852	-	955,911	(2,877)	100	(1,044)	(851)	(246)	(3,880)	947,113
End of year	<u>\$ 765,039</u>	<u>\$ 270,878</u>	<u>\$ -</u>	<u>\$ 1,035,917</u>	<u>\$ (360)</u>	<u>\$ 100</u>	<u>\$ (1,496)</u>	<u>\$ -</u>	<u>\$ (1,080)</u>	<u>\$ (3,880)</u>	<u>\$ 1,029,201</u>

The St. George Corporation and Subsidiaries

Consolidating Balance Sheet Information

December 31, 2016

(Dollars in Thousands)

	The St. George Corporation	Palos Community Hospital	Eliminations	Obligated Group	Palos Medical Group	St. George Assurance	Chicago Health Colleagues	St. George Wellness Center	Palos Imaging	Eliminations	Consolidated
<b>Assets</b>											
Current assets:											
Cash and cash equivalents	\$ 366	\$ 3,930	\$ -	\$ 4,296	\$ 3,785	\$ -	\$ -	\$ 10	\$ 208	\$ -	\$ 8,299
Investments	-	131,418	-	131,418	-	-	-	-	-	-	131,418
Patient accounts receivable, net	-	61,531	-	61,531	2,059	-	-	3	524	-	64,117
Inventories	-	2,391	-	2,391	-	-	-	9	-	-	2,400
Assets limited as to use - internally designated for self-insurance	-	6,315	-	6,315	-	-	-	-	-	-	6,315
Assets limited as to use - trustee held	-	3,600	-	3,600	-	-	-	-	-	-	3,600
Other current assets	4	3,944	-	3,948	-	690	-	1	-	-	4,639
Due from affiliated organizations	2,776	42,545	(3,357)	41,964	3,252	-	-	-	127	(45,343)	-
<b>Total current assets</b>	<b>3,146</b>	<b>255,674</b>	<b>(3,357)</b>	<b>255,463</b>	<b>9,096</b>	<b>690</b>	<b>-</b>	<b>23</b>	<b>859</b>	<b>(45,343)</b>	<b>220,788</b>
Investments and assets limited as to use:											
Investments internally designated for capital purposes	676,441	-	-	676,441	-	-	-	-	-	-	676,441
Investments internally designated for self-insurance, net of amounts required to meet current obligations	-	-	-	-	-	34,316	-	-	-	-	34,316
<b>Total investments and assets limited as to use</b>	<b>676,441</b>	<b>-</b>	<b>-</b>	<b>676,441</b>	<b>-</b>	<b>34,316</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>710,757</b>
Property and equipment:											
Land and land improvements	1,386	16,981	-	18,367	-	-	-	19	-	-	18,386
Buildings	4,501	494,609	-	499,110	-	-	-	228	-	-	499,338
Equipment	-	205,933	-	205,933	643	-	-	155	-	-	206,731
Construction in progress	4	45,338	-	45,342	-	-	-	-	-	-	45,342
	5,891	762,861	-	768,752	643	-	-	402	-	-	769,797
Less accumulated depreciation	(1,737)	(242,967)	-	(244,704)	(392)	-	-	(402)	-	-	(245,498)
<b>Property and equipment, net</b>	<b>4,154</b>	<b>519,894</b>	<b>-</b>	<b>524,048</b>	<b>251</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>524,299</b>
Other assets, net	1,154	11,080	-	12,234	158	-	-	-	-	(3,880)	8,512
<b>Total assets</b>	<b>\$ 684,895</b>	<b>\$ 786,648</b>	<b>\$ (3,357)</b>	<b>\$ 1,468,186</b>	<b>\$ 9,505</b>	<b>\$ 35,006</b>	<b>\$ -</b>	<b>\$ 23</b>	<b>\$ 859</b>	<b>\$ (49,223)</b>	<b>\$ 1,464,356</b>

(Continued)

The St. George Corporation and Subsidiaries

Consolidating Balance Sheet Information (Continued)  
December 31, 2016  
(Dollars in Thousands)

	The St. George Corporation	Palos Community Hospital	Eliminations	Obligated Group	Palos Medical Group	St. George Assurance	Chicago Health Colleagues	St. George Wellness Center	Palos Imaging	Eliminations	Consolidated
<b>Liabilities and Net Assets</b>											
Current liabilities:											
Current portion of long-term debt	\$ -	\$ 9,920	\$ -	\$ 9,920	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 9,920
Accounts payable	-	18,629	-	18,629	71	-	-	93	-	-	18,793
Accrued liabilities and other	750	40,002	-	40,752	1,279	173	5	512	175	-	42,896
Due to third-party payors	-	43,677	-	43,677	-	-	-	-	-	-	43,677
Current portion of professional liability	-	6,315	-	6,315	158	-	-	-	-	-	6,473
Due to affiliated organizations	3,086	399	(3,357)	128	8,244	34,733	1,039	269	930	(45,343)	-
<b>Total current liabilities</b>	<b>3,836</b>	<b>118,942</b>	<b>(3,357)</b>	<b>119,421</b>	<b>9,752</b>	<b>34,906</b>	<b>1,044</b>	<b>874</b>	<b>1,105</b>	<b>(45,343)</b>	<b>121,759</b>
Professional liability, less current portion	-	32,580	-	32,580	2,630	-	-	-	-	-	35,210
Long-term debt, less current portion	-	360,274	-	360,274	-	-	-	-	-	-	360,274
<b>Total liabilities</b>	<b>3,836</b>	<b>511,796</b>	<b>(3,357)</b>	<b>512,275</b>	<b>12,382</b>	<b>34,906</b>	<b>1,044</b>	<b>874</b>	<b>1,105</b>	<b>(45,343)</b>	<b>517,243</b>
Net assets:											
Unrestricted net assets (deficit)	681,059	274,532	-	955,591	(2,877)	100	(1,044)	(851)	(246)	(3,880)	946,793
Temporarily restricted net assets	-	320	-	320	-	-	-	-	-	-	320
<b>Total net assets (deficit)</b>	<b>681,059</b>	<b>274,852</b>	<b>-</b>	<b>955,911</b>	<b>(2,877)</b>	<b>100</b>	<b>(1,044)</b>	<b>(851)</b>	<b>(246)</b>	<b>(3,880)</b>	<b>947,113</b>
<b>Total liabilities and net assets</b>	<b>\$ 684,895</b>	<b>\$ 786,648</b>	<b>\$ (3,357)</b>	<b>\$ 1,468,186</b>	<b>\$ 9,505</b>	<b>\$ 35,006</b>	<b>\$ -</b>	<b>\$ 23</b>	<b>\$ 859</b>	<b>\$ (49,223)</b>	<b>\$ 1,464,356</b>

The St. George Corporation and Subsidiaries

Consolidating Statement of Operations Information  
Year Ended December 31, 2016  
(Dollars in Thousands)

	The St. George Corporation	Palos Community Hospital	Eliminations	Obligated Group	Palos Medical Group	St. George Assurance	Chicago Health Colleagues	St. George Wellness Center	Palos Imaging	Eliminations	Consolidated
Revenue:											
Patient service revenue	\$ -	\$ 371,743	\$ -	\$ 371,743	\$ 16,490	\$ -	\$ -	\$ -	\$ 723	\$ -	\$ 388,956
Provision for doubtful accounts	-	(19,087)	-	(19,087)	-	-	-	(22)	-	-	(19,109)
Net patient service revenue	-	352,656	-	352,656	16,490	-	-	(22)	723	-	369,847
Medicaid assessment program revenue	-	10,329	-	10,329	-	-	-	-	-	-	10,329
<b>Total net patient service revenue</b>	-	362,985	-	362,985	16,490	-	-	(22)	723	-	380,176
Investment income	66,055	1,650	-	67,705	-	-	-	-	-	-	67,705
Other revenue	547	8,854	(94)	9,307	65	-	-	2,684	-	(2,615)	9,441
<b>Total revenue</b>	<b>66,602</b>	<b>373,489</b>	<b>(94)</b>	<b>439,997</b>	<b>16,555</b>	<b>-</b>	<b>-</b>	<b>2,662</b>	<b>723</b>	<b>(2,615)</b>	<b>457,322</b>
Expenses:											
Salaries and employee benefits	-	202,775	-	202,775	19,009	-	240	1,579	351	-	223,954
Supplies and other	545	96,366	(94)	96,817	4,149	-	362	1,207	513	(2,615)	100,433
Physicians' fees	-	2,423	-	2,423	615	-	69	-	105	-	3,212
Interest and financing costs	-	10,706	-	10,706	-	-	-	-	-	-	10,706
Depreciation and amortization	198	28,547	-	28,745	56	-	-	402	-	-	29,203
Insurance	-	8,082	-	8,082	1,370	-	-	-	-	-	9,452
Utilities	139	3,885	-	4,024	1	-	-	326	-	-	4,351
Medicaid assessment program expense	-	12,081	-	12,081	-	-	-	-	-	-	12,081
<b>Total expenses</b>	<b>882</b>	<b>364,865</b>	<b>(94)</b>	<b>365,653</b>	<b>25,200</b>	<b>-</b>	<b>671</b>	<b>3,514</b>	<b>969</b>	<b>(2,615)</b>	<b>393,392</b>
<b>Operating income (loss)</b>	<b>65,720</b>	<b>8,624</b>	<b>-</b>	<b>74,344</b>	<b>(8,645)</b>	<b>-</b>	<b>(671)</b>	<b>(852)</b>	<b>(246)</b>	<b>-</b>	<b>63,930</b>
Nonoperating gains:											
Unrestricted contributions	-	759	-	759	-	-	-	-	-	-	759
<b>Excess (deficiency) of revenue over expenses</b>	<b>65,720</b>	<b>9,383</b>	<b>-</b>	<b>75,103</b>	<b>(8,645)</b>	<b>-</b>	<b>(671)</b>	<b>(852)</b>	<b>(246)</b>	<b>-</b>	<b>64,689</b>
Other changes in unrestricted net assets:											
Net asset transfers	(102,240)	85,851	-	(16,389)	16,389	-	-	-	-	-	-
Net changes in unrealized gains and losses on investments	(31,247)	411	-	(30,836)	-	-	-	-	-	-	(30,836)
<b>(Decrease) increase in unrestricted net assets</b>	<b>\$ (67,767)</b>	<b>\$ 95,645</b>	<b>\$ -</b>	<b>\$ 27,878</b>	<b>\$ 7,744</b>	<b>\$ -</b>	<b>\$ (671)</b>	<b>\$ (852)</b>	<b>\$ (246)</b>	<b>\$ -</b>	<b>\$ 33,853</b>

The St. George Corporation and Subsidiaries

Consolidating Statement of Changes in Net Assets Information  
Year Ended December 31, 2016  
(Dollars in Thousands)

	The St. George Corporation	Palos Community Hospital	Eliminations	Obligated Group	Palos Medical Group	St. George Assurance	Chicago Health Colleagues	St. George Wellness Center	Palos Imaging	Eliminations	Consolidated
Unrestricted net assets:											
Excess (deficiency) of revenue over expenses	\$ 65,720	\$ 9,383	\$ -	\$ 75,103	\$ (8,645)	\$ -	\$ (671)	\$ (852)	\$ (246)	\$ -	\$ 64,689
Net asset transfers	(102,240)	85,851	-	(16,389)	16,389	-	-	-	-	-	-
Net changes in unrealized gains and losses on investments	(31,247)	411	-	(30,836)	-	-	-	-	-	-	(30,836)
<b>(Decrease) increase in unrestricted net assets</b>	<b>(67,767)</b>	<b>95,645</b>	<b>-</b>	<b>27,878</b>	<b>7,744</b>	<b>-</b>	<b>(671)</b>	<b>(852)</b>	<b>(246)</b>	<b>-</b>	<b>33,853</b>
Temporarily restricted net assets:											
Contributions	-	175	-	175	-	-	-	-	-	-	175
Net assets released from restriction	-	(65)	-	(65)	-	-	-	-	-	-	(65)
<b>Increase in temporarily restricted net assets</b>	<b>-</b>	<b>110</b>	<b>-</b>	<b>110</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>110</b>
<b>(Decrease) increase in net assets</b>	<b>(67,767)</b>	<b>95,755</b>	<b>-</b>	<b>27,988</b>	<b>7,744</b>	<b>-</b>	<b>(671)</b>	<b>(852)</b>	<b>(246)</b>	<b>-</b>	<b>33,963</b>
Net assets (deficit):											
Beginning of year	748,826	179,097	-	927,923	(10,621)	100	(373)	1	-	(3,880)	913,150
End of year	\$ 681,059	\$ 274,852	\$ -	\$ 955,911	\$ (2,877)	\$ 100	\$ (1,044)	\$ (851)	\$ (246)	\$ (3,880)	\$ 947,113