

The St. George Corporation and Subsidiaries

Consolidated Financial Report
December 31, 2018

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RSM US LLP

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, 2018 and 2017, 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, 2018 and 2017, 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
May 9, 2019

The St. George Corporation and Subsidiaries

Consolidated Balance Sheets December 31, 2018 and 2017 (Dollars in Thousands)

	2018	2017
Assets		
Current assets:		
Cash and cash equivalents	\$ 13,007	\$ 8,864
Investments	52,244	84,425
Patient accounts receivable	48,198	60,466
Inventories	9,143	5,504
Assets limited as to use - internally designated for self-insurance	12,460	5,720
Other current assets	4,808	3,098
Total current assets	139,860	168,077
Investments and assets limited as to use:		
Investments internally designated for capital purposes	737,316	761,638
Investments internally designated for self-insurance, net of amounts required to meet current obligations	11,223	33,154
Trustee held investments	4,549	4,361
Total investments and assets limited as to use	753,088	799,153
Property and equipment:		
Land and land improvements	34,496	18,020
Buildings	604,184	529,485
Equipment	223,524	213,834
Construction in progress	4,461	66,446
	866,665	827,785
Less accumulated depreciation	(307,516)	(274,526)
Property and equipment, net	559,149	553,259
Other assets, net	10,418	4,837
Total assets	\$ 1,462,515	\$ 1,525,326
Liabilities and Net Assets		
Current liabilities:		
Current portion of long-term debt	\$ 10,060	\$ 10,365
Accounts payable	14,607	19,477
Accrued liabilities and other	36,392	38,528
Due to third-party payors	39,765	38,557
Current portion of professional liability	12,460	5,722
Total current liabilities	113,284	112,649
Professional liability, less current portion	26,620	29,290
Other liabilities	4,549	4,361
Long-term debt, less current portion	339,664	349,825
Total liabilities	484,117	496,125
Commitments and contingencies (Note 12)		
Net assets:		
Without donor restrictions	978,007	1,028,847
With donor restrictions	391	354
Total net assets	978,398	1,029,201
Total liabilities and net assets	\$ 1,462,515	\$ 1,525,326

See notes to consolidated financial statements.

The St. George Corporation and Subsidiaries

Consolidated Statements of Operations
Years Ended December 31, 2018 and 2017
(Dollars in Thousands)

	2018	2017
Revenue:		
Patient service revenue before provision for doubtful accounts		\$ 384,382
Provision for doubtful accounts		(18,135)
Patient service revenue	\$ 367,651	366,247
Medicaid assessment program revenue	13,643	12,601
Total patient service revenue	381,294	378,848
Investment income	20,166	25,595
Other revenue	5,911	7,239
Total revenue	407,371	411,682
Expenses:		
Salaries and employee benefits	222,792	219,018
Supplies and other	108,119	105,223
Physicians' fees	1,976	1,910
Interest and financing costs	11,714	10,533
Depreciation and amortization	32,985	31,845
Insurance	9,471	5,696
Utilities	4,271	4,019
Medicaid assessment program expense	14,598	13,309
Total expenses	405,926	391,553
Operating income	1,445	20,129
Nonoperating gains (losses):		
Contributions without donor restrictions	255	454
Other	(370)	-
Excess of revenue over expenses	1,330	20,583
Net changes in unrealized gains and losses on investments	(52,170)	61,471
(Decrease) increase in net assets without donor restrictions	\$ (50,840)	\$ 82,054

See notes to consolidated financial statements.

The St. George Corporation and Subsidiaries

Consolidated Statements of Changes in Net Assets
Years Ended December 31, 2018 and 2017
(Dollars in Thousands)

	2018	2017
Net assets without donor restrictions:		
Excess of revenue over expenses	\$ 1,330	\$ 20,583
Net changes in unrealized gains and losses on investments	<u>(52,170)</u>	<u>61,471</u>
(Decrease) increase in net assets without donor restrictions	<u>(50,840)</u>	82,054
Net assets with donor restrictions:		
Contributions	171	104
Net assets released from restriction	<u>(134)</u>	<u>(70)</u>
Increase in net assets with donor restrictions	<u>37</u>	34
(Decrease) increase in net assets	<u>(50,803)</u>	82,088
Net assets:		
Beginning of year	<u>1,029,201</u>	<u>947,113</u>
End of year	<u>\$ 978,398</u>	<u>\$ 1,029,201</u>

See notes to consolidated financial statements.

The St. George Corporation and Subsidiaries

Consolidated Statements of Cash Flows
Years Ended December 31, 2018 and 2017
(Dollars in Thousands)

	2018	2017
Cash flows from operating activities:		
(Decrease) increase in net assets	\$ (50,803)	\$ 82,088
Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities:		
Net changes in unrealized gains and losses on investments	52,170	(61,471)
Realized loss (gain) on investments	350	(8,507)
Loss on disposal of property and equipment	13	264
Change in undistributed income of investment in joint venture	1,291	1,708
Depreciation and amortization	32,884	31,761
Provision for doubtful accounts	-	18,135
Change in operating assets and liabilities:		
Patient accounts receivable	12,268	(14,484)
Other assets	(4,865)	404
Accounts payable	(1,811)	(2,255)
Accrued liabilities and other	(1,948)	66
Due to third-party payors	1,208	(5,120)
Professional liability	4,068	(6,744)
Net cash provided by operating activities	44,825	35,845
Cash flows from investing activities:		
Construction and other additions to property and equipment	(48,447)	(58,130)
Purchase of investments and assets limited as to use	(1,099,169)	(683,827)
Proceeds from sales of investments and assets limited as to use	1,118,155	716,597
Investment in joint ventures	(856)	-
Net cash used in investing activities	(30,317)	(25,360)
Cash flows from financing activities:		
Principal payments of long-term debt	(10,365)	(9,920)
Net cash used in financing activities	(10,365)	(9,920)
Net increase in cash and cash equivalents	4,143	565
Cash and cash equivalents:		
Beginning of year	8,864	8,299
End of year	<u>\$ 13,007</u>	<u>\$ 8,864</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest, net of amounts capitalized	<u>\$ 11,714</u>	<u>\$ 11,893</u>
Supplemental schedule of non-cash investing and financing activities:		
Property and equipment additions included in accounts payable and accrued liabilities	<u>\$ 5,882</u>	<u>\$ 8,941</u>
Contribution of equipment in exchange for joint venture investment	<u>\$ 6,500</u>	<u>-</u>

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 facilitates 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 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, 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 accounting principles generally accepted in the United States (U.S. GAAP) in these footnotes are to the *FASB Accounting Standards Codification*[™], 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 patient service revenue 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's consolidated financial statements have been prepared in accordance with U.S. GAAP, which require the Corporation to report information regarding its financial position and activities according to the following net asset classifications:

- Net assets without donor restrictions: Net assets that are reflective of revenues and expenses associated with the principal operating activities of the Corporation and are not subject to donor-imposed stipulations.
- Net assets with donor restrictions: Net assets subject to stipulations imposed by donors. Some donor restrictions are temporary in nature, that may or will be met either by actions of the Corporation and/or the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. Donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the consolidated statements of operations and changes in net assets.

The board of directors has designated, from net assets without donor restrictions, net assets for capital expenditures and for self-insurance. Investments internally designated for capital purposes were \$737,316 and \$761,638 at December 31, 2018 and 2017, respectively. Investments internally designated for self-insurance were \$23,683 and \$33,154 at December 31, 2018 and 2017, respectively.

The Corporation had net assets with donor restrictions of \$391 and \$354 at December 31, 2018 and 2017, respectively, whose use has been restricted to the Hospital's animal-assisted therapy program, nursing scholarships, and hospice care.

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 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, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the consolidated statements of operations and changes in net assets as net assets released from restriction. Donor-restricted contributions whose restrictions are met within the same year as received are reported as contributions without donor restrictions in the accompanying 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)

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.

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 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, in 2017, estimated allowances for doubtful accounts. During 2017, management estimated 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 were recorded as an increase of net patient services revenue when received. For receivables associated with services provided to patients who have third-party coverage, the Hospital analyzed contractually due amounts and provided an allowance for doubtful accounts (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). 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 were 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 \$12,155, or approximately 18 percent of patient accounts receivable, at December 31, 2017. The Hospital's self-pay write-offs were \$24,848 in 2017. At December 31, 2017, the Hospital did not maintain a material allowance for doubtful 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. During the year ended December 31, 2018, the Corporation recorded for the first time certain supply inventories totaling approximately \$2,492.

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 net assets without donor restrictions 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 2018 and 2017, the Corporation recorded other-than-temporary declines of \$10,956 and \$2,307, 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.

St. George has a joint venture arrangement with Palos Surgicenter, LLC, which included a 39 percent interest in the entity at December 31, 2017. In September 2018, St. George sold units in the joint venture to reduce its ownership interest to 20 percent. This investment is accounted for on the equity method and is included in other assets in the accompanying consolidated balance sheets. In April 2019, the Hospital's board of directors approved the conveyance of St. George's interest in Palos Surgicenter, LLC to the Hospital.

In December 2018, the Hospital contributed \$856 of cash and formed a joint venture arrangement, Palos Health Surgery Center, LLC, which includes a 51 percent interest in the entity. As of December 31, 2018, operations have not begun. This investment is accounted for on the equity method and is included in other assets in the accompanying consolidated balance sheets.

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 February 2017, the Hospital formed a joint venture arrangement, South Campus Partners, Inc. (SC Partners), which includes a 51 percent interest in the entity. In 2018, the Hospital contributed \$160 of cash and \$6,500 of equipment to SC Partners, which began operations in 2018. This investment is accounted for on the equity method and is included in other assets in the accompanying consolidated balance sheets.

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.

Patient service revenue: The Corporation reports patient service revenue at amounts that reflect the consideration to which the Corporation expects to be entitled to in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government programs) and others and includes variable consideration for retroactive adjustments due to settlement of audits and reviews. Revenue is recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided by the Corporation. Substantially all of the Corporation's patient service revenue relates to performance obligations satisfied over time, and is recognized based on actual charges incurred in relation to total expected (or actual) charges. For patients in the Hospital receiving inpatient acute care services, the Corporation believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. The Corporation measures the performance obligation from admission into the hospital to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge. For most outpatient and physician services, the patient simultaneously receives and consumes the benefits of the services, as the services are provided.

As the Corporation's performance obligations relate to contracts with a duration of less than one year, the Corporation has elected to apply the optional exemption provided in FASB ASC 606-10-50-14(a) and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to above are primarily related to inpatient care services at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days or weeks of the end of the reporting period.

The St. George Corporation and Subsidiaries

Notes to Consolidated Financial Statements (Dollars in Thousands)

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

The Corporation determines the transaction price based on standard charges for goods and services provided to patients, reduced by explicit price concessions consisting of contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with the Corporation's policy, and/or implicit price concessions based on historical collection experience. The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amounts expected to be collected based on the Corporation's collection history with similar classes of patients using a portfolio approach as a practical expedient. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as a bad debt expense. Bad debt expense for the year ended December 31, 2018 was not significant.

The Corporation has elected the practical expedient allowed under FASB ASC 606-10-32-18 and does not adjust the promised amount of consideration from patients and third-party payors for the effects of a significant financing component due to the Corporation's expectation that the period between the time the service is provided to a patient and the time that the patient or a third-party payor pays for that service will be one year or less. However, the Corporation does, in certain instances, enter into payment agreements with patients that allow payments in excess of one year. For those cases, the financing component is not deemed significant to the contract.

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 patient service revenue.

Operating income: The consolidated statements of operations include operating income. Changes in net assets without donor restrictions 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 net assets without donor restrictions 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 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, 2018, 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 2014 and prior.

Newly adopted accounting pronouncements: Effective January 1, 2018, the Corporation adopted FASB Accounting Standard Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)* using the modified retrospective method of transition applied to contracts that were not complete as of January 1, 2018. This ASU replaced existing revenue recognition guidance, including industry-specific guidance, and requires revenue to be recognized in an amount that reflects the consideration the Corporation expects to be entitled in an exchange of goods or services.

The adoption of this ASU resulted in changes to presentation and disclosure of revenue and accounts receivable, primarily related to the provision for doubtful accounts. There was no adjustment required to the opening balance of net assets for the adoption of this ASU. Comparative financial information has not been restated and continues to be reported under the accounting standards in effect for that period.

The St. George Corporation and Subsidiaries

Notes to Consolidated Financial Statements (Dollars in Thousands)

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

Effective January 1, 2018, the Corporation adopted FASB ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, using a retrospective method. The adoption of this ASU resulted in the reduction of 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. The Corporation made changes to terminology and classification as described above as well as additional and modified disclosures, particularly in Notes 10 and 11 to the consolidated financial statements. As permitted by ASU 2016-14, the Corporation has elected to omit the analysis of expenses by both natural classification and functional classification and disclosures about liquidity and availability of resources for 2017.

Recent accounting pronouncements: In August 2018, the FASB issued ASU 2018-15, *Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*. ASU 2018-15 aligns the requirements for capitalizing implementation costs in a cloud computing arrangement that is a service contract with the requirements for capitalizing implementation costs incurred for internal-use software. ASU 2018-15 is effective for the Corporation’s December 31, 2021, consolidated financial statements. Early adoption is permitted. The Corporation is currently evaluating the effect of the new standard on the consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*. ASU 2018-13 removes, modifies and adds certain disclosures requirements on fair value required by Topic 820. ASU 2018-13 is effective for the Corporation’s December 31, 2020, consolidated financial statements. Early adoption is permitted. The Corporation is currently evaluating the effect of the new standard on the consolidated financial statements.

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. 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. 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.

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 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 Corporation adopted ASU 2016-02 on January 1, 2019. The primary effect of adopting the new standard will be recognition of a right-of-use asset and lease obligation for current operating leases.

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. 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 remaining provisions of ASU 2016-01 are effective for the Corporation's December 31, 2019, consolidated financial statements. The primary effect of the adoption of the remaining provisions of ASU 2016-01 will be that, effective January 1, 2019, all unrealized gains and losses on the Corporation's investments in equity securities, currently reported in other changes in net assets without donor restrictions, will be reported in investment income and included in excess of revenue over expenses.

Effective January 1, 2019, the Corporation designated the investments in debt securities within its investment portfolio as trading securities. As a result, effective January 1, 2019, all unrealized gains and losses on the Corporation's investments in debt securities will be reported in investment income and included in excess of revenue over expenses.

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 May 9, 2019, the date the consolidated financial statements were issued.

Note 2. 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. 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. Patient service revenue was increased in 2018 and 2017 by the impact of third-party settlements and changes in allowance estimates in the amounts of \$367 and \$4,190, respectively.

Illinois Medicaid reform: On March 12, 2018, the Governor of Illinois signed legislation to implement a redesigned Medicaid Hospital tax assessment program. Among other changes, the redesigned program bases payments on updated patient utilization data, shifts funding from fixed payments to dynamic "live rates," and recognizes and incentivizes the shift from inpatient to outpatient services. The redesigned program was approved by the Centers for Medicare and Medicaid Services (CMS) in June 2018. The redesigned hospital tax assessment program, which is effective July 1, 2018, will sunset on June 30, 2020. The Corporation estimates that there will be a minimal impact to its hospital assessment program revenue (net of the related hospital assessment expense) received under the redesigned program.

Medicaid hospital tax assessment program: The Hospital participates in the State of Illinois hospital tax assessment program which is administered by the Illinois Department of Healthcare and Family Services (IDHFS). The provider assessment program payments are in effect for the state fiscal years ending each June 30. For the years ended December 31, 2018 and 2017, the Hospital has recorded \$13,643 and \$12,601, respectively, in assessment revenue and \$14,598 and \$13,309, respectively, in assessment expense (Medicaid tax).

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.

The St. George Corporation and Subsidiaries

Notes to Consolidated Financial Statements (Dollars in Thousands)

Note 2. Patient Service Revenue (Continued)

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.

The composition of patient service revenue (excluding Medicaid assessment program revenue, and before the provision for doubtful accounts in 2017) based on payor source for the years ended December 31, 2018 and 2017 was as follows:

	2018	2017
Blue Cross managed care	\$ 107,885	\$ 108,555
Commercial and managed care, other than Blue Cross	34,559	39,585
Medicare and Medicare managed care	201,276	200,390
Medicaid and Medicaid managed care	4,613	12,473
Self-pay	19,318	23,379
Patient service revenue	<u>\$ 367,651</u>	<u>\$ 384,382</u>

Hospital revenue includes a variety of services mainly covering inpatient services requiring overnight stays or outpatient operations that require anesthesia or use of complex diagnostic and surgical equipment as well as emergency care. Physician revenue includes services primarily focused on the care of outpatients covering primary and specialty health care needs. The composition of patient service revenue for the years ended December 31, 2018 and 2017 was as follows:

	2018	2017
Inpatient	\$ 187,431	\$ 203,301
Outpatient	152,849	159,799
Physician	27,371	21,282
Patient service revenue	<u>\$ 367,651</u>	<u>\$ 384,382</u>

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 receivables from patients and third-party payors at December 31, 2018 and 2017, (before consideration of the allowance for doubtful accounts in 2017), was as follows:

	2018	2017
Blue Cross managed care	13 %	12 %
Commercial and managed care, other than Blue Cross	29	28
Self-pay	34	36
Medicare and Medicare managed care	21	20
Medicaid and Medicaid managed care	3	4
	<u>100 %</u>	<u>100 %</u>

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 2018 and 2017 was \$2,826 and \$2,365, 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, 2018 and 2017, consists of the following:

	2018	2017
U.S. Government and agency securities	\$ 110,019	\$ 108,844
Equities	399,163	416,155
Corporate bonds	189,611	216,478
Collateralized mortgage obligations	108,091	109,314
Cash and cash equivalents	8,334	34,520
Accrued interest and other	2,565	2,419
Alternative investments	9	1,568
	<u>\$ 817,792</u>	<u>\$ 889,298</u>

Investment income for 2018 and 2017 consists of the following:

	2018	2017
Interest and other investment income	\$ 21,353	\$ 17,460
Realized (loss) gain, net (including other-than-temporary impairment loss of \$10,956 in 2018 and \$2,307 in 2017)	(350)	8,507
Loss on alternative investments	(837)	(372)
	<u>\$ 20,166</u>	<u>\$ 25,595</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, 2018 and 2017.

	Less Than Twelve Months		Twelve Months or Longer	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
2018				
U.S. Government and agency securities	\$ 9,283	\$ 137	\$ 25,318	\$ 763
Equities	6,902	450	16,232	2,407
Corporate bonds	53,004	1,672	55,488	1,492
Collateralized mortgage obligations	6,836	236	14,645	292
Total	<u>\$ 76,025</u>	<u>\$ 2,495</u>	<u>\$ 111,683</u>	<u>\$ 4,954</u>
	Less Than Twelve Months		Twelve Months or Longer	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
2017				
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>

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, 2018.

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, 2018.

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, 2018.

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, 2018.

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, 2018 and 2017, the Corporation had contracts to buy securities for \$149,718 and \$46,107, respectively, and contracts to sell securities for \$49,376 and \$148,794, 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 \$7,250 and \$1,184 at December 31, 2018 and 2017, 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, 2018 and 2017, is presented below:

	2018			2017		
	Palos Surgicenter, LLC	South Campus Partners, LLC	Palos Health Surgery Center, LLC	Palos Surgicenter, LLC	South Campus Partners, LLC	Palos Health Surgery Center, LLC
Assets	\$ 3,911	\$ 18,514	\$ 1,680	\$ 4,067	\$ -	\$ -
Liabilities	1,654	6,628	-	1,294	-	-
Total equity	2,257	11,886	1,680	2,773	-	-
Net (loss) income	(217)	(1,162)	-	639	-	-

Palos Surgicenter, LLC, a limited liability company owned 20 percent (39 percent at December 31, 2017) by St. George, performs outpatient surgical procedures.

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 also owns and operates, under a management/clinical agreement with Loyola, radiation oncology services.

The St. George Corporation and Subsidiaries

Notes to Consolidated Financial Statements (Dollars in Thousands)

Note 7. Long-Term Debt and Pledged Assets

Long-term debt at December 31, 2018 and 2017, consists of the following:

	2018	2017
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	\$ 123,465	\$ 131,880
Illinois Finance Authority Revenue Bonds, Series 2015B, variable interest at a LIBOR-based rate (2.732% and 1.575% at December 31, 2018 and 2017, respectively), 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 (2.907% and 1.585% at December 31, 2018 and 2017, respectively), 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	44,130	46,080
	<u>349,830</u>	<u>360,195</u>
Add: unamortized bond premium	2,089	2,314
Less: unamortized deferred financing costs	(2,195)	(2,319)
	<u>349,724</u>	<u>360,190</u>
Less: current portion	(10,060)	(10,365)
Long-term debt	<u>\$ 339,664</u>	<u>\$ 349,825</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:		
2019	\$	10,060
2020		10,470
2021		10,875
2022		11,325
2023		11,830
Thereafter		295,270
	\$	<u>349,830</u>

Interest and financing costs in 2018 and 2017 are comprised of the following:

	2018	2017
Interest	\$ 13,113	\$ 11,771
Less amounts capitalized	(1,298)	(1,154)
Amortization of bond premium	(225)	(209)
Amortization of deferred financing costs	124	125
	<u>\$ 11,714</u>	<u>\$ 10,533</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 \$8,277 and \$8,424 in 2018 and 2017, 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 \$4,549 and \$4,361 at December 31, 2018 and 2017, respectively, and are reported as trustee held investments, in the accompanying consolidated balance sheets. Related deferred compensation liabilities are included in other noncurrent 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 \$38,978 and \$34,939 at December 31, 2018 and 2017, respectively, for professional and general liability insurance, of which \$26,524 and \$29,219 is recorded as a noncurrent liability at December 31, 2018 and 2017, respectively. The discount rate used was 2.5 percent and 4.25 percent in 2018 and 2017, respectively. The related undiscounted liability is approximately \$3,073 and \$5,793 higher at December 31, 2018 and 2017, respectively. In addition to reducing the discount rate, at December 31, 2018, the Corporation reduced the actuarial confidence level at which the liability was recorded, which, together with the reduction in the discount rate, resulted in a \$4,708 reduction in the liability.

Insurance recoveries receivable of \$2,169 and \$3,426 have been recorded as of December 31, 2018 and 2017, 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 the year ended December 31, 2018, including allocations of depreciation and interest expense, are as follows:

	Health Care Services				Supporting Activities		
	Inpatient Services	Outpatient Services	Palos Medical Group	Palos Imaging Center	General and Administrative	Fundraising	Total Expenses
Salaries and employee benefits	\$ 101,306	\$ 53,681	\$ 23,689	\$ 1,015	\$ 43,101	\$ -	\$ 222,792
Supplies and other	38,060	28,170	1,470	564	39,824	31	108,119
Physicians' fees	241	124	305	242	1,064	-	1,976
Interest and financing costs	6,235	5,424	55	-	-	-	11,714
Depreciation and amortization	13,933	11,719	3,851	-	3,482	-	32,985
Insurance	4,396	4,095	-	93	887	-	9,471
Utilities	1,945	1,755	-	76	495	-	4,271
Medicaid assessment program expense	7,766	6,832	-	-	-	-	14,598
Total expenses	\$ 173,882	\$ 111,800	\$ 29,370	\$ 1,990	\$ 88,853	\$ 31	\$ 405,926

Expenses for the employee benefits are allocated based on their proportionate share of total salaries between program services and supporting activities. Expenses for depreciation and utilities were allocated based on square footage.

The St. George Corporation and Subsidiaries

Notes to Consolidated Financial Statements (Dollars in Thousands)

Note 11. Financial Assets Available and Liquidity

The following table presents financial assets available for general expenditures within one year at December 31, 2018:

Cash and cash equivalents	\$ 13,007
Investments	52,244
Patient accounts receivable	48,198
Other assets	861
Assets limited to use:	
Investments internally designated for capital purposes and self-insurance	760,999
Investments held by trustees	4,549
Total financial assets	<u>879,858</u>
Investments internally designated for self-insurance	(23,683)
Investments held by trustees	(4,549)
Financial assets not available to be used within one year	<u>(28,232)</u>
Financial assets available to meet general expenditures within one year	<u>\$ 851,626</u>

The Corporation regularly monitors liquidity required to meet its operating needs and other contractual commitments, while also striving to maximize the investment of its available funds. The Corporation has various sources of liquidity at its disposal, including cash and cash equivalents and marketable debt and equity securities.

Note 12. 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.

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: At December 31, 2018, the Corporation had entered into commitments totaling approximately \$3,963 related to construction projects and technology upgrades, of which \$2,448 had been paid and \$1,515 has been accrued as of December 31, 2018.

The St. George Corporation and Subsidiaries

Notes to Consolidated Financial Statements (Dollars in Thousands)

Note 12. Commitments and Contingencies (Continued)

Lease commitments: The Corporation leases property under leases that expire at various dates through 2022. Rental expense under operating lease agreements totaled approximately \$886 and \$885, for the years ended December 31, 2018 and 2017, respectively, and is included in supplies and other expense on the accompanying consolidated statements of operations.

Future minimum lease payments under noncancellable operating leases in effect as of December 31, 2018 are approximately as follows:

Years ending December 31:

2019	\$	898
2020		925
2021		953
2022		409
	\$	<u>3,185</u>

The Corporation is the lessor under certain space leases that expire at various dates through 2023. Future minimum lease payments under these noncancellable leases in effect as of December 31, 2018 are approximately as follows:

Years ending December 31:

2019	\$	1,954
2020		1,268
2021		1,022
2022		586
2023		587
	\$	<u>5,417</u>

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.

The St. George Corporation and Subsidiaries

Notes to Consolidated Financial Statements (Dollars in Thousands)

Note 12. Commitments and Contingencies (Continued)

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.

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* (Section 15-86) is unconstitutional. The 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 the Circuit Court of Cook County for reconsideration. However, in its 2017 decision the Illinois Supreme Court did not rule on the constitutionality of Section 15-86 of the Illinois *Property Tax Code*. On September 20, 2018, the Illinois Supreme Court upheld the First District Appellate Court of Illinois ruling that Section 15-86 is constitutional. However, 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 tax and sales tax exemption; however, such requirements may change based on the outcome of such future legal challenges.

The St. George Corporation and Subsidiaries

Notes to Consolidated Financial Statements (Dollars in Thousands)

Note 13. 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.

For 2018 and 2017, 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.

The St. George Corporation and Subsidiaries

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

Note 13. Fair Value Disclosures (Continued)

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, 2018 and 2017.

	December 31, 2018			
	Level 1	Level 2	Level 3	Total
U.S. Government and agency securities	\$ -	\$ 109,892	\$ 127	\$ 110,019
Equities ^A	399,163	-	-	399,163
Corporate bonds	(68)	189,679	-	189,611
Collateralized mortgage obligations	-	108,091	-	108,091
	<u>\$ 399,095</u>	<u>\$ 407,662</u>	<u>\$ 127</u>	<u>806,884</u>
Investment measured at NAV:				
International bond fund				9
Cash and cash equivalents				8,334
Accrued interest and other				2,565
				<u>\$ 817,792</u>

^A The investment objective for equities is both growth and value.

	December 31, 2017			
	Level 1	Level 2	Level 3	Total
U.S. Government and agency securities	\$ -	\$ 108,844	\$ -	\$ 108,844
Equities ^A	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>	<u>850,791</u>
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>

^A The investment objective for equities is both growth and value.

Supplementary Information

The St. George Corporation and Subsidiaries

Consolidating Balance Sheet Information

December 31, 2018

(Dollars in Thousands)

	The St. George Corporation	Palos Community Hospital	Eliminations	Obligated Group	Palos Medical Group	St. George Assurance	Chicago Health Colleagues	Palos Imaging	Eliminations	Consolidated
Assets										
Current assets:										
Cash and cash equivalents	\$ 92	\$ 10,078	\$ -	\$ 10,170	\$ 708	\$ -	\$ 1,020	\$ 1,109	\$ -	\$ 13,007
Investments	52,236	8	-	52,244	-	-	-	-	-	52,244
Patient accounts receivable	-	44,480	-	44,480	2,974	-	-	744	-	48,198
Inventories	-	9,143	-	9,143	-	-	-	-	-	9,143
Assets limited as to use - internally designated for self-insurance	-	-	-	-	-	12,460	-	-	-	12,460
Other current assets	-	2,753	-	2,753	236	4,974	-	-	(3,155)	4,808
Due from affiliated organizations	2,599	30,805	(398)	33,006	7,845	-	150	1,791	(42,792)	-
Total current assets	54,927	97,267	(398)	151,796	11,763	17,434	1,170	3,644	(45,947)	139,860
Investments and assets limited as to use:										
Investments internally designated for capital purposes	737,316	-	-	737,316	-	-	-	-	-	737,316
Investments internally designated for self-insurance, net of amounts required to meet current obligations	-	-	-	-	-	11,223	-	-	-	11,223
Trustee held investments	-	4,549	-	4,549	-	-	-	-	-	4,549
Total investments and assets limited as to use	737,316	4,549	-	741,865	-	11,223	-	-	-	753,088
Property and equipment:										
Land and land improvements	1,399	33,097	-	34,496	-	-	-	-	-	34,496
Buildings	5,414	598,681	-	604,095	89	-	-	-	-	604,184
Equipment	-	222,847	-	222,847	677	-	-	-	-	223,524
Construction in progress	-	4,461	-	4,461	-	-	-	-	-	4,461
	6,813	859,086	-	865,899	766	-	-	-	-	866,665
Less accumulated depreciation	(2,141)	(304,869)	-	(307,010)	(506)	-	-	-	-	(307,516)
Property and equipment, net	4,672	554,217	-	558,889	260	-	-	-	-	559,149
Other assets, net	332	13,828	-	14,160	138	-	-	-	(3,880)	10,418
Total assets	\$ 797,247	\$ 669,861	\$ (398)	\$ 1,466,710	\$ 12,161	\$ 28,657	\$ 1,170	\$ 3,644	\$ (49,827)	\$ 1,462,515

(Continued)

The St. George Corporation and Subsidiaries

Consolidating Balance Sheet Information (Continued)

December 31, 2018

(Dollars in Thousands)

	The St. George Corporation	Palos Community Hospital	Eliminations	Obligated Group	Palos Medical Group	St. George Assurance	Chicago Health Colleagues	Palos Imaging	Eliminations	Consolidated
Liabilities and Net Assets										
Current liabilities:										
Current portion of long-term debt	\$ -	\$ 10,060	\$ -	\$ 10,060	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 10,060
Accounts payable	123	14,318	-	14,441	130	-	-	36	-	14,607
Accrued liabilities and other	920	34,593	-	35,513	1,951	1,790	101	192	(3,155)	36,392
Due to third-party payors	-	39,765	-	39,765	-	-	-	-	-	39,765
Current portion of professional liability	-	11,475	-	11,475	980	-	-	5	-	12,460
Due to affiliated organizations	-	2,190	(398)	1,792	7,053	26,767	2,188	4,992	(42,792)	-
Total current liabilities	1,043	112,401	(398)	113,046	10,114	28,557	2,289	5,225	(45,947)	113,284
Professional liability, less current portion	-	22,352	-	22,352	4,172	-	-	96	-	26,620
Other liabilities	-	4,549	-	4,549	-	-	-	-	-	4,549
Long-term debt, less current portion	-	339,664	-	339,664	-	-	-	-	-	339,664
Total liabilities	1,043	478,966	(398)	479,611	14,286	28,557	2,289	5,321	(45,947)	484,117
Net assets:										
Without donor restrictions (deficit)	796,196	190,512	-	986,708	(2,125)	100	(1,119)	(1,677)	(3,880)	978,007
With donor restrictions	8	383	-	391	-	-	-	-	-	391
Total net assets (deficit)	796,204	190,895	-	987,099	(2,125)	100	(1,119)	(1,677)	(3,880)	978,398
Total liabilities and net assets	\$ 797,247	\$ 669,861	\$ (398)	\$ 1,466,710	\$ 12,161	\$ 28,657	\$ 1,170	\$ 3,644	\$ (49,827)	\$ 1,462,515

The St. George Corporation and Subsidiaries

Consolidating Statement of Operations Information
Year Ended December 31, 2018
(Dollars in Thousands)

	The St. George Corporation	Palos Community Hospital	Eliminations	Obligated Group	Palos Medical Group	St. George Assurance	Chicago Health Colleagues	Palos Imaging	Eliminations	Consolidated
Revenue:										
Patient service revenue	\$ -	\$ 340,280	\$ -	\$ 340,280	\$ 21,531	\$ -	\$ -	\$ 5,840	\$ -	\$ 367,651
Medicaid assessment program revenue	-	13,643	-	13,643	-	-	-	-	-	13,643
Total patient service revenue	-	353,923	-	353,923	21,531	-	-	5,840	-	381,294
Investment income	19,068	1,082	-	20,150	-	11	1	4	-	20,166
Other revenue	(202)	8,492	(115)	8,175	4	-	1,730	-	(3,998)	5,911
Total revenue	18,866	363,497	(115)	382,248	21,535	11	1,731	5,844	(3,998)	407,371
Expenses:										
Salaries and employee benefits	-	191,887	-	191,887	27,526	-	315	3,064	-	222,792
Supplies and other	706	102,781	(115)	103,372	4,350	-	1,018	3,377	(3,998)	108,119
Physicians' fees	-	1,944	-	1,944	-	11	21	-	-	1,976
Interest and financing costs	-	11,714	-	11,714	-	-	-	-	-	11,714
Depreciation and amortization	204	32,720	-	32,924	61	-	-	-	-	32,985
Insurance	-	5,719	-	5,719	3,752	-	-	-	-	9,471
Utilities	70	4,201	-	4,271	-	-	-	-	-	4,271
Medicaid assessment program expense	-	14,598	-	14,598	-	-	-	-	-	14,598
Total expenses	980	365,564	(115)	366,429	35,689	11	1,354	6,441	(3,998)	405,926
Operating income (loss)	17,886	(2,067)	-	15,819	(14,154)	-	377	(597)	-	1,445
Nonoperating gains (losses):										
Contributions without donor restrictions	-	255	-	255	-	-	-	-	-	255
Other	-	(370)	-	(370)	-	-	-	-	-	(370)
	-	(115)	-	(115)	-	-	-	-	-	(115)
Excess (deficiency) of revenue over expenses	17,886	(2,182)	-	15,704	(14,154)	-	377	(597)	-	1,330
Other changes in net assets without donor restrictions:										
Net asset transfers	65,244	(77,633)	-	(12,389)	12,389	-	-	-	-	-
Net changes in unrealized gains and losses on investments	(51,973)	(197)	-	(52,170)	-	-	-	-	-	(52,170)
Increase (decrease) in net assets without donor restrictions	\$ 31,157	\$ (80,012)	\$ -	\$ (48,855)	\$ (1,765)	\$ -	\$ 377	\$ (597)	\$ -	\$ (50,840)

The St. George Corporation and Subsidiaries

Consolidating Statement of Changes in Net Assets Information
Year Ended December 31, 2018
(Dollars in Thousands)

	The St. George Corporation	Palos Community Hospital	Eliminations	Obligated Group	Palos Medical Group	St. George Assurance	Chicago Health Colleagues	Palos Imaging	Eliminations	Consolidated
Net assets without donor restrictions:										
Excess (deficiency) of revenue over expenses	\$ 17,886	\$ (2,182)	\$ -	\$ 15,704	\$ (14,154)	\$ -	\$ 377	\$ (597)	\$ -	\$ 1,330
Net asset transfers	65,244	(77,633)	-	(12,389)	12,389	-	-	-	-	-
Net changes in unrealized (losses) gains on investments	(51,973)	(197)	-	(52,170)	-	-	-	-	-	(52,170)
Increase (decrease) in net assets without donor restrictions	31,157	(80,012)	-	(48,855)	(1,765)	-	377	(597)	-	(50,840)
Net assets with donor restrictions:										
Contributions	8	163	-	171	-	-	-	-	-	171
Net assets released from restriction	-	(134)	-	(134)	-	-	-	-	-	(134)
Increase in net assets with donor restrictions	8	29	-	37	-	-	-	-	-	37
Increase (decrease) in net assets	31,165	(79,983)	-	(48,818)	(1,765)	-	377	(597)	-	(50,803)
Net assets (deficit):										
Beginning of year	765,039	270,878	-	1,035,917	(360)	100	(1,496)	(1,080)	(3,880)	1,029,201
End of year	\$ 796,204	\$ 190,895	\$ -	\$ 987,099	\$ (2,125)	\$ 100	\$ (1,119)	\$ (1,677)	\$ (3,880)	\$ 978,398

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
Assets											
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
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)	-
Total current assets	2,227	201,770	(3,220)	200,777	8,336	3,143	301	-	2,673	(47,153)	168,077
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
Trustee held investments	-	4,361	-	4,361	-	-	-	-	-	-	4,361
Total investments and assets limited as to use	761,638	4,361	-	765,999	-	33,154	-	-	-	-	799,153
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)
Property and equipment, net	4,177	548,802	-	552,979	280	-	-	-	-	-	553,259
Other assets, net											
	1,184	7,306	-	8,490	227	-	-	-	-	(3,880)	4,837
Total assets	\$ 769,226	\$ 762,239	\$ (3,220)	\$ 1,528,245	\$ 8,843	\$ 36,297	\$ 301	\$ -	\$ 2,673	\$ (51,033)	\$ 1,525,326

(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
Liabilities and Net Assets											
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	36,628	-	37,443	1,667	1,963	1	-	368	(2,914)	38,528
Due to third-party payors	-	38,557	-	38,557	-	-	-	-	-	-	38,557
Current portion of professional liability	-	5,562	-	5,562	158	-	-	-	2	-	5,722
Due to affiliated organizations	3,220	300	(3,220)	300	4,619	34,234	1,783	-	3,303	(44,239)	-
Total current liabilities	4,187	110,586	(3,220)	111,553	6,573	36,197	1,797	-	3,682	(47,153)	112,649
Professional liability, less current portion	-	26,589	-	26,589	2,630	-	-	-	71	-	29,290
Other liabilities	-	4,361	-	4,361	-	-	-	-	-	-	4,361
Long-term debt, less current portion	-	349,825	-	349,825	-	-	-	-	-	-	349,825
Total liabilities	4,187	491,361	(3,220)	492,328	9,203	36,197	1,797	-	3,753	(47,153)	496,125
Net assets:											
Without donor restrictions (deficit)	765,039	270,524	-	1,035,563	(360)	100	(1,496)	-	(1,080)	(3,880)	1,028,847
With donor restrictions	-	354	-	354	-	-	-	-	-	-	354
Total net assets (deficit)	765,039	270,878	-	1,035,917	(360)	100	(1,496)	-	(1,080)	(3,880)	1,029,201
Total liabilities and net assets	\$ 769,226	\$ 762,239	\$ (3,220)	\$ 1,528,245	\$ 8,843	\$ 36,297	\$ 301	\$ -	\$ 2,673	\$ (51,033)	\$ 1,525,326

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 before provision for doubtful accounts	\$ -	\$ 363,471	\$ -	\$ 363,471	\$ 15,160	\$ -	\$ -	\$ -	\$ 5,751	\$ -	\$ 384,382
Provision for doubtful accounts	-	(17,502)	-	(17,502)	-	-	-	-	(633)	-	(18,135)
Patient service revenue	-	345,969	-	345,969	15,160	-	-	-	5,118	-	366,247
Medicaid assessment program revenue	-	12,601	-	12,601	-	-	-	-	-	-	12,601
Total patient service revenue	-	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
Total revenue	24,375	369,858	(128)	394,105	15,160	17	224	886	5,118	(3,828)	411,682
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
Total expenses	1,621	362,264	(128)	363,757	24,944	17	676	35	5,952	(3,828)	391,553
Operating income (loss)	22,754	7,594	-	30,348	(9,784)	-	(452)	851	(834)	-	20,129
Nonoperating gains:											
Contributions without donor restrictions	-	454	-	454	-	-	-	-	-	-	454
Excess (deficiency) of revenue over expenses	22,754	8,048	-	30,802	(9,784)	-	(452)	851	(834)	-	20,583
Other changes in net assets without donor restrictions:											
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
Increase (decrease) in net assets without donor restrictions	\$ 83,980	\$ (4,008)	\$ -	\$ 79,972	\$ 2,517	\$ -	\$ (452)	\$ 851	\$ (834)	\$ -	\$ 82,054

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
Net assets without donor restrictions:											
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
Increase (decrease) in net assets without donor restrictions	83,980	(4,008)	-	79,972	2,517	-	(452)	851	(834)	-	82,054
Net assets with donor restrictions:											
Contributions	-	104	-	104	-	-	-	-	-	-	104
Net assets released from restriction	-	(70)	-	(70)	-	-	-	-	-	-	(70)
Increase in net assets with donor restrictions	-	34	-	34	-	-	-	-	-	-	34
Increase (decrease) in net assets	83,980	(3,974)	-	80,006	2,517	-	(452)	851	(834)	-	82,088
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	\$ 765,039	\$ 270,878	\$ -	\$ 1,035,917	\$ (360)	\$ 100	\$ (1,496)	\$ -	\$ (1,080)	\$ (3,880)	\$ 1,029,201