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February 8, 2017

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VIA FEDERAL EXPRESS
Mike Constantino
Illinois Health Facilities and Services Review Board
525 West Jefferson Street, 2nd Floor
Springfield, IL 62761

Re: Additional Information Requested
Project #16-059 – Palos Health Surgery Center

Dear Mike:

This letter is in response to your January 30, 2017 letter in which the Illinois Health Facilities and Services Review Board ("HFSRB") requested additional information for the application for permit for Palos Health Surgery Center (Project 16-059). Your correspondence also incorporated most of the previous information you requested in earlier correspondence on January 17, 2017. This letter responds to that correspondence as well. Please note the following:

1. Palos Community Hospital's most recent consolidated audited financial statements are enclosed as **Attachment – 1**.

2. The Letter of Intent for the lease of space by the proposed surgery center is enclosed as **Attachment – 2**.

3. You asked for ownership information for Palos Health Surgery Center, LLC and why South Campus Partners, Inc. is a co-applicant. South Campus Partners, Inc., a general Illinois not-for-profit corporation, is the sole member of Palos Health Surgery Center, LLC, the planned operating entity for the surgery center. Palos Community Hospital and Loyola University Medical Center are members of South Campus Partners. Palos Community Hospital currently holds a 51% interest in the South Campus Partners entity and Loyola University Medical Center has a 49% interest. We have included an updated **Attachment-3** to reflect that.

   With further reference to South Campus Partners, Inc., it is a co-applicant because it holds 100% of the membership interest in Palos Health Surgery Center, LLC. Palos Community Hospital is a co-applicant as the hospital entity that is the cooperative venture partner for the

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surgery center as that term is defined in the Service Accessibility criterion of the HFSRB rules (Il. Admin. Code 77 IAC 1110.1140(g).

Finally, The St. George Corporation has a 51% indirect ownership in the planned surgery center. Since Loyola University Medical Center through its equity interest in South Campus Partners will not have a controlling interest in the surgery center and otherwise does not otherwise meet the necessary parties to the application co-applicant requirements found at Il. Admin. Code 77 IAC 1130.220(a), Loyola was not included as a co-applicant.

Note: The Applicants may syndicate a non-controlling portion of the membership interests of the surgery center to other parties including to a management services company and/or surgeons who will use the surgery center as an extension of their practice. At this time, no contract or agreement to do so with any person exists and such changes are not expected to occur until after issuance of the CON permit.

4. The proposed payor mix of the surgery center is included as **Attachment – 4**. For your reference, the surgery center will accept Medicaid as a payment source and will adopt the financial assistance policy of Palos Community Hospital such that uninsured patients will be entitled to apply for charity and discounted care and those qualifying patients will be accepted to receive free or discounted services at the surgery center.

5. With regard to capital costs for alternatives considered, Palos assessed two other alternatives before deciding to establish the Surgery Center on the Palos South Campus in Orland Park: (1) establish the Surgery Center on the Palos Main Campus in Palos Heights or (2) establish the Surgery Center elsewhere in the geographic service area. A stand-alone surgery center on the Palos Main Campus is not feasible as there is insufficient land to build the Surgery Center. As a result, Palos did not calculate the costs for such a project. Palos rejected the option to build a stand-alone surgery center elsewhere in the geographic service area due to the higher cost. Exclusive of land acquisition, Palos calculated the cost to build a stand-alone surgery center at another location outside the geographic service area to be $17,891,696 (or 35% higher than building the Surgery Center on the Palos South Campus). As a result, Palos rejected that option and elected to build the Surgery Center on the Palos South Campus.

6. We have also included a chart comparing ASTC charges to hospital charges as **Attachment – 5**. With regard to a comparison of reimbursement between the two sites of care, not only will the proposed charges for comparable procedures at the ASC be generally lower than those of Palos Community Hospital for the same procedures, but Medicare payment rates for hospital surgical services are between 181% and 243% of what CMS pays a surgery center

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for the same service. We have also provided this comparison of Medicare reimbursement showing ASCs as a lower cost alternative for care in Attachment 5. This comparison helps demonstrate the value provided to commercial and government payors, patients and employers by developing a surgery center on the South Campus.

7. You asked for information regarding the Loyola/Palos arrangement. If you recall, the surgery center development at one time was planned to be included with the South Campus Medical Office Building CON application (Project 16-001). We had discussed that inclusion but there were delays that resulted in the pending application to be filed on its own. I have attached as **Attachment 6** copies of pages from the South Campus Medical Office Building application which discusses this Loyola/Palos clinical affiliation. For your information, there is no common governance under this arrangement.

8. Attached as **Attachment 7** is the FitchRatings press release detailing the basis for its rating of The St. George Corporation and its subsidiaries.

If you have any questions or need additional information regarding this application for permit, please feel free to contact me.

Sincerely,

Kara Friedman

Kara M. Friedman

CC: Tim Brosnan

ATTACHMENT – 1

Palos Community Hospital and Subsidiaries

Consolidated Financial Report
December 31, 2015

Palos Community Hospital and Subsidiaries

Consolidated Financial Report
December 31, 2015

Contents

RSM

RSM US LLP

Independent Auditor's Report

To the Board of Directors
Palos Community Hospital
Palos Heights, Illinois

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Palos Community Hospital and Subsidiaries, which comprise the consolidated balance sheets as of December 31, 2015 and 2014, and the related consolidated statements of operations, changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements, (collectively, 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 Palos Community Hospital and Subsidiaries as of December 31, 2015 and 2014, 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 accompanying 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 audit of the 2015 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 16, 2016

Palos Community Hospital and Subsidiaries

Consolidated Balance Sheets
December 31, 2015 and 2014
(Dollars in Thousands)

	2015	2014
Assets		
Current assets:		
Cash and cash equivalents	$ 2,918	$ 11,617
Investments	98,395	21,591
Patient accounts receivable, net of allowance for doubtful accounts of $25,899 in 2015 and $12,134 in 2014	46,375	43,591
Inventories	2,684	2,335
Collateral received for securities loaned	-	65
Assets limited as to use - internally designated for self-insurance	6,457	2,000
Due from affiliated organizations	1,889	4,649
Other current assets	3,540	4,205
Total current assets	162,258	90,053
Investments and assets limited as to use:		
Investments internally designated for capital purposes	-	294,155
Investments internally designated for self-insurance, net of amounts required to meet current obligations	51,044	41,246
Total investments and assets limited as to use	51,044	335,401
Property and equipment:		
Land and land improvements	14,331	14,314
Buildings	491,838	396,832
Equipment	172,232	160,921
Construction in progress	44,302	86,160
	722,703	658,227
Less accumulated depreciation	(240,579)	(217,854)
Property and equipment, net	482,124	440,373
Other assets, net	7,014	6,675
Total assets	$ 702,440	$ 872,502
Liabilities and Net Assets		
Current liabilities:		
Current portion of long-term debt	$ 9,425	$ -
Accounts payable	15,231	21,993
Accrued liabilities and other	52,100	40,606
Obligations for collateral received for securities loaned	-	65
Due to third-party payors	44,705	40,906
Due to affiliated organizations	2,311	-
Current portion of professional liability	6,960	2,000
Total current liabilities	130,732	105,570
Professional liability, less current portion	34,017	33,668
Other long-term liabilities	3,140	4,292
Long-term debt, less current portion	370,228	370,767
Total liabilities	538,117	514,297
Commitments and contingencies (Note 12)		
Net assets:		
Unrestricted net assets	164,113	358,093
Temporarily restricted net assets	210	112
Total net assets	164,323	358,205
Total liabilities and net assets	$ 702,440	$ 872,502

See notes to consolidated financial statements.

Palos Community Hospital and Subsidiaries

Consolidated Statements of Operations
Years Ended December 31, 2015 and 2014
(Dollars in Thousands)

	2015	2014
Revenue:		
Patient service revenue	$ 374,276	$ 343,946
Provision for uncollectible accounts	(22,167)	(13,250)
Net patient service revenue	352,109	330,696
Medicaid assessment program revenue	10,691	10,258
Total net patient service revenue	362,800	340,954
Investment income	4,177	28,638
Other revenue	6,949	6,156
Meaningful use incentive revenue	-	2,570
Total revenue	373,926	378,318
Expenses:		
Salaries and employee benefits	207,212	199,460
Supplies and other	95,335	85,440
Physicians' fees	2,129	2,435
Interest and financing costs	11,507	13,766
Depreciation and amortization	23,557	22,220
Insurance	6,840	1,467
Utilities	3,604	3,869
Medicaid assessment program expense	11,559	11,300
Total expenses	361,743	339,957
Operating income	12,183	38,361
Nonoperating gains (losses):		
Loss on early extinguishment of debt	(7,079)	-
Unrestricted contributions	676	803
	(6,403)	803
Excess of revenue over expenses	5,780	39,164
Other changes in unrestricted net assets:		
Net asset transfers (to) from affiliate	(193,975)	8,222
Net changes in unrealized gains and losses on investments	(5,785)	(12,361)
(Decrease) increase in unrestricted net assets	$ (193,980)	$ 35,025

See notes to consolidated financial statements.

Palos Community Hospital and Subsidiaries

Consolidated Statements of Changes in Net Assets
Years Ended December 31, 2015 and 2014
(Dollars in Thousands)

	2015	2014
Unrestricted net assets:		
Excess of revenue over expenses	**$ 5,780**	$ 39,164
Net asset transfers (to) from affiliate	**(193,975)**	8,222
Net changes in unrealized gains and losses on investments	**(5,785)**	(12,361)
(Decrease) increase in unrestricted net assets	**(193,980)**	35,025
Temporarily restricted net assets:		
Contributions	**157**	52
Net assets released from restriction	**(59)**	(60)
Increase (decrease) in temporarily restricted net assets	**98**	(8)
(Decrease) increase in net assets	**(193,882)**	35,017
Net assets:		
Beginning of year	**358,205**	323,188
End of year	**$ 164,323**	$ 358,205

See notes to consolidated financial statements.

Palos Community Hospital and Subsidiaries

Consolidated Statements of Cash Flows
Years Ended December 31, 2015 and 2014
(Dollars in Thousands)

	2015	2014
Cash flows from operating activities:		
(Decrease) increase in net assets	$ (193,882)	$ 35,017
Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities:		
Net asset transfers to (from) affiliate	194,305	(8,222)
Net changes in unrealized gains and losses on investments	5,785	12,361
Realized gain on investments	(2,069)	(22,044)
Loss on disposal of property and equipment	12	652
Change in undistributed income of investment in joint venture	91	165
Depreciation and amortization	22,902	22,220
Provision for uncollectible accounts	22,167	13,250
Loss on early extinguishment of debt	(1,708)	-
Change in operating assets and liabilities, net of effects of transfer of PMG:		
Receivables	(24,522)	(22,262)
Other assets	2,669	(2,542)
Accounts payable	2,694	2,218
Accrued liabilities and other	(8,618)	556
Due to third-party payors	3,799	5,699
Professional liability	3,847	(1,527)
Net cash provided by operating activities	27,472	35,541
Cash flows from investing activities:		
Construction and other additions to property and equipment	(74,074)	(74,117)
Cash received from disposal of property and equipment	-	67
Purchase of investments and assets limited as to use	(166,581)	(849,979)
Proceeds from sales of investments and assets limited as to use	200,568	848,034
Change in short-term investments	(6,804)	-
Net cash used in investing activities	(46,891)	(75,995)
Cash flows from financing activities:		
Proceeds from the issuance of long-term debt	332,015	36,032
Advance refunding/refinancing of long-term debt	(320,145)	-
Payment of deferred financing fees	(1,150)	-
Net cash provided by financing activities	10,720	36,032
Net decrease in cash and cash equivalents	(8,699)	(4,422)
Cash and cash equivalents:		
Beginning of year	11,617	16,039
End of year	$ 2,918	$ 11,617

(Continued)

Palos Community Hospital and Subsidiaries

Consolidated Statements of Cash Flows (Continued)
Years Ended December 31, 2015 and 2014
(Dollars in Thousands)

	2015	2014
Supplemental disclosure of cash flow information:		
Cash paid for interest, net of amounts capitalized	$ 11,808	$ 13,780
Supplemental schedule of noncash investing and financing activities:		
Property and equipment additions included in accounts payable and accrued liabilities	$ 5,471	$ 14,947
Investments transferred to The St. George Corporation	186,795	-
Assets acquired and liabilities assumed in connection with transfer of PMG:		
Current assets	$ 782	
Property and equipment	193	
Current liabilities	6,693	
Professional liability	1,462	
	(7,180)	
Less: Cash and cash equivalents transferred	(330)	
Noncash net assets transferred	$ (7,510)	

See notes to consolidated financial statements.

Note 1. Nature of Organization and Significant Accounting Policies

Organization and nature of business: Palos Community Hospital (PCH) is an Illinois not-for-profit corporation whose sole corporate member is The St. George Corporation (St. George). PCH is a licensed 436-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.

Effective January 1, 2015, St. George transferred its sole membership interest in Palos Medical Group, LLC (PMG) to PCH. PMG is a limited liability company that 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. In January 2015, St. George Assurance, Ltd. (SGA) was incorporated as a Cayman Islands-based captive insurance company that provides professional liability coverage to PCH and PMG.

Chicago Health Colleagues, LLC (CHC), a limited liability company, was formed and began operations in 2015. CHC will facilitate collaboration between the Hospital and physicians to measure quality through the delivery of evidence-based care and provide value by coordinating care efficiently. PCH is the sole member of CHC.

Significant accounting policies are as follows:

Principles of consolidation: The accompanying 2015 consolidated financial statements include the accounts of PCH, PMG, SGA, and CHC (collectively, the Hospital). All significant intercompany transactions in these 2015 consolidated financial statements have been eliminated. The accompanying 2014 financial statements include the accounts of PCH only.

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

Use of estimates: The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. The use of estimates and assumptions in the preparation of the accompanying consolidated financial statements is primarily related to the determination of the net patient accounts receivable and settlements with third-party payors, the accrual for professional liability, and the valuation of alternative investments. 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 Hospital may classify its net assets into three categories, which are unrestricted, temporarily restricted and permanently restricted.

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

Temporarily restricted net assets are subject to donor-imposed stipulations that may or will be met either by actions of the Hospital and/or the passage of time. When a donor restriction expires, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the accompanying consolidated statements of operations and changes in net assets as net assets released from restriction.

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

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

The Hospital had temporarily restricted net assets of $210 and $112 at December 31, 2015 and 2014, respectively, whose use has been restricted to the Hospital's animal-assisted therapy program, special events, and nursing scholarships.

The Hospital had no permanently restricted net assets at December 31, 2015 and 2014.

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

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

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

Patient accounts receivable, allowance for doubtful accounts and due from/to third-party payors: The collection of receivables from third-party payors and patients is the Hospital's primary source of cash for operations and are critical to its 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, where a third-party payor is responsible for paying the amount, are carried at a net amount determined by the original charge for the service provided, less an estimate made for contractual allowances or discounts provided to third-party payors.

Patient receivables due directly from patients are carried at the original charge for the service provided less amounts covered by third-party payors and less estimated allowances for doubtful accounts and charity care. Management estimates the allowance for doubtful accounts based on the aging of its accounts receivable and its historical collection experience for each payor type. Management estimates the allowance for charity care based on the Hospital's charity care policy and historical charity care experience. Recoveries of accounts receivable previously written off as uncollectible are recorded as a reduction of the provision for uncollectible accounts when received.

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

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 uncollectible accounts for self-pay patients was approximately 36 and 22 percent of patient accounts receivable at December 31, 2015 and 2014, respectively. The Hospital's self-pay write-offs were $8,403 and $9,615 in 2015 and 2014, respectively. The increase in the allowance for uncollectible accounts is primarily the result of an increase in self pay portions that do not qualify for charity care and an increase in high copay/deductible plans under the Affordable Care Act that are uncollectible and the result of writing off fewer accounts in 2015. While the Hospital has experienced a decrease in self pay accounts, there has been an increase in these high copay/deductible plans. The Hospital updated its charity care and uninsured discount policies during 2014. The Hospital does not maintain a material allowance for uncollectible accounts from third-party payors, nor did it have significant write-offs from third-party payors.

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 in the accompanying consolidated balance sheets. 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 cost (first-in, first-out method). Inventories consist mainly of supplies and pharmaceuticals.

Investments and assets limited as to use: Investments in debt and equity securities are recorded at fair value based on quoted market prices for the same or similar investments. Investments classified as assets limited as to use are intended to be used for self-insurance arrangements. 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 are reflected as increases or decreases in unrestricted net assets in the accompanying consolidated statements of operations and changes in net assets unless such unrealized losses are deemed to be an "other-than-temporary decline" in which case the decline is recognized as an investment loss included in investment income in the accompanying consolidated statements of operations.

The Hospital assesses whether a decline in an investment value is other-than-temporary on a quarterly basis. The Hospital considers factors affecting the investee, factors affecting the industry the investee operates within, and general debt and equity trends. The Hospital 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 Hospital 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 2015 and 2014, the Hospital recorded other-than-temporary declines of $1,184 and $3,517, 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.

Alternative investments 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. All realized and unrealized gains and losses on the alternative investments are included in investment income.

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

Assets limited as to use consist of investments and are recorded at fair value based on quoted market prices. Realized investment income is included in excess of revenue over expenses unless the income or loss is restricted by donor or law. The change in unrealized gains and losses in the value of these investments is recognized as a change in net assets.

Assets limited as to use consist of investments set aside by the Board of Directors for self-insurance over which the Board of Directors retains control and may, at its discretion, subsequently use for other purposes.

Securities lending: The Hospital participated in a securities lending program with The Northern Trust Company in 2014 through which the Hospital increased its investment income by lending securities to independent third parties. The Hospital no longer participates in the program for 2015. At December 31, 2014, approximately $63 of the Hospital's securities reported on the accompanying consolidated balance sheet were on loan which were secured by cash collateral of $65 at December 31, 2014, which is reported on the accompanying consolidated balance sheet as collateral received for securities loaned. The securities on loan were secured by total collateral with a market value of approximately $65 at December 31, 2014.

Joint venture: The Hospital has a joint venture arrangement with the Southwest Hospitals MRI, Inc. which includes a 50 percent interest in the entity. This investment is accounted for on the equity basis 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 80 years for buildings, building components and improvements, and 3 to 25 years for equipment. At December 31, 2015 and 2014, property and equipment includes capitalized asset retirement obligations with a cost of $1,933 and accumulated depreciation of $1,897 and $1,883, respectively.

The Hospital is in the process of transforming existing patient rooms from semi-private to private rooms as well as to expand emergency, cardiology, radiology, nuclear medicine and support services.

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. The Hospital capitalized interest of $2,016 and $360 in 2015 and 2014, respectively.

During 2015, the Hospital engaged an outside third party to perform an inventory of fixed assets. The inventory identified $979 of fixed asset disposals with a net book value of $72.

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.

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

Net patient service revenue: The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different than its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, per diem payments, and per procedure payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and are adjusted in future periods, as final settlements are determined.

Medicare and Medicaid Electronic Health Records (EHR) Incentive Programs: The American Recovery and Reinvestment Act of 2009 provides for Medicare and Medicaid Incentive Programs beginning in Federal fiscal year 2011 for eligible acute care hospitals that are meaningful users of certified EHR technology, as defined by the Federal Register. The Hospital has implemented certified EHR technology that has enabled it to demonstrate its meaningful use and to qualify for the Medicare incentive program. The initial incentive payment received for the Medicare EHR incentive program is an estimate based upon data from prior year's cost report. The final settlement will be determined after the submission of the current annual cost report and subsequent audit by the fiscal intermediary. The Hospital's compliance with the meaningful use criteria is also subject to audit by the Federal government. The EHR Incentive Programs are expected to continue through September 30, 2017, and the incentive payments will be calculated annually. The Hospital accounts for EHR incentive funds using the contingency model. Under this model, the Hospital records EHR incentive revenue when the Hospital has actually complied with the meaningful use criteria during the entire EHR reporting period.

The Hospital has recorded $0 and $2,570 of Medicare EHR incentive revenue for the years ended December 31, 2015 and 2014, respectively, in the accompanying consolidated statements of operations. As of December 31, 2015, the Hospital has not applied for Medicaid EHR incentives.

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

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

Excess of revenue over expenses: The statements of operations and changes in net assets include excess of revenue over expenses that represents the results of operations. Changes in unrestricted net assets that are excluded from excess of revenue over expenses include the change in net unrealized gains and losses on investments not designated as trading securities and transfers to and from affiliates for other than goods and services.

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

Income taxes: PCH has received a determination letter from the Internal Revenue Service stating that it is exempt from the payment of income taxes under Section 501(c)(3) of the Internal Revenue Code. PMG is a disregarded entity and through December 31, 2014, was considered part of St. George Corporation for income tax filing purposes. Effective January 1, 2015, PMG is considered part of PCH 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 is also a disregarded entity for income tax purposes.

The Hospital follows the FASB-issued guidance for accounting for uncertainty in income taxes. The Hospital files a Form 990 (Return of Organization Exempt from Income Tax) annually. When this return is 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 990T, as appropriate. The benefit of a tax position is recognized in the consolidated financial statements in the period during which, based on all available evidence, management believes that it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any.

Tax positions are not offset or aggregated with other positions. Tax positions that meet the "more-likely-than-not" recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely to be realized on settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying 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, 2015, there were no unrecognized tax benefits identified and recorded as a liability.

Forms 990 and 990T filed by PCH are subject to examination by the Internal Revenue Service (IRS) up to three years from the extended due date of each return. Forms 990 and 990T filed by PCH are no longer subject to examination for the years 2011 and prior.

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

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

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities.* This guidance 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. This guidance also changes certain disclosure requirements and other aspects of current U.S. GAAP. The guidance is effective for the Hospital's December 31, 2019 consolidated financial statements. The Hospital elected to early adopt the amendment 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 Hospital is currently evaluating the impact of the adoption of the remaining provisions of ASU 2016-01 on the consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, *Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs.* This ASU requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The Hospital early adopted the provisions of ASU 2015-03, which also require retrospective application, in the accompanying consolidated financial statements. Accordingly, the December 31, 2014, consolidated balance sheet has been restated to reclassify $3,284 of net deferred financing costs previously reported as other assets as a reduction of long-term debt.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606),* requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP, including industry-specific guidance, when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14 which defers the effective date of ASU 2014-09 one year making it effective for the Hospital's December 31, 2018 consolidated financial statements. Earlier application is permitted only as of reporting periods beginning after December 15, 2016, including interim reporting periods within that period. The Hospital has not yet selected a transition method and is currently evaluating the effect that the updated standard will have on the consolidated financial statements.

Subsequent events: The Hospital has evaluated subsequent events for potential recognition and/or disclosure through May 16, 2016, the date the financial statements were issued.

Note 2. Asset Retirement Obligations

In accordance with FASB-issued guidance for asset retirement costs, the Hospital records all known asset retirement obligations for which the liability's fair value can be reasonably estimated, including certain asbestos removal and a storage tank. At December 31, 2015 and 2014, the Hospital had remaining asset retirement obligations of $3,140 and $4,292, respectively, which are recorded as other long-term liabilities in the accompanying consolidated balance sheets. The liability was estimated using an inflation rate of 4 percent and a discount rate of 4 percent.

Note 3. Net Patient Service Revenue

PCH and PMG have agreements with third-party payors that provide for reimbursement at amounts different from their established rates. Contractual adjustments under third-party reimbursement programs represent the difference between the Hospital's and PMG's billings at list price and the amounts reimbursed by Medicare, Medicaid, Blue Cross, and certain other third-party payors, and any differences between estimated third-party reimbursement settlements for prior years and subsequent final settlements. Contractual adjustments under third-party reimbursement programs are accrued on an estimated basis in the period the related services are rendered and are adjusted in future periods as final settlements are determined. A summary of the basis of reimbursement with major third-party payors follows:

Medicare: PCH is paid for inpatient acute care and outpatient care 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. PCH's classification of patients under Prospective Payment Systems and the appropriateness of the patient's admissions are subject to validation reviews. PCH 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 PCH 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.

Medicaid: PCH is reimbursed at prospectively determined rates for each Medicaid inpatient discharge. Outpatient 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.

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 believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs. Net patient service revenue was increased (decreased) in 2015 and 2014 by the impact of third-party settlements and changes in allowance estimates in the amounts of $3,940 and $(1,237), respectively.

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 Public Aid. The provider assessment program payments are in effect for the state fiscal years ending each June 30. The laws and regulations authorizing this program have been extended through June 30, 2018. For the years ended December 31, 2015 and 2014, the Hospital has recorded $10,691 and $10,258, respectively, in assessment revenue and $11,559 and $11,300, respectively, in assessment expense (Medicaid tax).

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

(Dollars in Thousands)

Note 3. Net Patient Service Revenue (Continued)

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

Note 4. Concentration of Credit Risk

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of net receivables from patients and third-party payors, before consideration of the allowance for doubtful accounts, at December 31, 2015 and 2014, was as follows:

	2015		2014	
Blue Cross managed care	12	%	17	%
Managed care, other than Blue Cross	20		16	
Self-pay	25		21	
Medicare	23		24	
Commercial insurance	9		13	
Medicaid	11		9	
	100	%	100	%

The mix of the Hospital's patient service revenue, before provision for uncollectible accounts, from patients and third-party payors in 2015 and 2014, was as follows:

	2015		2014	
Blue Cross managed care	29	%	31	%
Managed care, other than Blue Cross	20		15	
Self-pay	2		1	
Medicare	43		48	
Commercial insurance	2		2	
Medicaid	4		3	
	100	%	100	%

Note 5. Community Commitment and Charity Care

In the ordinary course of business, the Hospital renders services to patients who are financially unable to pay for medical care. The Hospital 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 Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The Hospital maintains records to identify and monitor the level of charity care it provides. Charity care is measured based on the Hospital'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 2015 and 2014, was approximately $3,341 and $5,472, respectively.

(Dollars in Thousands)

Note 6. 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, 2015 and 2014, consisted of the following:

	2015	2014
U.S. Government and agency securities	$ 33,527	$ 61,196
Equities	54,194	225,398
Corporate bonds	30,751	46,786
Collateralized mortgage obligations	8,537	13,911
Cash and cash equivalents	28,086	5,259
Accrued interest and other	360	790
Alternative investments	441	5,652
	$ 155,896	$ 358,992

Investment income for 2015 and 2014 consisted of the following:

	2015	2014
Interest and other investment income	$ 2,170	$ 6,454
Realized gain, net (including other-than-temporary impairment loss of $1,184 in 2015 and $3,517 in 2014)	2,069	22,044
(Loss) income on alternative investments	(62)	140
	$ 4,177	$ 28,638
Net changes in unrealized gains and losses on investments	$ (5,785)	$ (12,361)

The Hospital has invested in certain alternative investments which are structured as commingled funds and are included in investments and assets limited as to use in the consolidated balance sheets. Audited information is only available annually based on each fund's year-end. These investments are valued using the net asset values reported by the investment funds, which in turn are based on the most recent information available to the fund manager for the underlying securities which have readily determinable market values.

The following table summarizes the nature and risk of the alternative investments by major category at fair value at December 31, 2015 and 2014.

	2015	2014
International bond funds	$ 441	$ 982
Asset-backed securities bond fund	-	4,670
	$ 441	$ 5,652

(Dollars in Thousands)

Note 6. Investments and Assets Limited as to Use (Continued)

The Hospital may make daily redemptions from all of the funds classified as alternative investments at December 31, 2015. At December 31, 2015, there are no unfunded commitments relating to the Hospital's alternative investments.

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 Hospital'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, 2015 and 2014.

	Less Than Twelve Months		Twelve Months or Longer	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
2015				
U.S. Government and agency securities	$ 9,525	$ 159	$ 1,820	$ 95
Equities	1,062	42	-	-
Corporate bonds	21,573	547	2,408	158
Collateralized mortgage obligations	4,713	30	1,329	47
Total	$ 36,873	$ 778	$ 5,557	$ 300

	Less Than Twelve Months		Twelve Months or Longer	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
2014				
U.S. Government and agency securities	$ 4,201	$ 75	$ 11,057	$ 1,918
Equities	344	4	184	1
Corporate bonds	6,024	97	2,450	96
Collateralized mortgage obligations	3,933	37	3,131	46
Other	1,194	3	-	-
Total	$ 15,696	$ 216	$ 16,822	$ 2,061

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 Hospital'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 Hospital will be required to sell these investments before a recovery of fair value, which may be maturity, the Hospital does not consider these investments to be other-than-temporarily impaired at December 31, 2015.

(Dollars in Thousands)

Note 6. Investments and Assets Limited as to Use (Continued)

Equities: The Hospital's investments in marketable equity securities consist of various investments in common stock. Because it is not more likely than not that the Hospital will be required to sell these investments before a forecasted recovery of fair value, the Hospital does not consider these investments to be other-than-temporarily impaired at December 31, 2015.

Corporate bonds: The Hospital'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 Hospital will be required to sell these investments before a recovery of fair value, which may be maturity, the Hospital does not consider these investments to be other-than-temporarily impaired at December 31, 2015.

Collateralized mortgage obligations: The unrealized losses on the Hospital's investment in collateralized mortgage obligations were caused by current economic conditions. Because it is not more likely than not that the Hospital will be required to sell these investments before a recovery of fair value, which may be maturity, the Hospital did not consider these investments to be other-than-temporarily impaired at December 31, 2015.

Other: The Hospital's unrealized losses on investments in other fixed income securities 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 Hospital will be required to sell these investments before a recovery of fair value, which may be maturity, the Hospital does not consider these investments to be other-than-temporarily impaired at December 31, 2015.

Derivative financial instruments: To enhance investment return and manage risk associated with fixed income securities, the Hospital has entered into various futures and options contracts as a part of its investment portfolio. The Hospital backs these positions with liquid investments from its investment accounts. At December 31, 2015 and 2014, the Hospital had contracts to buy securities for $2,105 and $10,518, respectively, and contracts to sell securities for $5,861 and $8,017, respectively. The fair value of these contracts is insignificant and is included in cash and cash equivalents.

Note 7. Investment in Joint Venture

Southwest Hospitals MRI, Inc., a not-for-profit corporation in which the Hospital has a 50 percent interest, provides diagnostic MRI tests. This investment is accounted for under the equity method. The investment in this joint venture, included in other assets on the accompanying consolidated balance sheets, is $1,768 and $1,859 at December 31, 2015 and 2014, respectively. Net income from this investment is included in other revenue on the Hospital's consolidated statements of operations as this investment is directly related to the Hospital's core business. Summarized (unaudited) information as to assets, liabilities, total equity, and net loss of the investee as of and for the years ended December 31, 2015 and 2014, is presented below:

	2015	2014
Assets	$ 4,361	$ 4,645
Liabilities	58	64
Total equity	4,303	4,581
Net loss	(168)	(280)

(Dollars in Thousands)

Note 8. Long-Term Debt and Pledged Assets

Long-term debt at December 31, 2015 and 2014, consisted of the following:

	2015	2014
Illinois Finance Authority Revenue Bonds, Series 2007A, bearing interest at fixed rates of 4.5% and 5%, advance refunded in October 2015	$ -	$ 120,145
Illinois Finance Authority Revenue Bonds, Series 2010C, bearing interest at fixed rates ranging from 5% to 5.37%, varying principal payments due beginning May 2016 through May 2035	147,525	147,525
Illinois Finance Authority Revenue Bonds, Series 2010A, in an aggregate principal amount not in excess of $50,000, variable interest at a LIBOR-based rate (0.98% at December 31, 2014), refinanced in 2015	-	50,000
Illinois Finance Authority Revenue Bonds, Series 2010B, in an aggregate principal amount not in excess of $50,000, variable interest at a LIBOR-based rate (0.82% at December 31, 2014), refinanced in 2015	-	50,000
Illinois Finance Authority Revenue Bonds, Series 2015B, variable interest at a LIBOR-based rate (0.94% at December 31, 2015), varying principal payments due beginning October 2019 through October 2040	57,260	-
Illinois Finance Authority Revenue Bonds, Series 2015C, variable interest at a LIBOR-based rate (0.82% at December 31, 2015), varying principal payments due beginning October 2019 through October 2035	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	-
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	-
Illinois Finance Authority Revenue Bonds, Series 2015F, bearing interest at a fixed interest rate of 2.99%, varying principal payments due beginning October 2016 through October 2037	49,780	-
	379,540	367,670
Unamortized bond premium	2,732	6,381
Unamortized deferred financing costs	(2,619)	(3,284)
	379,653	370,767
Less current portion	(9,425)	-
Long-term debt	$ 370,228	$ 370,767

(Dollars in Thousands)

Note 8. Long-Term Debt and Pledged Assets (Continued)

In May 2015, the Hospital refinanced the Series 2010A and Series 2010B bonds with the proceeds of $100,000 Illinois Finance Authority Revenue Refunding Bonds, Series 2015A. In October 2015, the Hospital refinanced the Series 2015A bonds and advance refunded the Series 2007A bonds with the proceeds of $232,015 Illinois Finance Authority Revenue Refunding Bonds, Series 2015B, Series 2015C, Series 2015D, Series 2015E, and Series 2015F. In connection with the refinancing of the Series 2015A bonds and the advance refunding of the Series 2007A bonds, the Hospital recognized a loss on early extinguishment of debt of $7,079, reported as nonoperating loss in the accompanying 2015 consolidated statement of operations.

St. George, together with PCH (collectively, the Obligated Group), are members of an obligated group under 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. All of PCH's outstanding debt was issued under the Indenture. PCH's debt constitutes all of the debt for which the Obligated Group is jointly and severally liable.

The revenue bonds are collateralized by substantially all assets of the Obligated Group. The provisions of the indenture agreement 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.

Scheduled repayments of long-term debt are as follows:

Years ending December 31:	
2016	$ 9,425
2017	9,920
2018	10,365
2019	10,060
2020	10,470
Thereafter	329,300
	$ 379,540

In 2015 and 2014, interest expense, net of amounts capitalized, was $11,823 and $14,106, respectively, and is included in interest and financing costs in the accompanying consolidated statements of operations.

Note 9. Retirement Plan

The Hospital 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 Hospital 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. Contributions to the Plan were $8,797 and $9,084 in 2015 and 2014, respectively.

(Dollars in Thousands)

Note 10. Professional Liability Insurance

Through the normal course of operations, PCH 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.

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 PCH, PMG and SGA such that risk is not transferred to SGA. Accordingly, PCH and PMG continue to accrue the liability for both claims reported and estimated claims incurred but not reported.

PCH and PMG recorded a discounted liability of $40,977 and $35,668 at December 31, 2015 and 2014, respectively, for professional liability insurance, of which $34,017 and $33,668 is recorded as a noncurrent liability at December 31, 2015 and 2014, respectively. The discount rate used was 4.5 percent and 4 percent in 2015 and 2014, respectively. The related undiscounted liability is approximately $7,408 and $4,985 higher at December 31, 2015 and 2014, respectively.

Insurance recoveries receivable of $5,145 and $4,817 have been recorded with a corresponding increase in accrued professional liability as of December 31, 2015 and 2014, respectively. These receivables are reported in other assets in the accompanying consolidated balances sheet as of December 31, 2015 and 2014.

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

Note 11. Functional Expenses

The Hospital's expenses related to providing health care services to its patients for 2015 and 2014, including allocations of depreciation and interest expense, are as follows:

	2015	2014
Health care services	$ 295,479	$ 275,318
General and administrative	66,155	64,487
Fundraising	109	152
	$ 361,743	$ 339,957

Note 12. Commitments and Contingencies

Litigation: The Hospital 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 Hospital's 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 Hospital's financial position or results from operations.

Construction in progress: At December 31, 2015, the Hospital had entered into commitments totaling approximately $37,446 related to construction projects and technology upgrades, including implementation of a new EHR system, of which $33,263 had been paid and $4,183 has been accrued as of December 31, 2015.

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 is 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.

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. At December 31, 2015 and 2014, the Hospital 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.

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Note 12. Commitments and Contingencies (Continued)

Property and Sales Tax Exemption: On June 14, 2012, the Governor of Illinois signed into law legislation that governs property and sales tax exemption for not-for-profit hospitals. The law 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. Management believes that the Hospital meets the requirements under the law to maintain its property and sales tax exemption.

Note 13. Fair Value Disclosures

Fair value measurements: Guidance provided by the FASB 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 Hospital uses various methods including market, income and cost approaches. Based on these approaches, the Hospital 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 Hospital 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 Hospital 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 2015 and 2014, 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, 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.

(Dollars in Thousands)

Note 13. Fair Value Disclosures (Continued)

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.

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

Fair Value on a Recurring Basis

The table below presents the balances of assets and liabilities measured at fair value on a recurring basis, as of December 31, 2015 and 2014.

	December 31, 2015			
	Level 1	Level 2	Level 3	Total
U.S. Government and agency securities	$ -	$ 33,527	$ -	$ 33,527
Equities[A]	54,194	-	-	54,194
Corporate bonds	149	30,602	-	30,751
Collateralized mortgage obligations	-	8,537	-	8,537
Alternative investments[B]	-	441	-	441
	$ 54,343	$ 73,107	$ -	$ 127,450

	December 31, 2014			
	Level 1	Level 2	Level 3	Total
U.S. Government and agency securities	$ -	$ 61,196	$ -	$ 61,196
Equities[A]	225,398	-	-	225,398
Corporate bonds	154	46,632	-	46,786
Collateralized mortgage obligations	-	13,911	-	13,911
Alternative investments[B]	-	5,652	-	5,652
	$ 225,552	$ 127,391	$ -	$ 352,943
Collateral received for securities loaned	$ -	$ 65	$ -	$ 65

[A] The investment objective for equities is both growth and value.
[B] Substantially all of the underlying investments are Level 1 and Level 2 investments.

(Dollars in Thousands)

Note 14. Related-Party Transactions

St. George is the sole corporate member of PCH, the St. George Wellness Center (the Wellness Center), and through December 31, 2014, Palos Medical Group, LLC (PMG).

On January 1, 2015, St. George contributed its sole membership interest in PMG to PCH. Summarized information as to the assets, liabilities, and net deficit transferred are as follows:

	2015
Cash and cash equivalents	$ 330
Other current assets	452
Property and equipment, net	193
Liabilities	8,155
Net deficit	(7,180)

During 2015, PCH transferred investments to St. George in the amount of $186,795. This transfer was made in connection with realignment of the investment portfolio between the organizations. Beginning in 2015, St. George will hold all of the investment assets excluding short-term investments which will be held by PCH and investments designated for self-insurance which will be held by PCH and SGA.

PCH provides accounting, administrative, and maintenance services to St. George. In 2015 and 2014 these charges totaled $72 and $80, respectively.

PCH also provided services to PMG. In 2014 these charges totaled $2,674. Included in these charges were rent ($573), laboratory services ($917), billing services ($349), and other administrative services including management, accounting, information systems, staffing, materials management, and employee physicals ($888).

The charges described above are reported within other revenue in the accompanying statements of operations. Amounts due from these affiliated organizations totaled $1,889 and $4,649 at December 31, 2015 and 2014, respectively, and amounts due to affiliated organizations totaled $2,311 and $0 at December 31, 2015 and 2014, respectively.

Supplementary Information

Palos Community Hospital and Subsidiaries

Consolidating Balance Sheet Information
December 31, 2015
(Dollars in Thousands)

	Palos Community Hospital	Palos Medical Group	St. George Assurance Ltd.	Chicago Health Colleagues LLC	Eliminations	Consolidated
Assets						
Current assets:						
Cash and cash equivalents	$ 2,841	$ 77	$ -	$ -	$ -	$ 2,918
Investments	98,395	-	-	-	-	98,395
Patient accounts receivable, net	46,375	-	-	-	-	46,375
Inventories	2,684	-	-	-	-	2,684
Assets limited as to use - internally designated for self-insurance	6,457	-	-	-	-	6,457
Due from affiliated organizations	32,269	-	-	-	(30,380)	1,889
Other current assets	3,432	74	34	-	-	3,540
Total current assets	192,453	151	34	-	(30,380)	162,258
Investments and assets limited as to use:						
Investments internally designated for self-insurance, net of amounts required to meet current obligations	11,760	-	39,284	-	-	51,044
Property and equipment:						
Land and land improvements	14,331	-	-	-	-	14,331
Buildings	491,838	-	-	-	-	491,838
Equipment	171,668	564	-	-	-	172,232
Construction in progress	44,302	-	-	-	-	44,302
	722,139	564	-	-	-	722,703
Less accumulated depreciation	(240,243)	(336)	-	-	-	(240,579)
Property and equipment, net	481,896	228	-	-	-	482,124
Other assets, net	10,791	103	-	-	(3,880)	7,014
Total assets	$ 696,900	$ 482	$ 39,318	$ -	$ (34,260)	$ 702,440
Liabilities and Net Assets						
Current liabilities:						
Current portion of long-term debt	$ 9,425	$ -	$ -	$ -	$ -	$ 9,425
Accounts payable	15,219	12	-	-	-	15,231
Accrued liabilities and other	36,627	832	14,641	-	-	52,100
Due to third-party payors	44,705	-	-	-	-	44,705
Due to affiliated organizations	111	7,630	24,577	373	(30,380)	2,311
Current portion of professional liability	6,457	503	-	-	-	6,960
Total current liabilities	112,544	8,977	39,218	373	(30,380)	130,732
Professional liability, less current portion	31,891	2,126	-	-	-	34,017
Other long-term liabilities	3,140	-	-	-	-	3,140
Long-term debt, less current portion	370,228	-	-	-	-	370,228
Total liabilities	517,803	11,103	39,218	373	(30,380)	538,117
Net assets:						
Unrestricted net assets (deficit)	178,887	(10,621)	100	(373)	(3,880)	164,113
Temporarily restricted net assets	210	-	-	-	-	210
Total net assets (deficit)	179,097	(10,621)	100	(373)	(3,880)	164,323
Total liabilities and net assets	$ 696,900	$ 482	$ 39,318	$ -	$ (34,260)	$ 702,440

Palos Community Hospital and Subsidiaries

Consolidating Statement of Operations Information
Year Ended December 31, 2015
(Dollars in Thousands)

	Palos Community Hospital	Palos Medical Group	St. George Assurance Ltd.	Chicago Health Colleagues LLC	Eliminations	Consolidated
Revenue:						
Patient service revenue	$ 363,690	$ 10,586	$ -	$ -	$ -	$ 374,276
Provision for uncollectible accounts	(22,167)	-	-	-	-	(22,167)
Net patient service revenue	341,523	10,586	-	-	-	352,109
Medicaid assessment program revenue	10,691	-	-	-	-	10,691
Total net patient service revenue	352,214	10,586	-	-	-	362,800
Investment income	4,175	2	-	-	-	4,177
Other revenue	6,633	316	-	-	-	6,949
Total revenue	363,022	10,904	-	-	-	373,926
Expenses:						
Salaries and employee benefits	195,397	11,682	-	133	-	207,212
Supplies and other	90,852	4,255	-	228	-	95,335
Physicians' fees	2,031	86	-	12	-	2,129
Interest and financing costs	11,507	-	-	-	-	11,507
Depreciation and amortization	23,510	47	-	-	-	23,557
Insurance	5,514	1,326	-	-	-	6,840
Utilities	3,604	-	-	-	-	3,604
Medicaid assessment program expense	11,559	-	-	-	-	11,559
Total expenses	343,974	17,396	-	373	-	361,743
Operating income (loss)	19,048	(6,492)	-	(373)	-	12,183
Nonoperating gains (losses):						
Loss on early extinguishment of debt	(7,079)	-	-	-	-	(7,079)
Unrestricted contributions	676	-	-	-	-	676
	(6,403)	-	-	-	-	(6,403)
Excess (deficiency) of revenue over expenses	12,645	(6,492)	-	(373)	-	5,780
Other changes in unrestricted net assets:						
Net asset transfers	(186,066)	(4,129)	100	-	(3,880)	(193,975)
Net changes in unrealized gains and losses on investments	(5,785)	-	-	-	-	(5,785)
Increase (decrease) in unrestricted net assets	$ (179,206)	$ (10,621)	$ 100	$ (373)	$ (3,880)	$ (193,980)

Palos Community Hospital and Subsidiaries

Consolidating Statement of Changes in Net Assets Information
Year Ended December 31, 2015
(Dollars in Thousands)

	Palos Community Hospital	Palos Medical Group	St. George Assurance Ltd.	Chicago Health Colleagues LLC	Eliminations	Consolidated
Unrestricted net assets:						
Excess (deficiency) of revenue over expenses	$ 12,645	$ (6,492)	$ -	$ (373)	$ -	$ 5,780
Net asset transfers	(186,066)	(4,129)	100	-	(3,880)	(193,975)
Net changes in unrealized gains and losses on investments	(5,785)	-	-	-	-	(5,785)
Increase (decrease) in unrestricted net assets	(179,206)	(10,621)	100	(373)	(3,880)	(193,980)
Temporarily restricted net assets:						
Contributions	157	-	-	-	-	157
Net assets released from restriction	(59)	-	-	-	-	(59)
Increase in temporarily restricted net assets	98	-	-	-	-	98
Increase (decrease) in net assets	(179,108)	(10,621)	100	(373)	(3,880)	(193,882)
Net assets:						
Beginning of year	358,205	-	-	-	-	358,205
End of year	$ 179,097	$ (10,621)	$ 100	$ (373)	$ (3,880)	$ 164,323

ATTACHMENT – 2

Non-Binding Term Sheet

This non-binding term sheet ("Term Sheet") is delivered to the Illinois Health Facilities and Services Review Board in connection with the Tenant's (as defined below) application for a Certificate of Need (CON) permit from the Illinois Health Facilities and Services Review Board (HFSRB).

PREMISES:	The Premises are described in the attached Exhibit A. The common description of the property is: Southwest Corner of 153rd Street and West Avenue, Orland Park, Illinois 60462.
TENANT:	Palos Health Surgery Center, LLC
LANDLORD:	Palos Community Hospital
SPACE REQUIREMENTS:	15,770 gross square feet of rentable space.
PRIMARY TERM:	Ten (10) years effective upon the later of the completion of construction or lessee occupancy. Landlord will grant two (2) renewal options each for a period of five (5) years.
BASE RENT:	A monthly payment in amount sufficient to allow the Landlord to recover the fully amortized capital costs to construct the ambulatory surgery center with a sufficient rate of return. The Lease shall provide for annual increased based on the Consumer Price Index (CPI).
ADDITIONAL EXPENSES:	The Rent shall be paid absolutely net to Landlord, free of all impositions, assessments, utility charges, operating expenses, refurnishing's, insurance premiums or any other charge or expense in connection with the Premises. All expenses and charges, whether for upkeep, maintenance, repair, refurnishing, refurbishing, restoration, replacement, insurance premiums, taxes, utilities, and other operating or other charges of a like nature or otherwise, shall be paid by Tenant.
LEASE CONTINGENCY:	The Lease shall be contingent upon Tenant's receipt of a CON for the establishment of an ambulatory surgery center from the Illinois Health Facilities and Services Review Board.

LANDLORD'S MAINTENANCE: Landlord, at its sole cost and expense, shall be responsible for the structural and capitalized items (per GAAP standards) for the Premises.

POSSESSION AND RENT COMMENCEMENT: Landlord shall deliver Possession of the Premises to the Tenant with Landlord's work complete within an agreed on period of time following CON Board approval. Rent commencement shall be the date each of the following conditions have occurred:

a. Construction improvements within the Premises have been completed in accordance with the final construction documents (except for nominal punch list items);

b. A certificate of occupancy for the Premises shall have been obtained from the city or county;

c. Tenant has obtained all necessary licenses and permits to operate its business; and

d. Such other conditions as Landlord and Tenant shall reasonably determine.

LEASE FORM: Landlord's standard lease form.

USE: The operation of an ambulatory surgery center, including all incidental, related and necessary elements and functions which may be necessary or desirable to render a complete program of treatment to patients of Tenant and related office and administrative uses or for any other lawful purpose.

PARKING: In accordance with final zoning requirements.

BASE BUILDING: Landlord shall deliver to the Premises, the building and all improvements.

OPTION TO RENEW: Option rent shall be at the rate from the year immediately preceding the renewal, as adjusted for the CPI.

HOLDING OVER: Tenant shall be obligated to pay 110% for the then current rate.

TENANT SIGNAGE: Tenant shall have the right to install building, monument and pylon signage at the Premises, subject to compliance Landlord's building regulations and with all applicable

laws and regulations.

SUBLEASE/ASSIGNMENT: Any assignment or sublease by Tenant of its interest in the Lease shall be subject to the prior written consent of Landlord.

CERTIFICATE OF NEED: Tenant CON Obligation: Landlord and Tenant understand and agree that the establishment of the ambulatory surgery center in the State of Illinois is subject to the requirements of the Illinois Health Facilities Planning Act, 20 ILCS 3960/1 et seq. and, thus, the Tenant cannot establish the ambulatory surgery center on the Premises or execute a binding real estate lease in connection therewith unless Tenant obtains a Certificate of Need (CON) permit from the Illinois Health Facilities and Services Review Board (HFSRB). Based on the length of the HFSRB review process, Tenant does not expect to receive a CON permit prior to March 14, 2017. In light of the foregoing facts, the parties agree that they shall promptly proceed with due diligence to negotiate the terms of a definitive lease agreement and execute such agreement prior to approval of the CON permit provided, however, the lease shall not be binding on either party prior to approval of the CON permit. The lease agreement shall contain a contingency clause indicating that the lease agreement is not effective prior to CON permit approval. Assuming CON approval is granted, the effective date of the lease agreement shall be the first day of the calendar month following CON permit approval. In the event that the HFSRB does not award Tenant a CON permit to establish an ambulatory surgery center on the Premises neither party shall have any further obligation to the other party with regard to the negotiations, lease, or Premises contemplated by this Term Sheet.

DELIVERIES: To be determined.

NO BROKERAGE FEE: There is no brokerage fee due in connection with the Lease.

Agreed to by:

Landlord: Palos Community Hospital Date: 2-3-2017

By: _____
Name Terrence Moisan
Title President

Tenant: Palos Health Surgery Center, LLC Date: 2-3-2017

By: _____
Name Timothy J. Brosnan
Title Director

It should be understood that this Term Sheet is subject to the terms of Exhibit B attached hereto.

EXHIBIT A

PREMISES DESCRIPTION

The Southeast quarter of the Northwest quarter of Section 16, Township 36 North, Range 12 East of the Third Principal Meridian, except a tract of land described as follows: Beginning at the Southwest corner of the Southeast quarter of the Northwest quarter of said Section 16, thence East along the South line of said Southeast quarter a distance of 200 feet; thence North along a line parallel with the West line of said Southeast quarter a distance of 200 feet; thence West along a line parallel with the South line of said Southeast quarter a distance of 200 feet; thence South along the West line of said Southeast quarter a distance of 200 feet to the place of beginning; ALSO excepting that part of the Northwest quarter of said Section 16 described as follows: Beginning at a point of intersection of the West line of the East half of said Northwest quarter of Section 16 and the South right of way line of 153rd Street, according to document no. 87255318 recorded May 12, 1987; thence Easterly along the South line of said 153rd Street having an Illinois East Zone Grid bearing of North 88 degrees 01 minute 35 seconds East, a distance of 868.00 feet; thence South 01 degree 46 minutes 14 seconds East, 10.00 feet to a point on a line 60.00 feet South of, measured perpendicular to and parallel with the North line of the South half of said Northwest quarter; thence South 88 degrees 01 minute 35 seconds West, 595.25 feet along said parallel line; thence South 01 degree 46 minutes 14 seconds East, 5.00 feet to a point 65.00 feet South of, measured perpendicular to and parallel with said North line; thence South 88 degrees 01 minute 35 seconds West, 272.75 feet along said parallel line to a point on said West line of the East half of the Northwest quarter; thence North 01 degree 46 minutes 14 seconds West, 15.00 feet along said West line to the point of beginning, in Cook County, Illinois (the "Premises")

EXHIBIT B

NON-BINDING NOTICE

NOTICE: THE PROVISIONS CONTAINED IN THIS TERM SHEET ARE AN EXPRESSION OF THE PARTIES' INTEREST ONLY. SAID PROVISIONS TAKEN TOGETHER OR SEPARATELY ARE NEITHER AN OFFER WHICH BY AN "ACCEPTANCE" CAN BECOME A CONTRACT, NOR A CONTRACT. BY ISSUING THIS TERM SHEET NEITHER TENANT NOR LANDLORD SHALL BE BOUND TO ENTER INTO ANY (GOOD FAITH OR OTHERWISE) NEGOTIATIONS OF ANY KIND WHATSOEVER. TENANT RESERVES THE RIGHT TO NEGOTIATE WITH OTHER PARTIES. NEITHER TENANT NOR LANDLORD INTENDS ON THE PROVISIONS CONTAINED IN THIS TERM SHEET TO BE BINDING IN ANY MANNER, AS THE ANALYSIS FOR AN ACCEPTABLE TRANSACTION WILL INVOLVE ADDITIONAL MATTERS NOT ADDRESSED IN THIS LETTER, INCLUDING, WITHOUT LIMITATION, THE TERMS OF ANY COMPETING PROJECTS, OVERALL ECONOMIC AND LIABILITY PROVISIONS CONTAINED IN ANY LEASE DOCUMENT AND INTERNAL APPROVAL PROCESSES AND PROCEDURES. THE PARTIES UNDERSTAND AND AGREE THAT A CONTRACT WITH RESPECT TO THE PROVISIONS IN THIS TERM SHEET WILL NOT EXIST UNLESS AND UNTIL THE PARTIES HAVE EXECUTED A FORMAL, WRITTEN LEASE AGREEMENT APPROVED IN WRITING BY THEIR RESPECTIVE COUNSEL. THIS TERM SHEET IS SUBMITTED SUBJECT TO ERRORS, OMISSIONS, CHANGE OF PRICE, RENTAL OR OTHER TERMS; ANY SPECIAL CONDITIONS IMPOSED BY OUR CLIENTS; AND WITHDRAWAL WITHOUT NOTICE. WE RESERVE THE RIGHT TO CONTINUE SIMULTANEOUS NEGOTIATIONS WITH OTHER PARTIES ON BEHALF OF OUR CLIENT. NO PARTY SHALL HAVE ANY LEGAL RIGHTS OR OBLIGATIONS WITH RESPECT TO ANY OTHER PARTY, AND NO PARTY SHOULD TAKE ANY ACTION OR FAIL TO TAKE ANY ACTION IN DETRIMENTAL RELIANCE ON THIS OR ANY OTHER DOCUMENT OR COMMUNICATION UNTIL AND UNLESS A DEFINITIVE WRITTEN LEASE AGREEMENT IS PREPARED AND SIGNED BY TENANT AND LANDLORD.

ATTACHMENT – 3

Section I, Identification, General Information, and Certification
Operating Entity/Licensee

The names and percentages ownership of all persons with a five percent or greater ownership in Palos Health Surgery Center, LLC and South Campus Partners, Inc. is listed below.

Palos Health Surgery Center, LLC	
Name	**Ownership Interest**
South Campus Partners, Inc.	100%

South Campus Partners, Inc.	
Name	**Ownership Interest**
Palos Community Hospital	51%
Loyola University Medical Center	49%

ATTACHMENT – 4

PROPOSED PAYOR MIX

PAYOR TYPE	PERCENTAGE
Commercial	39%
Medicaid	5%
Medicare	52%
Other	4%

ATTACHMENT – 5

CPT Code	Description	Hospital Average Cost	ASC Charge	Hospital Medicare Reimb	National ASC Medicare Reimb*	Local (Palos) ASC Reimb	Hospital - ASC Medicare Reimb. Difference ($)	Hospital - ASC Medicare Reimb. Difference (%)
19125	Open excisional biopsy identified by radiologic marker	$ 32,999.51	$ 9,938.00	$ 2,499.48	$ 1,007.05	$ 1,029.36	$ 1,470.12	243%
19301	Partial mastectomy or lumpectomy when the tumor is removed and specific attention is paid to the surgical margins	$ 41,864.72	$ 17,125.00	$ 2,499.48	$ 1,007.05	$ 1,029.36	$ 1,470.12	243%
20680	Removal of implant, deep	$ 20,713.79	$ 10,852.00	$ 2,148.91	$ 1,032.03	$ 1,054.89	$ 1,094.02	204%
28296	Correction, Hallux valgus (Bunion), with or without sesamoidectomy; simple exostectomy	$ 24,469.48	$ 12,652.00	$ 2,438.34	$ 1,219.54	$ 1,246.55	$ 1,191.79	196%
29827	Arthroscopy, shoulder surgical; decompression of subacromial space with partial acromioplasty, with coracoacromial ligament release, when performed	$ 38,358.14	$ 23,701.00	$ 5,221.57	$ 2,651.09	$ 2,709.81	$ 2,511.76	193%
29880	Arthroscopy, knee, surgical; with meniscectomy (medial AND lateral, including any meniscal shaving)	$ 23,304.14	$ 17,839.00	$ 2,438.34	$ 1,219.54	$ 1,246.55	$ 1,191.79	196%
29881	Arthroscopy, knee, surgical; with meniscectomy (medial OR lateral, including any meniscal shaving)	$ 22,040.25	$ 17,390.00	$ 2,438.34	$ 1,219.54	$ 1,246.55	$ 1,191.79	196%
30520	Septoplasty or submucous resection, with or without cartilage scoring, contouring or replacement with graft	$ 27,975.94	$ 12,467.00	$ 2,173.69	$ 940.94	$ 961.78	$ 1,211.91	226%
36561	Under Insertion of Central Venous Access Device	$ 9,955.25	$ 15,420.00	$ 2,360.60	$ 1,276.35	$ 1,304.62	$ 1,055.98	181%
43239	Esophagogastroduodenoscopy, flexible, transoral; with biopsy, single or multiple.	$ 15,217.54	$ 6,797.00	$ 699.79	$378.37	$386.75	$ 313.04	181%
45378	Colonscopy	$ 9,672.70	$ 6,264.00	$ 667.67	$361.01	$369.01	$ 298.66	181%
45380	Colonoscopy, with biopsy, single or multiple	$ 10,534.50	$ 7,180.00	$ 877.60	$ 474.51	$ 485.02	$ 392.58	181%
45385	Colonoscopy, with removal of tumor(s), polyp(s), lesion(s) by snare technique.	$ 10,768.40	$ 7,985.00	$ 877.60	$ 474.51	$ 485.02	$ 392.58	181%
47562	Removal of Gallbladder	$ 23,125.75	$ 13,540.00	$ 4,199.13	$ 2,040.04	$ 2,085.23	$ 2,113.90	201%
49505	Repair initial inguinal hernia	$ 29,385.16	$ 9,938.00	$ 2,862.74	$ 1,454.83	$ 1,487.05	$ 1,375.69	193%
52000	Cystourethroscopy with soudning and vaginoscopy	$ 11,278.24	$ 6,008.00	$ 549.44	$297.08	$303.66	$ 245.78	181%
52310	Cystourethroscopy, with removal of foreign body, calculus, or ureteral stent	$ 23,755.70	$ 11,500.00	$ 1,644.66	$ 792.79	$ 810.35	$ 834.31	203%
52332	Cystourethroscopy, with insertion of indwelling ureteral stent	$ 24,696.06	$ 10,741.00	$ 2,542.56	$ 1,181.53	$ 1,207.70	$ 1,334.86	211%
52356	Cystourethroscopy, with ureteroscopy and/or pyeloscopy; with lithotripsy (ureteral catheterization is included)	$ 24,588.49	$ 14,315.00	$ 3,484.01	$ 1,741.26	$ 1,779.83	$ 1,704.18	196%
58558	Hysteroscopy, diagnostic, separate procedure	$ 18,137.37	$ 11,407.00	$ 2,085.47	$ 1,066.87	$ 1,090.50	$ 994.97	191%
64493	Injection(s), diagnostic or therapeutic agent, paravertebral facet (zygapophyseal) joint (or nerves innervating that joint) with image guidance (fluoroscopy or CT), lumbar or sacral; single level	$ 12,112.56	$ 3,875.00	$ 638.93	$ 345.46	$ 353.11	$ 285.82	181%
64721	Carpal Tunnel Release	$ 13,200.49	$ 10,162.00	$ 1,563.42	$ 789.34	$ 806.82	$ 756.60	194%
66982	Extracapsular cataract extraction removal with insertion of intraocular lens prosthesis (one stage procedure), manual or mechanical technique, complex, requiring devices or techniques not generally used in routine cataract surgery or performed on patients in the amblyogenic developmental stage	$ 15,418.12	$ 7,850.00	$ 1,824.35	$ 978.21	$ 999.88	$ 824.47	182%
66984	Extracapsular cataract removal with insertion of intraocular lens prosthesis (one stage procedure), manual or mechanical technique	$ 14,957.20	$ 7,271.00	$ 1,824.35	$ 978.21	$ 999.88	$ 824.47	182%

ATTACHMENT - 6

Section III, Background, Purpose of the Project, and Alternatives
Criterion 1110.230, Background

The Applicants are fit, willing and able, and have the qualifications, background and character to adequately provide a proper standard of health care services for the community. This project is for the establishment of a medical office building to be located on Palos Community Hospital's South Campus in Orland Park, Illinois. The South Campus MOB is the culmination of focused planning, in response to the continued health care needs of a growing population and changes in the health care delivery system, to provide improved access to quality, coordinated, efficient and cost effective services for the residents of the Southwest Suburban community of metropolitan Chicago.

Improving Access to Tertiary Care

With the passage of the Patient Protection and Affordable Care Act ("ACA") in 2010, the health care delivery system is in the midst of a paradigm shift with the transition to value based reimbursement, consumerism, high deductibles and payer controlled referrals. Recognizing the challenges presented by this fundamental change in health care delivery, Palos Community Hospital and Loyola University Medical Center entered into an innovative affiliation in 2015. With a focus on coordinated and collaborative patient care, the affiliation presents a new way to build a network of care that doesn't involve mergers, acquisitions or consolidations, a trend in today's evolving health care landscape. The affiliation allows both organizations to respond to the challenges of health care reform, share research and expand training and educational opportunities. By providing complementary services, both systems will avoid unnecessary and costly duplication of services in the future. Patients will also benefit from both providers working from the same electronic medical record platform to improve quality and outcomes and ensure seamless collaboration. It gives patients greater access to Loyola's renowned specialty care services, such as neurosciences and oncology, while ensuring continued access to Palos' primary care network.

The goal of this affiliation is not to get bigger, it is to get better. It is creating a network of care that provides the right service for the patient at the right location at the right time. It places collaboration above ego by taking the best of what Palos offers and the best of what Loyola offers to create an innovative network serving patients in the southwest suburbs.

Already, programs are in place to achieve these goals. In November of 2015, Palos and Loyola launched a telestroke program that brings the expertise of Loyola stroke specialists to the patient's bedside at Palos Community Hospital. In December, Loyola opened a new cancer treatment center at the Palos South Campus in Orland Park. The stroke and cancer programs are among several initial patient-care initiatives allowing patients to receive specialized care from a leading academic center closer to home

Community Benefit

Palos' mission is one of compassionate care, which is founded in the rich tradition of the Sisters of the Religious Hospitallers of St. Joseph. As part of its mission, Palos consistently and compassionately provides high-quality health care services to all members of its communities without regard for the ability to pay. Palos offers financial assistance for individuals with limited means to obtain low-cost or reduced-fee medical care.

Loyola Affiliation

The South Campus MOB also allows Palos and Loyola to more fully develop their affiliation. Loyola has projected the placement of 25 FTE physicians in multiple specialties all with demonstrated market need to be located on the South Campus. Palos continues to grow its primary care and specialist physician complement as well. This mix of academic and community based physicians will allow patients to receive high quality coordinated care from two highly regarded health care systems at a lower cost to patients and payers through integration that will reduce duplicative treatments and testing.

Beyond the programmatic aspects of the project, the South Campus MOB will include all elements of an infrastructure intended to improve patient access, wayfinding, energy efficient operations and flexibility for adaptation to new and evolving delivery models. This will include a new parking structure, roadways and facility updates..

2. A map of the planning area for the proposed South Campus MOB is attached at Attachment – 12. The planning area closely approximates Palos Community Hospital's services area, which is centered in Orland Park.

3. As discussed more fully above, the passage of the ACA and the shift to value based reimbursement, consumerism, high deductible health insurance plans and payer controlled referrals along with the aging of the baby boomers are fundamentally changing the delivery of health care in the United States. In order to be responsive to these changes, hospitals must transition health care services from traditional inpatient settings to ambulatory care settings to better manage patient populations and to focus more on wellness and prevention.

4. The South Campus MOB is a response to the fundamental change in health care delivery brought about by demands placed on reimbursement systems by the ACA and the care demands of the aging of baby boomer population. The Palos' affiliation with Loyola focuses on coordinated and collaborative patient care, allowing both organizations to respond to the challenges of health care reform, share research and expand training and educational opportunities. By providing complementary services, both systems will avoid unnecessary and costly duplication of services in the future. Patients will also benefit from both providers working from the same electronic medical record platform to improve quality and outcomes and ensure seamless collaboration. It gives patients greater access to Loyola's renowned specialty care services, such as neurosciences and oncology, while ensuring continued access to Palos' primary care network.

ATTACHMENT - 7

FITCH AFFIRMS PALOS COMMUNITY HOSPITAL'S (IL) REVS AT 'AA-'; OUTLOOK REVISED TO STABLE

Fitch Ratings-Chicago-28 March 2016: Fitch Ratings has affirmed the 'AA-' rating on the following revenue bonds issued by the Illinois Finance Authority on behalf of Palos Community Hospital (PCH):

--$147,525,000, series 2010C
--$120,145,000, series 2007A

The Rating Outlook is revised to Stable from Negative.

SECURITY

Pledge of unrestricted receivables of the obligated group.

KEY RATING DRIVERS

MARGINAL IMPROVEMENT IN PROFITABILITY: PCH (consolidated entity including St. George Corporation and subsidiaries) managed to improve its operating EBITDA margin from a very weak 2.8% in 2013 to 10.6% in 2014 and 9.6% in unaudited 2015 (Dec. 31, fiscal year-end), which was necessary to maintain the rating. Though still well below Fitch's 'AA' category rating, further incremental improvement is expected in 2016 given PCH's ongoing efficiency efforts, and expected clinical growth and efficiencies from its new partnership with Loyola University Medical Center (LUMC; part of Trinity Health, rated 'AA/Negative Outlook).

PERMANENT LEADERSHIP IN PLACE: After a year of significant turnover at the board and management levels in 2013, Fitch notes that permanent appointments in both senior management and the board of directors are expected to support strategic stability going forward. Further, large campus renovation projects have largely been completed, allowing PCH to refocus on core operating initiatives and future strategy.

STRONG BALANCE SHEET: The 'AA-' rating continues to be supported by PCH's significant balance sheet strength, with 889.8 days of cash on hand (DCOH), 36.1x cushion ratio and 222.7% cash to debt at unaudited year-end 2015. PCH's robust liquidity currently provides some cushion against historically thin operating performance and an elevated debt burden. A conservative debt structure and no pension liability alleviates additional risk.

ELEVATED DEBT BURDEN: PCH's debt burden remains sizeable for its rating and revenue size, with maximum annual debt service (MADS) comprising 6.3% of total revenues and a light 3.9x MADS coverage by EBITDA for unaudited 2015. Both are unfavorable to Fitch's 'AA' category medians of 2.4% and 5.7x, though have improved significantly since 2011 from 1.6x coverage and 7.1%, respectively. PCH's leverage is expected to further moderate over time as no additional debt is planned.

STEADIED MARKET POSITION: PCH's market share and clinical activity have rebounded since Silver Cross' (BBB+/Stable) competing acute care hospital opened in 2011. PCH garnered 22% market share in 2015, up from 21% in 2012, and adjusted admissions have grown consistently since 2013. Further, the area has strong demographic characteristics and favorable payor mix characteristics.

SUSTAINED OPERATING IMPROVEMENTS: Maintaining the 'AA-' rating will require Palos Community Hospital (PCH) to continue to generate incremental improvements in its operating EBITDA, further reduce its leverage and preserve its liquidity. Material deterioration in operating profitability below historical lows would result in negative rating pressure.

CREDIT PROFILE

Located in Palos Heights, Illinois (approximately 25 miles southwest of Chicago), PCH currently operates 352 of its 425 licensed inpatient beds. The organization reported $371 million in total operating revenues through unaudited fiscal-year-end Dec. 31, 2015, which Fitch adjusts to exclude $55.1 million in investment income (included below the line in excess income).

Fitch uses consolidated financial data in its analysis. The obligated group includes Palos Community Hospital and St. George Corporation, which represented 99% of total assets and 97% of total revenues in unaudited 2015. Non-obligated entities include Palos Medical Group (PMG), St. George Wellness Center and the joint ventures.

IMPROVING PROFITABILITY

Under now stabilized and permanent leadership, PCH produced two fiscal years of better profitability via some recovery in market share, increased clinical volumes, and expense controls. Further, PCH's new relationship with LUMC is expected to support programmatic service line growth as well as foster a stronger clinically integrated network going forward.

Still, PCH's operating margins remain thin for the rating category and debt burden, particularly core operating cash flow with a 9.6% operating EBIDA and 1.5x coverage of MADS at unaudited fiscal 2015. As such, only marginal room for negative operating volatility exists at the 'AA-' rating level. PCH expects to maintain its operating EBITDA near current levels for 2016, which should be feasible. Further, PCH's robust liquidity and consistent investment income levels are expected to continue providing financial cushion against somewhat thin operating margins going forward. PCH's investment pool is moderately allocated (over 50% in cash and fixed income) and the organization has no pension exposure.

DEBT PROFILE

Total outstanding debt at Dec. 31, 2015 was $380 million, which was 74% fixed rate. The variable rate debt is all privately placed with various banks, and committed through 2025 at the earliest, limiting renewal risk over the near term. MADS is measured at $23.4 million, and is largely level through 2040. Per its obligated group indenture calculations, PCH generated 5.55x debt service coverage and had 960.3 DCOH at Dec. 31, 2015.

DISCLOSURE

PCH covenants to provide annual financial information within 150 days of each fiscal year end and quarterly unaudited financial statements within 45 days of the first three fiscal quarter-ends and within 60 days of the close of the fiscal year end for the fourth quarter. Disclosure to Fitch has been timely and thorough.

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Applicable Criteria
Revenue-Supported Rating Criteria (pub. 16 Jun 2014)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=750012
U.S. Nonprofit Hospitals and Health Systems Rating Criteria (pub. 09 Jun 2015)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=866807