SWEDISHAMERICAN
A DIVISION OF UW HEALTH

Administration Office
1401 East State Street
Rockford, IL 61104
779.696.4002
779.696.2463 Fax

RECEIVED
APR 4 2019
HEALTH FACILITIES &
SERVICES REVIEW BOARD

April 1, 2019

Ms. Courtney Avery, Administrator
Illinois Department of Public Health
Health Facilities and Services Review Board
525 West Jefferson Street, Second Floor
Springfield, Illinois 62761

Re: Permit Renewal Request
Project: #17-030 SwedishAmerican Hospital
Permit Amount: $23,833,311
Current Completion Date: May 31, 2019
Requested Completion Date: September 30, 2019

Dear Ms. Avery,

Per 77 Ill. Adm. Code Section 1130.740, we are requesting a four-month extension of the project completion date for Project #17-030 to allow for extreme weather conditions. This is the first request for permit renewal on this project. A check in the amount of $500 is included with this letter as the renewal request fee.

1) The requested completion date:

We are requesting a project completion date of September 30, 2019. The current project completion date, per the permit letter, is May 31, 2019.

2) A status report on the project detailing what percent has been completed and a summary of project components yet to be finished and the amount of funds expended on the project to date:

Included as Attachment 1 to this Permit Renewal Request is our First Annual Progress Report dated December 7, 2018 which contains a complete status report on the project as of October 31, 2018 and shows that the permit holder has proceeded with due diligence toward completion of the project with the project having been financially committed, 39% complete and $8,614,412 in funds expended. Since the submission of the First Annual Progress Report, the status of the project is as follows:

a. As of February 28, 2019, the construction of the project is 68% complete and a total of $16,595,526 in project funds has been expended.
b. The following components of the project are finished:
    1. Pre-Planning and site survey
    2. Site water service
    3. Building excavation
    4. Structural steel erection
    5. Exterior studs and sheathing
    6. Roofing
    7. Structural concrete
    8. Major mechanical equipment installation
    9. Building enclosure including: windows, roofing, sheet metal, louvers and screen wall
    10. Precast concrete façade installation
    11. Mechanical, electrical and plumbing system rough in work
    12. Off-site work
c. The following components of the project are not yet finished.
    1. Parking lot site layout
    2. Storm sewer
    3. Landscaping
    4. Site irrigation
    5. Asphalt paving
    6. Cast in place concrete
    7. Masonry
    8. Finish carpentry
    9. Millwork
    10. Thermal insulation
    11. Metal wall panels
    12. EPDM roofing
    13. Hollow metal doors and frames
    14. Aluminum entrance doors and frames
    15. Gypsum board
    16. Flooring
    17. Ceilings
    18. Painting
    19. Interior signage
    20. Exterior signage
    21. Toilet compartments
    22. Cubical curtains and track
    23. Folding door partitions
    24. Wall and door protection
    25. Toilet accessories
    26. Staff lockers
    27. Window treatments
    28. Elevators
    29. Finish plumbing

30. Finish electrical
31. Finish HVAC

3) A statement as to the reasons why the project has not been completed:

A permit renewal is being requested due to extremely wet 2018 summer and fall, as well as, winter weather conditions in Rockford that slowed construction. New records were set in Rockford, Illinois for both snow fall (46") and total precipitation (49.6") during the 2018 calendar year. Unprecedented record cold followed in the first two months of 2019 with many consecutive days where temperatures did not rise above zero degrees. These unforeseen and extreme weather conditions all contributed to slow and in some cases stalled productivity on this construction project.

4) Confirmatory evidence by the permit holder's authorized representative that the project's costs and scope are in compliance with what HFSRB approved and that sufficient financial resources are available to complete the project:

The undersigned authorized representative of the permit holder attests that the attached Use of Funds table accurately reflects the costs incurred on the project through February 28, 2019 and that the project's costs and scope are in compliance with what HFSRB approved (Attachment 2). In addition, the approved source of funds for the project is cash and securities. Confirmatory evidence that financial resources are available to complete the project is shown in the attached pages from SwedishAmerican's most recently audited financial statement (Attachment 3).

If you have any questions, please feel free to contact me at (779)696-4005.

Sincerely,

Jedediah L. Cantrell
Vice President, Operations
SwedishAmerican Hospital

Enclosures

Attachment #1

SWEDISHAMERICAN
A DIVISION OF UW HEALTH

Administration Office
1401 East State Street
Rockford, IL 61104
779.696.4002
779.696.2469 Fax

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HEALTH FACILITIES & SERVICES REVIEW BOARD

December 7, 2018

Ms. Courtney Avery
Administrator
Illinois Department of Public Health
Health Facilities and Services Review Board
525 West Jefferson Street, Second Floor
Springfield, Illinois 62761

Re: **First Annual Progress Report and Notice of Financial Commitment**
Project #17-030 SwedishAmerican Hospital Medical Office Building

Dear Ms. Avery,
On November 14, 2017, the Illinois Health Facilities and Services Review Board approved the application for permit to construct a 4-story medical office building in Rockford, Illinois with a project cost of $23,833,311. Per Illinois Administrative Code Section 1130.760, this letter is being submitted as the first Annual Progress Report for Project #17-030.

Current Status of the Project:
Through October 31, 2018, the project is 39% complete. Construction on the project is 38% complete.

Costs Incurred and Method of Financing:
The amount of funds expended on the project through October 31, 2018 is $8,614,412. The method of financing and sources of funds for the project have not changed since the filing of the application. The source of funds is cash and securities.

Financial Commitment:
Financial commitment of the project occurred on April 12, 2018 when the construction contract was signed, which committed the permit holder to expend at least 33% of the total project cost.

Project Completion Date:
The project completion date is May 31, 2019. Due to extremely wet summer and fall weather conditions that slowed construction, the permit holder anticipates the need for a brief extension of the completion date. The permit holder will file the necessary request for a permit renewal in a timely manner.

If you have any questions, please feel free to contact me at (779)696-4005.

Sincerely,

Jedediah L. Cantrell
Vice President, Operations

Attachment 2

1) COST INCURRED TO DATE
    a. A total of $16,596,526 in costs have been incurred through February 28, 2019.

Use of Funds	CON Permit Costs		Costs Incurred Through October 31, 2018	
Site Survey and Soil Investigation	$	19,000	$	19,000
Site Preparation	$	1,742,400	$	1,184,832
New Construction Contracts	$	16,918,750	$	11,504,750
Contingencies	$	1,131,161	$	769,189
Architectural/Engineering Fees	$	1,532,000	$	1,365,750
Consulting and Other Fees	$	100,000	$	-
Movable or Other Equipment (not in construction)	$	2,390,000	$	1,753,005
Total Uses of Funds	$	23,833,311	$	16,596,526

Attachment #3

SwedishAmerican Health System Corporation and Subsidiaries

Consolidated Financial Report
June 30, 2018

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RSM

Contents

RSM

RSM US LLP

Independent Auditor's Report

To the Board of Directors
SwedishAmerican Health System Corporation

Report on the Financial Statements
We have audited the accompanying consolidated financial statements of SwedishAmerican Health System Corporation and Subsidiaries (the "Corporation") which comprise the consolidated balance sheets as of June 30, 2018 and 2017, the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

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

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

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

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

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of SwedishAmerican Health System Corporation and Subsidiaries as of June 30, 2018 and 2017, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

RSM US LLP

Rockford, Illinois
October 22, 2018

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SwedishAmerican Health System Corporation and Subsidiaries

Consolidated Balance Sheets
June 30, 2018 and 2017
(Dollars in thousands)

	2018	2017
Assets		
Current assets:		
Cash and cash equivalents	$ 64,913	$ 22,135
Short-term investments	-	6,208
Patient accounts receivable, less allowances for uncollectible accounts of $38,915 in 2018 and $34,488 in 2017	65,184	78,536
Amounts due from third-party payors	7,386	6,226
Inventories	9,792	10,020
Prepaid expenses and other assets	12,079	12,771
Total current assets	159,354	135,896
Other assets:		
Assets limited as to use:		
Internally designated for self-insurance fund	12,621	12,270
Internally designated for deferred compensation agreements	5,852	6,620
Beneficial interest in investment pool	257,425	-
Investments	-	245,832
Insurance recoveries receivable	6,400	4,600
Beneficial interest in trust assets	4,759	4,533
Contribution receivable from lead trust	256	266
Notes receivable and other assets	7,365	7,165
	294,678	281,286
Property and equipment, net	326,591	319,168
Total assets	$ 780,623	$ 736,350

See notes to consolidated financial statements.

	2018	2017
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	**$ 13,519**	$ 10,342
Accrued expenses and other	**48,394**	44,261
Estimated settlements due to third-party payors	**63,397**	49,479
Current maturities of long-term debt	**4,850**	4,680
Total current liabilities	**130,160**	108,762
Noncurrent liabilities:		
Long-term debt, less current maturities	**118,347**	123,123
Self-insurance	**18,230**	15,766
Deferred compensation agreements	**5,852**	6,620
Other	**427**	598
	142,856	146,107
Total liabilities	**273,016**	254,869
Contingencies and Commitments (Notes 5, 6, 11 and 14)		
Net assets:		
Unrestricted	**497,915**	472,311
Temporarily restricted	**3,462**	3,074
Permanently restricted	**6,230**	6,096
Total net assets	**507,607**	481,481
Total liabilities and net assets	**$ 780,623**	$ 736,350

SwedishAmerican Health System Corporation and Subsidiaries

Consolidated Statements of Operations and Changes in Net Assets
Years Ended June 30, 2018 and 2017
(Dollars in thousands)

	2018	2017
Unrestricted revenues, gains and other support:		
Net patient service revenue	$ 510,494	$ 476,186
Provision for bad debts	(44,108)	(37,475)
Net patient service revenue less provision for bad debts	466,386	438,711
Public Aid assessment revenue	30,059	30,059
Other revenue	45,603	39,258
Net assets released from restrictions - used for operating purposes	307	1,247
	542,355	509,275
Expenses:		
Salaries and employee benefits	274,672	258,868
Supplies, purchased services, and rent	139,341	131,931
Professional fees	27,177	29,322
Management fees	3,832	6,367
Depreciation and amortization	23,622	25,964
Interest	2,968	3,043
Utilities	3,710	3,816
Repairs and maintenance	18,174	17,130
Insurance	5,802	6,238
Public Aid assessment expense	13,252	12,806
Other	8,194	7,734
	520,744	503,219
Operating income	21,611	6,056
Nonoperating income (expense):		
Change in value of beneficial interest in investment pool	(3,626)	-
Investment income	6,564	15,789
Income tax provision	-	(29)
Foundation activity, net	1,092	(666)
Other	(159)	(55)
	3,871	15,039
Revenue in excess of expenses	$ 25,482	$ 21,095

(Continued)

SwedishAmerican Health System Corporation and Subsidiaries

Consolidated Statements of Operations and Changes in Net Assets (Continued)
Years Ended June 30, 2018 and 2017
(Dollars in thousands)

	2018	2017
Unrestricted net assets:		
Revenue in excess of expenses	$ 25,482	$ 21,095
Net assets released from restrictions used for property and equipment	104	127
Other, net	18	15
Increase in unrestricted net assets	25,604	21,237
Temporarily restricted net assets:		
Contributions	685	544
Investment income	600	240
Change in value of split-interest agreements	12	30
Net assets released from restrictions used for operating and capital purposes	(411)	(1,374)
Net assets released from restrictions used for nonoperating purposes	(480)	(318)
Other	(18)	(17)
Increase (decrease) in temporarily restricted net assets	388	(895)
Permanently restricted net assets:		
Contributions	82	2
Change in beneficial interest in perpetual trust	52	243
Increase in permanently restricted net assets	134	245
Increase in net assets	26,126	20,587
Net assets, beginning of year	481,481	460,894
Net assets, end of year	$ 507,607	$ 481,481

See notes to consolidated financial statements.

SwedishAmerican Health System Corporation and Subsidiaries

Consolidated Statements of Cash Flows
Years Ended June 30, 2018 and 2017
(Dollars in thousands)

		2018		2017
Cash flows from operating activities:				
Increase in net assets	$	**26,126**	$	20,587
Adjustments to reconcile increase in net assets to net cash provided by operating activities:				
Depreciation and amortization on operating assets		**23,685**		26,035
Depreciation on nonoperating assets		**76**		81
Provision for bad debts		**44,108**		37,475
Net change in unrealized gains and losses on investments		**16,534**		(7,534)
Change in beneficial interest in investment pool		**3,626**		-
Net change in fair value of beneficial interest in perpetual trust and charitable lead trust		**(399)**		(314)
Restricted contributions		**(767)**		(546)
Changes in net cash from:				
Increase in patient accounts receivable		**(30,756)**		(43,905)
Decrease (increase) in inventories, prepaid expenses and other assets		**730**		(3,682)
(Increase) decrease in amounts due from third-party payors		**(1,160)**		2,263
Increase (decrease) in accounts payable, accrued expenses, and other liabilities		**6,885**		(1,099)
Increase in estimated settlements due to third-party payors		**13,918**		7,655
Net cash provided by operating activities		**102,606**		37,016
Cash flows from investing activities:				
Purchases of property and equipment		**(30,975)**		(18,526)
Purchase of beneficial interest in investment pool		**(261,051)**		-
Purchases of investments and assets limited as to use		**(28,908)**		(80,860)
Sales and maturities of investments and assets limited as to use		**264,831**		71,934
Distributions from beneficial interest in perpetual trust		**173**		180
Net cash used in investing activities	$	**(55,930)**	$	(27,272)

(Continued)

SwedishAmerican Health System Corporation and Subsidiaries

Consolidated Statements of Cash Flows (Continued)
Years Ended June 30, 2018 and 2017
(Dollars in thousands)

		2018		2017
Cash flows from financing activities:				
Principal payments on long-term debt	**$**	**(4,665)**	$	(4,540)
Bond issuance costs paid		**-**		(139)
Restricted contributions received		**767**		546
Net cash used in financing activities		**(3,898)**		(4,133)
Increase in cash and cash equivalents		**42,778**		5,611
Cash and cash equivalents, beginning of year		**22,135**		16,524
Cash and cash equivalents, end of year	**$**	**64,913**	$	22,135
Supplemental schedule of noncash investing and financing activities:				
Purchases of property and equipment in accounts payable	**$**	**348**	$	198

See notes to consolidated financial statements.

Note 1. Organization and Significant Accounting Policies

SwedishAmerican Health System Corporation and Subsidiaries (collectively referred to as the Corporation), an Illinois not-for-profit corporation, coordinates the collective efforts of its affiliates in pursuing various activities, including providing health care and promoting health-related scientific research and education in Rockford, Illinois, and the surrounding area. Regional Division, Inc. (RDI) f/k/a University Heath Care, Inc., a Wisconsin not-for-profit corporation, is the sole corporate member of the Corporation.

The consolidated financial statements include the accounts and transactions of SwedishAmerican Health System Corporation (SAHS) and the following organizations, which are affiliates of SAHS:

- SwedishAmerican Hospital (Hospital) – A Section 501(c)(3) not-for-profit hospital organized to provide and promote health care to the public for patients who primarily reside in Rockford, Illinois, and the surrounding area.
- SwedishAmerican Foundation (Foundation) – A Section 501(c)(3) organization whose purpose is to conduct programs and fundraising that support and benefit SAHS. The Hospital is the sole corporate member of the Foundation.
- SwedishAmerican Realty Corporation (Realty) – A tax-exempt subsidiary under Section 501(c)(2) of the Internal Revenue Code (the Code) that serves as a real estate holding company.
- State and Charles, Inc. (S&C) – A taxable subsidiary of SAHS whose purpose is to serve as a holding company.
- SwedishAmerican Health Management Corporation (SAHM) – A taxable subsidiary of S&C whose purpose is to provide nonpatient health-related services to other organizations.
- Physician's Care Network, Inc. (PCN) – A taxable subsidiary of S&C whose purpose is to provide health plan claims administration and payment for a health maintenance organization (HMO) contract.

All significant intercompany transactions have been eliminated in consolidation.

SAHS also has an insignificant unconsolidated wholly-owned subsidiary which is SARI Insurance Company (SARI). SARI is a captive insurance company that provides the Corporation with excess liability coverage.

Note 1. Organization and Significant Accounting Policies (Continued)

A summary of significant accounting policies is as follows:

Use of estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. The use of estimates and assumptions in the preparation of the accompanying consolidated financial statements is primarily related to the determination of net patient accounts receivable, settlements with third-party payors, and the self-insurance accrual. Although estimates are considered to be fairly stated at the time that the estimates are made, actual results could differ.

Cash and cash equivalents: All investments that are not limited as to use with an original maturity of three months or less when purchased are reflected as cash and cash equivalents.

Throughout the year, the Corporation may have amounts on deposit with financial institutions in excess of those insured by the Federal Deposit Insurance Corporation (FDIC). The Corporation has not experienced any losses in such accounts.

Patient accounts receivable and due from/to third-party payors: The collection of receivables from third-party payors and patients is the Corporation's primary source of cash for operations and is 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 adjustments or discounts provided to third-party payors.

Patient accounts receivable are reduced by an allowance for uncollectible accounts. In evaluating the collectability of patient accounts receivable, the Corporation identifies troubled accounts, reviews historical experience and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for uncollectible accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for uncollectible accounts. For receivables associated with services provided to patients who have third-party coverage, the Corporation analyzes contractually due amounts and provides an allowance for uncollectible accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Corporation records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for uncollectible accounts.

Note 1. Organization and Significant Accounting Policies (Continued)

The Corporation's allowance for uncollectible accounts for self-pay patients decreased from 98% of self-pay accounts receivable at June 30, 2017, to 97% of self-pay accounts receivable at June 30, 2018. In addition, the Corporation's self-pay write-offs for uncollectible accounts were $37,213 and $30,137 for the years ended June 30, 2018 and 2017, respectively, and as a percentage of gross patient service revenue was 1.9% and 1.6% for the years ended June 30, 2018 and 2017, respectively. The Corporation has not changed its charity care or uninsured discount policies during the years ended June 30, 2018 and 2017. The Corporation did not have significant write-offs from third-party payors.

Recoveries of receivables previously written off are recorded when received. The past due status of receivables is determined on a case-by-case basis depending on the payor responsible. The Corporation generally does not charge interest on past due accounts. Receivables or payables related to estimated settlements on various third-party payor contracts in which the Corporation participates are reported as third-party payor receivables or payables.

Assets limited as to use, investments, and beneficial interest in investment pool: Assets limited as to use include cash and investments internally designated by the Board of Directors for self-insurance and deferred compensation agreements, which the Board, at its discretion, may subsequently use for other purposes. Any amounts required to meet current liabilities of the Corporation would be classified in the consolidated balance sheets as current assets. Assets limited as to use and investments not restricted by donors are designated as trading securities.

Effective January 1, 2018, the Hospital entered into an investment pooling agreement with University of Wisconsin Hospital and Clinics Authority (UWHCA) and the University of Wisconsin Medical Foundation (UWMF).

In February 2018, investments not limited as to use or restricted by donors were transferred to, or liquidated and invested in, a pooled investment fund that aggregates investments of the Corporation with those of UWHCA and UWMF, equal members of RDI. While these funds are held and invested by UWHCA, the Corporation retains the benefits of ownership of its proportional interest in the pooled investment fund. The Corporation's ownership interest in the pooled investment fund is reported as beneficial interest in investment pool in the accompanying consolidated financial statements.

Investment income (including realized gains and losses on investments, interest, and dividends) is included in revenue in excess of expenses unless the income is restricted by donor or law. Unrealized gains and losses on investment assets held are included as investment income in revenue in excess of expenses unless the unrealized gains and losses are restricted by donor or law. Changes in the value of the beneficial interest in investment pool are included in revenue in excess of expenses.

Inventories: Inventories are stated at the lower of cost, determined by the first-in, first-out method, or net realizable value.

Beneficial interest in trust assets: The Corporation has a beneficial interest in several perpetual trusts. The change in the Corporation's share of the fair value of the trusts' net assets as of each reporting date is recognized as an adjustment to beneficial interest in trust assets and as a change in permanently restricted net assets.

Deferred bond issuance costs: Costs incurred in connection with the issuance or refinancing of long-term debt are deferred and amortized over the term of the related financing using the bonds outstanding method. Such costs are presented as a direct deduction of long-term debt.

Note 1. Organization and Significant Accounting Policies (Continued)

Property and equipment: Property and equipment are stated at cost and are depreciated using the straight-line method over the estimated useful lives of the assets. Interest costs incurred on borrowed funds during the period of construction of capital assets are capitalized as a component of the cost of acquiring those assets.

The estimated useful lives of depreciable property and equipment range from 5 to 25 years for land improvements, 10 to 40 years for buildings, and 3 to 20 years for furniture and equipment.

Impairment of long-lived assets: The Corporation reviews the carrying value of its long-lived assets whenever events or changes in circumstances indicate that the carrying value of an asset may no longer be appropriate. The Corporation assesses recoverability of the carrying value of the asset by estimating the future net cash flows expected to result from the asset, including eventual disposition. If the future net cash flows are less than the carrying value of the asset, an impairment loss is recorded equal to the difference between the asset's carrying value and fair value. Impairment losses related to investments are recognized in unrestricted investment income. All other impairment write-downs are recognized in operating income at the time the impairment is identified. No impairment was identified during the years ended June 30, 2018 and 2017.

Self-insurance: The provision for the self-insured general and professional liability claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported. The provision is actuarially determined. The self-insurance liability is recorded gross of anticipated insurance recoveries.

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

Temporarily and permanently restricted net assets: Temporarily restricted net assets are assets whose use has been restricted by donors to a specific time period or purpose. Assets released from restrictions that are used for the purchase of property and equipment or capital purposes are reported in the consolidated statements of operations and changes in net assets as net assets released from restrictions used for property and equipment. Assets released from restrictions that are used for operating purposes are reported in the consolidated statements of operations and changes in net assets as unrestricted revenues, gains and other support. Investment income on these assets are recorded as temporarily restricted net assets until amounts are expended in accordance with donors' specifications.

Permanently restricted net assets are subject to donor-imposed stipulations requiring that they be maintained permanently by the Corporation. Earnings on the permanently restricted net assets are recorded as investment income within temporarily restricted net assets in accordance with donor intent, or until appropriated if donor intent is not expressed.

Note 1. Organization and Significant Accounting Policies (Continued)

Net patient service revenue: The Corporation has agreements with third-party payors that provide for payments to the Corporation at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts due from patients, third-party payors, and others for services rendered, including estimated adjustments under reimbursement agreements with third-party payors, certain of which are subject to audit by administering agencies. Those adjustments are accrued on an estimated basis and are adjusted in future periods as final settlements are determined.

Charity care: The Corporation provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Corporation does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The Corporation's policy is to provide medically necessary health services regardless of the patient's ability to pay for such services. The Corporation maintains records to identify and monitor the level of charity care it provides.

Operating income: The consolidated statements of operations and changes in net assets include an intermediate measure of operations, operating income, which represents the activity of the ongoing operations of the Corporation. Nonoperating income (expense), excluded from operating income, consists primarily of nonrecurring transactions and transactions that are outside of the Corporation's primary health care activities. All of the Foundation's activity is considered to be nonoperating.

Revenue in excess of expenses: The consolidated statements of operations and changes in net assets include revenue in excess of expenses. Changes in unrestricted net assets, which are excluded from revenue in excess of expenses, include unrealized gains and losses on investments from other than trading securities, contributions of long-lived assets, including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets, equity transfers involving other entities that control the Corporation, are controlled by the Corporation, or are under common control with the Corporation, discontinued operations, and the cumulative effects of changes in accounting principles.

Donated services: A number of volunteers have donated services to the Corporation's program services and fundraising campaigns during the year; however, the value of these donated services is not reflected in the consolidated financial statements since the services do not require specialized skills.

Interest rate swap agreements: The Corporation has entered into an interest rate swap arrangement to manage its interest cost and achieve other risk management objectives. Interest rate swap agreements are recognized as either an asset or a liability at fair value in the Corporation's consolidated balance sheets with the changes in fair value recorded as nonoperating income or expense. The difference between the actual amount paid and the actual amount received on the swap is accrued and recognized as an adjustment to interest expense. Collateral posted, if required, would be reported as a separate asset, rather than as an offset to the fair value of the interest rate swap, and would be included in noncurrent assets whose use is limited or restricted in the accompanying consolidated balance sheets.

Note 1. Organization and Significant Accounting Policies (Continued)

Income taxes: For the for-profit subsidiaries, deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carryforwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

SAHS, Hospital and Foundation have received determination letters from the Internal Revenue Service (IRS) stating they are tax-exempt under Section 501(c)(3) of the Code. Realty has received a determination letter from the IRS stating that it is tax-exempt under section 501(c)(2) of the Code.

SAHS, Hospital, Foundation and Realty each file a Form 990 (Return of Organization Exempt from Income Tax), and State and Charles, Inc., and SAHM each file Form 1120 (U.S. Corporation Income Tax Return) annually. When these returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would ultimately be sustained. Examples of tax positions common to health systems include such matters as the following: 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 Internal Revenue Service Form 990-T, as appropriate. The benefit of a tax position is recognized in the consolidated financial statements in the period during which, based on all available evidence, management believes that it is more likely than not that the tax 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% likely to be realized on settlement with the applicable taxing authority. The portion of the benefits associated with the tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying consolidated balance sheets along with any associated interest and penalties that would be payable to the taxing authorities upon examination. At June 30, 2018 and 2017, there were no unrecognized tax benefits identified or recorded as liabilities.

The Forms 990, 990-T and 1120 filed by the Corporation are subject to examination for up to three years from the extended due date of each return. These returns are no longer subject to examination for tax years ended before June 30, 2015.

Note 1. Organization and Significant Accounting Policies (Continued)

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

On January 5, 2016, the Fourth District Appellate Court of Illinois ruled that Section 15-86 of the Illinois Property Tax Code is unconstitutional. This decision was appealed to the Illinois Supreme Court, which on March 23, 2017, vacated the Fourth District Appellate Court's ruling, citing a lack of jurisdiction, and remanded the case to circuit court for reconsideration. However, in its decision the Illinois Supreme Court did not rule on the constitutionality of Section 15-86 of the Illinois Property Tax Code, and additional legal challenges to this law may occur. Management continues to believe that the Corporation meets the requirements under the 2012 law to maintain its property and sales tax exemption; however, such requirements may change based on the outcome of such future legal challenges.

Pending accounting pronouncements: In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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 accounting principles generally accepted in the United States of America (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 by one year making it effective for the Corporation's June 30, 2019 consolidated financial statements. The Corporation adopted ASU 2014-09 on July 1, 2018 using the modified retrospective method of transition. The effect on the Corporation's consolidated financial statements of adopting ASU 2014-09 is considered immaterial as revenue recognition under the new standard is not materially different compared to the Corporation's current practice. The primary effect is certain amounts previously reported as provision for bad debts will now be considered implicit price concessions reported as a reduction of gross patient service revenue. The remaining provision for bad debts is reported as an operating expense under the new revenue recognition standard rather than as a reduction of net patient service revenue.

Note 1. 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 (excess of revenue over expenses). This guidance also changes certain disclosure requirements and other aspects of current U.S. GAAP. The guidance is effective for the Corporation's June 30, 2020 consolidated financial statements. In 2016, the Corporation 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 Corporation is currently evaluating the impact of the adoption of the remaining provisions of ASU 2016-01 on the consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of operations. The new standard is effective for the Corporation's June 30, 2020 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 consolidated financial statements, with certain practical expedients available. In July 2018, the FASB issued ASU 2018-11, which provided another transition method by allowing entities to recognize a cumulative-effect adjustment to the opening balance of net assets in the period of adoption. Earlier adoption is permitted. The Corporation has not yet selected a transition method and is currently evaluating the effect of the new standard on the consolidated financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Key elements of the ASU include a reduction in the number of net asset categories from three to two, conforming requirements on releases of capital restrictions, several new requirements related to expense presentation and disclosure (including investment expenses), and new required disclosures communicating information useful in assessing liquidity. The Corporation adopted ASU 2016-14 as of July 1, 2018, without a material impact to the consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. ASU 2016-15 provides guidance on how certain cash receipts and cash payments should be presented and classified in the statement of cash flows with the objective of reducing existing diversity in practice with respect to these items. The new standard will be effective for the Corporation's June 30, 2020 consolidated financial statements. Early adoption is permitted. ASU 2016-15 requires a retrospective transition method. However, if it is impracticable to apply amendments retrospectively for some of the issues, the amendments for those issues would be applied prospectively as of the earliest date practicable. The Corporation is currently evaluating the effect of the new standard on the consolidated financial statements.

Note 1. Organization and Significant Accounting Policies (Continued)

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. ASU 2016-18 applies to all entities that have restricted cash or restricted cash equivalents and are required to present a statement of cash flows. Its provisions require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. As a result, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The new standard will be effective for the Corporation's June 30, 2020 consolidated financial statements. Early adoption is permitted. ASU 2016-18 requires a retrospective transition method. The Corporation is currently evaluating the effect of the new standard on the consolidated financial statements.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. ASU 2018-08 clarifies and improves current guidance about whether a transfer of assets, or the reduction, settlement, or cancellation of liabilities, is a contribution or an exchange transaction. It provides criteria for determining whether the resource provider is receiving commensurate value in return for the resources transferred which, depending on the outcome, determines whether the organization follows contribution guidance or exchange transaction guidance in the revenue recognition and other applicable standards. It also provides a more robust framework for determining whether a contribution is conditional or unconditional, and for distinguishing a donor-imposed condition from a donor-imposed restriction. For transactions in which the Corporation is the resource recipient, the new standard is effective for the Corporation's June 30, 2019 consolidated financial statements. For transactions in which the Corporation is the resource provider, the new standard is effective for the Corporation's June 30, 2020, consolidated financial statements. Early adoption is permitted. The Corporation is currently evaluating the effect of the new standard on the consolidated financial statements.

Reclassifications: Certain amounts in the 2017 consolidated financial statements were reclassified to conform to the 2018 presentation, with no effect on revenue in excess of expenses or net assets.

Subsequent events: The Corporation has evaluated subsequent events for potential recognition and/or disclosure through October 22, 2018, the date the consolidated financial statements were issued.

Note 2. Contractual Arrangements with Third-Party Payors

The Corporation provides care to certain patients under the Medicare and Medicaid programs. The Medicare program pays for substantially all inpatient and outpatient services at predetermined rates under its corresponding prospective payment system based on treatment diagnosis. The Medicaid program reimburses the Corporation for inpatient and outpatient services at predetermined rates. Changes in the Medicare and Medicaid programs and reductions of funding levels could have an adverse effect on the future amounts recognized as net patient service revenue.

The Corporation has also entered into payment arrangements with certain managed care organizations. The basis for payment to the Corporation under these agreements includes prospectively determined rates per discharge, daily rates and discounts from established charges.

Medicare, Medicaid, and managed care arrangements account for 28%, 11%, and 41% of net patient service revenue for the year ended June 30, 2018, respectively, and 25%, 11% and 46% of net patient service revenue for the year ended June 30, 2017, respectively. One managed care payor accounted for 31% and 28% of net patient service revenue for the years ended June 30, 2018 and 2017, respectively. Provision has been made in the consolidated financial statements for estimated contractual adjustments, representing the difference between the standard charges for services and actual or estimated payment.

Note 2. Contractual Arrangements with Third-Party Payors (Continued)

The Corporation grants credit without collateral to its patients, most of who are local residents and are insured under third-party arrangements. Major components of net patient accounts receivable include 18% from Medicare, 12% from Medicaid, and 56% from managed care contracts at June 30, 2018, and 19% from Medicare, 20% from Medicaid, and 42% from managed care contracts at June 30, 2017. One managed care payor accounted for 26% and 19% of net patient accounts receivable at June 30, 2018 and 2017, respectively.

Estimates for cost report settlements and contractual allowances can differ from actual reimbursements based on the results of subsequent reviews and cost report audits. Changes in estimated third-party valuation allowances that relate to prior years are reported in revenue in excess of expenses in the consolidated statements of operations and changes in net assets in the year they become known. The impact of such items on revenue in excess of expenses was an increase of approximately $628 and $1,828 for the years ended June 30, 2018 and 2017, respectively.

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.

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

On March 12, 2018, the Governor of Illinois signed legislation to further reform Illinois Medicaid effective July 1, 2018. The legislation redesigned the Illinois Medicaid hospital reimbursement system through June 30, 2020, including the Hospital Tax Assessment Program payments and Affordable Care Act (ACA) supplemental payments described below, which were scheduled to sunset effective June 30, 2018. Among other changes, the redesigned Hospital Tax Assessment Program bases payments on updated patient utilization data, shifts funding from fixed payments to dynamic "live rates," and recognizes and incentivizes the shift from inpatient to outpatient services. The redesigned program was approved by the Centers for Medicare and Medicaid Services (CMS) in June 2018. The redesigned program, which is effective July 1, 2018, will sunset on June 30, 2020. Medicaid reform redesign has an estimated favorable net benefit through supplemental fixed payments and incremental rate increases, however decreases in Medicaid patient volume as compared to the base year of 2015 could result in a material adverse effect on the Corporation's financial position and operations.

Note 2. Contractual Arrangements with Third-Party Payors (Continued)

Medicaid Hospital Tax Assessment Program: The Corporation participates in the State of Illinois hospital assessment tax program (Program) which is administered by the Illinois Department of HFS. The provider assessment program payments are in effect for the state fiscal years ending each June 30. Under the current Program, the Corporation receives additional Medicaid reimbursement from the State and pays a related assessment tax. Total assessment revenue recognized by the Corporation related to this Program amounted to $30,059 during the years ended June 30, 2018 and 2017. Total assessment tax incurred by the Corporation related to this Program and the Affordable Care Act (ACA) supplemental payment program discussed below amounted to $13,252 and $12,806 during the years ended June 30, 2018 and 2017, respectively. These amounts are shown in the consolidated statements of operations and changes in net assets as Pubic Aid assessment revenue and Public Aid assessment expense. In connection with the Program, the Corporation made voluntary contributions to the Illinois Corporation Research and Educational Foundation (IHREF) of $178 and $142 for the years ended June 30, 2018 and 2017, respectively, which are included in other expenses in the consolidated statements of operations and changes in net assets. Under the current Program, the Corporation expects a net benefit from the Program for the year ending June 30, 2019.

Affordable Care Act Supplemental Payments: In January 2015, CMS approved the State of Illinois' request for a new supplemental payment to hospitals for services provided to newly eligible Medicaid beneficiaries under the ACA. The new supplemental payment to hospitals was retroactive to March 1, 2014. Payments are made to eligible hospitals on an approximately 4-month lag basis. On June 30, 2016, the Governor of Illinois signed legislation that extended these supplemental payments to cover adults in Medicaid managed care plans effective January 1, 2016.

The Corporation recorded $12,354 and $14,240 of these supplemental payments in net patient service revenue during the years ended June 30, 2018 and 2017, respectively. As of June 30, 2018 and 2017, the Corporation recorded receivables for supplemental payments of $1,687 and $2,580, respectively, included in amounts due from third-party payors in the accompanying consolidated balance sheets.

Note 3. Charity Care, Uncompensated Care and Community Benefits

In the ordinary course of business, the Corporation renders medically necessary health services to patients who are financially unable to pay for such care. The Corporation provides care to those patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. The Corporation maintains records to identify and monitor the level of charity care it provides. Charity care is measured based on the Corporation's estimated cost of providing charity care. That estimate is made by calculating the departmental ratio of cost to gross charges, and applying that ratio to uncompensated charges associated with providing charity care to patients. The cost of charity care provided was $2,918 and $3,668 for the years ended June 30, 2018 and 2017, respectively.

In addition, the Corporation, in furtherance of its commitment to the community, also incurs significant time and commits significant resources to meet otherwise unfulfilled needs. Many of these activities are sponsored with the knowledge that they will not be self-supporting or independently financially viable. These programs, oriented to the economically disadvantaged, medically underserved, or elderly, as well as to the community at large, include health screening and assessments, prevention, prenatal and nutritional services, and care for children.

(Dollars in thousands)

Note 3. Charity Care, Uncompensated Care and Community Benefits (Continued)

On April 1, 2009, the Illinois Hospital Uninsured Patient Discount Act (the Act) became law. The Act requires hospitals to provide certain mandated discounts from charges to the uninsured in Illinois. Charges are to be discounted up to 135% of cost for eligible uninsured Illinois residents, based on income and federal poverty guidelines. Furthermore, a hospital may not collect more than 25% of an eligible uninsured family's gross income in any 12-month period. Management believes that the Corporation's charity care policy complies with the uncompensated care mandated under the Act.

Note 4. Assets Limited as to Use, Investments, and Beneficial Interest in Investment Pool

The composition of assets limited as to use, investments and beneficial interest in investment pool is as follows at June 30:

	2018	2017
Mutual funds	$ 10,089	$ 80,557
Certificates of deposit	-	643
Money market funds	2,461	831
Corporate bonds and notes	-	61,570
Government and agency obligations	3,967	98,983
Equity securities	1,894	28,277
Other	62	69
Beneficial interest in investment pool	257,425	-
	$ 275,898	$ 270,930

These amounts are included on the consolidated balance sheets as follows:

	2018	2017
Short-term investments	$ -	$ 6,208
Assets limited as to use:		
Internally designated for self-insurance fund	12,621	12,270
Internally designated for deferred compensation agreements	5,852	6,620
Beneficial interest in investment pool	257,425	-
Investments	-	245,832
	$ 275,898	$ 270,930

(Dollars in thousands)

Note 4. Assets Limited as to Use, Investments, and Beneficial Interest in Investment Pool (Continued)

Total unrestricted investment income from assets limited as to use, investments, and cash and cash equivalents, and the change in value of beneficial interest in investment pool, consists of the following for the years ended June 30:

	2018	2017
Investment income - unrestricted:		
Interest and dividend income	$ 4,159	$ 6,773
Net realized gains from sale of investments	19,329	1,911
Net change in unrealized gains and losses on trading securities	(16,534)	7,793
Investment fee expense	(390)	(688)
Total investment income	6,564	15,789
Change in value of beneficial interest in investment pool	(3,626)	-
	$ 2,938	$ 15,789

At June 30, 2018, the underlying investments within the UWHCA investment pool are invested approximately as follows:

Fixed income securities	45%
International equity securities	18
Domestic equity securities	33
Cash and cash equivalents	4

Note 5. Property and Equipment and Commitments

Property and equipment consisted of the following at June 30:

	2018	2017
Land and improvements	$ 21,951	$ 20,024
Buildings	273,273	269,533
Furniture and equipment	94,716	87,356
Construction in progress	24,987	7,548
	414,927	384,461
Less: accumulated depreciation	88,336	65,293
	$ 326,591	$ 319,168

Depreciation expense during the years ended June 30, 2018 and 2017 was $23,638 and $25,985, respectively, of which $76 and $81, respectively, is included in other nonoperating income (expense) on the consolidated statements of operations and changes in net assets.

The Corporation's Board of Directors has approved a $165,600 plan for modernization, renovation, and enhancement of the Level II Nursery to a Level III Neonatal Intensive Care Unit (NICU) on the Hospital's campus that includes a four-story Women and Children's tower expected to open in 2020, as well as the construction of three primary care and multi-specialty clinics that are expected to open in 2019.

(Dollars in thousands)

Note 5. Property and Equipment and Commitments (Continued)

In association with that plan, Certificates of Need for the campus construction project and one of the specialty clinics were approved by the Illinois Health and Services Review Board (IHSRB) totaling $126,035 and $23,833, respectively. A Certificate of Exemption for the Level III NICU enhancement was also approved by IHSRB totaling $2,868. The Corporation is pursuing a plan of finance for $120,000 in fixed rate financing to fund the projects.

At June 30, 2018, the Corporation has commitments totaling approximately $110,500 for the above-mentioned projects as well as a variety of other construction projects and equipment purchases.

At June 30, 2018, the Corporation's construction in progress primarily consists of costs related to a system conversion and the master facility plan, which totaled approximately $11,119 and $11,313, respectively.

Note 6. Long-Term Debt

Long-term debt consisted of the following at June 30:

	2018	2017
Illinois Finance Authority Revenue Bonds, Series 2004, coupon rates of 3.75% to 5.00%, yields of 4.39% to 4.78%, principal payable in varying installments due November 15 of each year through 2031	$ 67,140	$ 70,555
Illinois Finance Authority Revenue Bonds, Series 2010A, fixed rate of 1.80%, $315 principal payable semiannually through April 15, 2030	7,560	8,190
Illinois Finance Authority Revenue Bonds, Series 2010B, fixed rate of 1.80%, $310 principal payable semiannually through April 15, 2030	7,440	8,060
Illinois Finance Authority Revenue Bonds, Series 2012, coupon rates of 4.00% to 5.00%, yields of 4.16% to 4.39%, principal payable in term bonds due November 15, 2034, 2039 and 2043	41,445	41,445
Sub-total	123,585	128,250
Unamortized bond premium	304	319
	123,889	128,569
Less unamortized deferred bond issue costs	(692)	(766)
	123,197	127,803
Less current maturities	(4,850)	(4,680)
	$ 118,347	$ 123,123

(Dollars in thousands)

Note 6. Long-Term Debt (Continued)

Effective December 24, 2004, the Illinois Finance Authority, on behalf of the Hospital, issued $100,995 of fixed rate Revenue Bonds, Series 2004 (Series 2004 Bonds). The proceeds of the Series 2004 Bonds were used, together with other available funds, to pay or reimburse the Hospital for certain costs of acquiring, constructing, renovating, remodeling, and equipping certain health facilities of the Hospital, including, but not limited to, construction and equipping of a new four-story freestanding cardiac hospital facility and the renovation of the Hospital's existing inpatient/outpatient surgery area and cardiac catheterization laboratory, to pay previously outstanding debt obligations, and to pay certain expenses incurred in connection with the issuance of the Series 2004 Bonds.

Effective April 19, 2010, the Illinois Finance Authority, on behalf of the Hospital, issued $25,000 of direct fixed rate Revenue Bonds, Series 2010 (Series 2010 Bonds). The proceeds of the bonds were used to repay a $25,000 note payable to a bank. In October 2016, the Hospital modified and split the Series 2010 Bonds into Series 2010A and Series 2010B. Under the agreement, UWHCA signed a limited guaranty agreement for the Series 2010 Bonds. The interest rates were reduced from 4.05% to 1.80% with an escalation of the rate up to 2.10% if UWHCA's bond rating lowers. Effective October 15, 2022, the rate will change to a variable rate based on ten-year U.S. Treasury rates.

Effective September 27, 2012, the Illinois Finance Authority, on behalf of the Hospital, issued $41,445 of fixed rate Revenue Bonds, Series 2012 (Series 2012 Bonds). The proceeds of the Series 2012 Bonds were used, together with other available funds, to pay or reimburse the Hospital for certain costs of acquiring, constructing, renovating, and equipping a comprehensive regional outpatient cancer care facility, and to pay certain expenses incurred in connection with the issuance of the Series 2012 Bonds.

The Series 2004, 2010 and 2012 Bonds were issued pursuant to a Master Trust Indenture, as supplemented, which contains various covenants, including achievement of specified financial ratios and limitations on additional debt. Among other covenants in connection with the loan agreements for the Series 2004, 2010 and 2012 Bonds, the Hospital has agreed to limit disposals of assets and transfers of cash to non-obligated affiliates. The bonds are secured by unrestricted receivables of the obligated group as defined in the Master Trust Indenture. The obligated group consists of the Hospital and the Foundation. As a provision of the Master Trust Indenture, the obligated group will execute a mortgage with respect to certain real and personal property and grant a security interest in its gross revenues, as defined in the Master Trust Indenture, if certain covenants are not maintained.

Interest expense for the years ended June 30, 2018 and 2017 is comprised of the following:

	2018	2017
Interest paid on long-term debt	$ 5,569	$ 5,868
Net settlement payments received on swaps	(2,244)	(2,626)
Capitalized interest	(357)	(199)
	$ 2,968	$ 3,043

(Dollars in thousands)

Note 6. Long-Term Debt (Continued)

Maturities required on long-term debt at June 30, 2018 due in future years are as follows:

Year Ending June 30,		
2019	$	4,850
2020		5,015
2021		5,200
2022		5,400
2023		5,605
Thereafter		97,515
	$	123,585

Note 7. Derivative Instruments

The Corporation maintains an interest rate risk management strategy that uses interest rate derivative instruments to minimize significant, unanticipated earnings fluctuations caused by interest-rate volatility. The Corporation's specific goal is to lower (where possible) the cost of its borrowed funds.

In March 2015, the Corporation entered into four interest rate swap agreements under a master agreement with Bank of America, N.A. to reduce the impact of changes in interest rates on its Illinois Finance Authority Revenue Bonds, Series 2004. Under the swap agreements, the Corporation receives interest at a fixed rate depending on the S&P and Fitch bond ratings for the obligated group, and pays interest at a variable rate based on the Securities Industry and Financial Markets Association (SIFMA) Index (1.51% as of June 30, 2018 and 0.91% as of June 30, 2017) calculated on the notional amount. The swap agreements require semi-annual net settlement payments on May 1 and November 1.

The notional principal amount under the first agreement was $3,135 and the interest rate swap agreement matured in September 2015.

The notional principal amount under the second agreement was $3,290 and the interest rate swap agreement matured in July 2016. The Corporation received interest at fixed rates ranging from 2.00% to 4.30%.

The notional principal amount under the third agreement is $27,795 and the interest rate swap agreement matures in November 2019. The Corporation receives interest at fixed rates ranging from 3.25% to 4.55% (4.40% as of June 30, 2018 and 2017).

The notional principal amount under the fourth agreement is $42,760 and the interest rate swap agreement matures in February 2020. The Corporation receives interest at fixed rates ranging from 3.25% to 4.55% (4.40% as of June 30, 2018 and 2017).

Note 7. Derivative Instruments (Continued)

The Corporation is exposed to credit loss in the event of nonperformance by the counterparty to each interest rate derivative agreement. However, the Corporation does not anticipate nonperformance by the counterparty. The swap agreements were not structured to qualify for hedge accounting, as defined by U.S. GAAP. The Corporation records each swap as either an asset or liability at its fair value. The net change in fair value is recorded as a nonoperating income or expense. The difference between the actual amount paid and the actual amount received on the swap is accrued and recognized in the Corporation's consolidated statements of operations and changes in net assets as an adjustment to interest expense.

The terms of the swap agreements require the Corporation to transfer collateral to the swap counterparty in certain circumstances. The amount of collateral required is determined based upon the estimated underlying market value of the individual bonds supporting the swap. As of June 30, 2018 and 2017, no collateral was required.

At June 30, 2018 and 2017, the Corporation's total debt outstanding was $123,585 and $128,250, respectively. The total notional amount of all of the interest rate derivative agreements was $70,555 at both June 30, 2018 and 2017. At June 30, 2018 and 2017, the fair value of the interest rate swaps were $336 and $416, respectively, and are reported in prepaid expenses and other assets in the accompanying consolidated balance sheets.

Note 8. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets, $3,462 and $3,074 as of June 30, 2018 and 2017, respectively, are available for medical education and other health care programs and acquisition of property and equipment.

Permanently restricted net assets, $6,230 and $6,096 as of June 30, 2018 and 2017, respectively, consist of endowment funds to be held in perpetuity of $1,937 and $1,855 and beneficial interests in perpetual trusts of $4,293 and $4,241 at June 30, 2018 and 2017, respectively, the income from which is expendable to support health care services and is reported as increases in temporarily restricted net assets until appropriated for expenditure.

Note 9. Endowment Funds

The Corporation's endowment consists of 12 individual donor-restricted endowment funds established for a variety of purposes. As required by U.S. GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Note 9. Endowment Funds (Continued)

Interpretation of Relevant Law

The Board of Directors of the Corporation has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA), as adopted by the Illinois Legislature, requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent any explicit donor stipulations to the contrary. As a result of this interpretation, the Corporation classified as permanently restricted net assets (a) the original value of the gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those assets have been appropriated for expenditure by the Corporation in a manner consistent with the standard of prudence prescribed in UPMIFA. In accordance with UPMIFA, the Corporation considers the following factors in making a determination to appropriate or accumulate earnings on donor-restricted endowment funds:

1. The duration and preservation of the fund;
2. The purpose of the Corporation and the donor-restricted endowment fund;
3. General economic conditions;
4. The possible effect of inflation and deflation;
5. The expected total return from income and the appreciation of investments;
6. Other resources of the Corporation; and
7. The investment policies of the Corporation.

The Corporation's endowment net asset composition by type of fund is as follows at June 30:

	2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted	$ -	$ 842	$ 1,937	$ 2,779

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted	$ -	$ 581	$ 1,855	$ 2,436

(Dollars in thousands)

Note 9. Endowment Funds (Continued)

The changes in endowment net assets for the Corporation were as follows for the years ended June 30:

	2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ -	$ 581	$ 1,855	$ 2,436
Investment income:				
Investment gain	-	505	-	505
Net unrealized appreciation	-	75	-	75
Total investment income	-	580	-	580
Contributions	-	9	82	91
Appropriation of endowment income for expenditure	-	(328)	-	(328)
Endowment net assets, end of year	$ -	$ 842	$ 1,937	$ 2,779

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ -	$ 811	$ 1,853	$ 2,664
Investment income:				
Investment gain	-	57	-	57
Net unrealized appreciation	-	180	-	180
Total investment income	-	237	-	237
Contributions	-	9	2	11
Appropriation of endowment income for expenditure	-	(476)	-	(476)
Endowment net assets, end of year	$ -	$ 581	$ 1,855	$ 2,436

Funds with Deficiencies

At June 30, 2018 and 2017, there were no endowment funds with deficiencies.

Note 9. Endowment Funds (Continued)

Return Objectives and Risk Parameters

The Corporation has adopted investment and spending policies for endowment assets to preserve capital while earning market rates without undue risk. Endowment assets include those assets of donor-restricted funds that the Corporation must hold in perpetuity or for a donor-specified period(s). Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to preserve the principal and provide liquidity of amounts over the principal while assuming a moderate level of investment risk.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Corporation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Corporation's policy is to invest endowment funds in both fixed income and equity securities with a maximum amount of equity securities at 65%. Management believes this strategy will help to achieve the Corporation's long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Corporation's spending policy is that income from donor-restricted funds will be spent on the intended service, program, or purpose, within a reasonable time period.

Note 10. Fair Value Disclosures

Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

> Level 1 – Quoted market prices in active markets for identical assets or liabilities.
> Level 2 – Observable market based inputs or unobservable inputs that are corroborated by market data.
> Level 3 – Unobservable inputs that are not corroborated by market data.

The following is a description of the valuation methodology used for the Corporation's assets carried at fair value:

Investment Securities – Level 1

The fair value of investment securities that are considered Level 1 is the market value based on quoted prices in active markets where the securities are traded.

Corporate Bonds and Notes – Level 2

The fair value of corporate bonds and notes that are considered Level 2 is determined using a discounted cash flow model and inputs such as stated coupon, yield and maturity date as well as LIBOR or Treasury yield plus a credit spread based on other market data.

Note 10. Fair Value Disclosures (Continued)

Government and Agency Obligations – Level 2

The fair value of government and agency obligations that are considered Level 2 is determined based on the quoted yield on a Treasury security that is most similar to the security being valued, adjusted for variances in the maturity, coupon and other features.

Derivative instruments – Level 2
The fair value of the derivative instruments was provided by valuation experts. The Corporation's derivative instruments have limited market activity and are valued using externally developed models for which the primary input is the SIFMA Index rate, which is commonly quoted. Other factors used in the model are the terms and agreements and the notional amounts.

In determining the appropriate levels, the Corporation performs a detailed analysis of the assets and liabilities that are subject to the fair value disclosures. For the years ended June 30, 2018 and 2017, valuation techniques used by the Corporation were consistent with those used in prior years.

Beneficial Interest in Trust Assets – Level 3

The fair value of the beneficial interest in trust assets represents the Corporation's proportionate interest in the value of the trusts. The fair values of the trusts were provided by the respective trustees.

In determining the appropriate levels, the Corporation performs a detailed analysis of the assets and liabilities carried at fair value in the consolidated financial statements. 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.

Beneficial Interest in Investment Pool – Net Asset Value

The Corporation invests in a pooled fund maintained by UWHCA. The UWHCA pooled fund (pool) is comprised of various types of investments including: mutual funds, equity and debt securities, and alternative investments. The Corporation owns an interest in UWHCA's pooled fund; the Corporation does not own or have any interest in the underlying investments. As an investor in the pooled fund, the Corporation agrees that the investment of funds in the pool is a long-term investment and will use reasonable efforts to not withdraw funds from the pool unless they are needed for immediate expenditure. The Corporation agrees it will make every effort to provide 30 days' prior written notice for withdrawals. As a practical expedient, the fair value of the Corporation's interest in the UWHCA pooled fund is based on the net asset value of the pooled funds reported by UWHCA.

(Dollars in thousands)

Note 10. Fair Value Disclosures (Continued)

Fair Value on a Recurring Basis

The tables below present the balances of assets measured at fair value on a recurring basis by level within the hierarchy as of June 30:

	2018				
	Total	Level 1	Level 2	Level 3	Net Asset Value
Assets					
Investments and assets limited as to use:					
Mutual funds - equity securities					
Large-cap	$ 3,408	$ 3,408	$ -	$ -	$ -
Medium-cap	765	765	-	-	-
Small-cap	249	249	-	-	-
Mutual funds - debt securities					
Fixed income	5,667	5,667	-	-	-
Government and agency obligations	3,967	-	3,967	-	-
Equity securities large-cap	1,894	1,894	-	-	-
Other	62	-	62	-	-
Beneficial interest in investment pool	257,425	-	-	-	257,425
Beneficial interest in trust assets	4,759	-	-	4,759	-
	$ 278,196	$ 11,983	$ 4,029	$ 4,759	$ 257,425
Derivative instruments					
Interest rate swap agreements	$ 336	$ -	$ 336	$ -	$ -

	2017			
	Total	Level 1	Level 2	Level 3
Assets				
Investments and assets limited as to use:				
Mutual funds - equity securities				
Large-cap	$ 41,397	$ 41,397	$ -	$ -
Medium-cap	1,045	1,045	-	-
Small-cap	14,714	14,714	-	-
International	12,720	12,720	-	-
Mutual funds - debt securities				
Fixed income	10,681	10,681	-	-
Corporate bonds and notes	61,570	-	61,570	-
Government and agency obligations	98,983	-	98,983	-
Equity securities large-cap	28,277	28,277	-	-
Other	69	-	69	-
Beneficial interest in trust assets	4,533	-	-	4,533
	$ 273,989	$ 108,834	$ 160,622	$ 4,533
Derivative instruments				
Interest rate swap agreements	$ 416	$ -	$ 416	$ -

(Dollars in thousands)

Note 10. Fair Value Disclosures (Continued)

The changes in Level 3 assets measured at fair value on a recurring basis are summarized as follows for the years ended June 30, 2018 and 2017:

	Beneficial Interest in Trust Assets	
	2018	2017
Balance, beginning of year	$ 4,533	$ 4,399
Distributions	(173)	(180)
Increase in value of beneficial interest in trust assets	399	314
Balance, end of year	$ 4,759	$ 4,533

Note 11. Operating Leases

The Corporation has non-cancelable operating leases for data processing, medical and, office equipment, and leased space. The future minimum rental payments of these leases are as follows:

Year Ending June 30,	
2019	$ 7,006
2020	6,021
2021	5,155
2022	4,470
2023	3,664
Thereafter	18,192
	$ 44,508

Rental expense for the years ended June 30, 2018 and 2017 totaled $14,866 and $14,884, respectively, of which $3 and $4, respectively, is included in other nonoperating income (expense) on the consolidated statements of operations and changes in net assets.

Note 12. Benefit Plans

The Corporation has two defined-contribution benefit plans covering substantially all employees. Contributions depend upon employee earnings, length of service, and employee contributions. The expense associated with the Corporation's contributions to these plans totaled $8,928 and $8,428 for the years ended June 30, 2018 and 2017, respectively.

In addition, the Corporation sponsors a defined-benefit health care plan that provides postretirement medical benefits to the Corporation's and certain of its affiliates' employees and their dependents through age 70. Eligibility requirements are 20 years of service and the attainment of age 55. Effective January 1, 2000, retiree premiums cover the entire cost of coverage.

Note 13. Deferred Compensation Agreements

The Corporation has deferred compensation plans for certain executives and physicians. The physician plans are currently frozen. Both the executive and physician plans are recorded as an asset and a liability on the Corporation's consolidated balance sheets. Activity primarily consists of distributions to participants and investment return. There is no corporate contribution to the physician plans. The expense associated with the corporate contribution to the executive plan was approximately $523 and $526 for the years ended June 30, 2018 and 2017, respectively.

Note 14. Insurance and Contingencies

The Corporation is self-insured for general liability and professional liability claims up to certain specified limits arising from incidents occurring after February 1, 1976. The Corporation carries claims-made professional and general liability insurance up to certain specified limits for claims in excess of self-insured retention. Such coverage has been arranged through July 1, 2019. The Corporation carries claims-made professional liability insurance up to certain specified limits for its employed physicians. Such coverage has been arranged through April 1, 2019.

Accruals for self-insured professional liability risks are included in noncurrent liabilities on the consolidated balance sheets. The amounts are determined by assessing asserted and unasserted claims identified by management's incident reporting system and are estimated by an independent consulting actuary based on industry and the Corporation's own historical reporting patterns using a discount rate of 5% at both June 30, 2018 and 2017. Although the ultimate settlement of these accruals may vary from these estimates, management believes that the amounts provided in the consolidated financial statements are adequate. The insurance accruals could be adversely affected if actual payments of claims exceed management's projected estimates of claims.

If accrued losses had not been discounted, the estimated liability would be approximately $2,837 and $2,838 higher than the amounts recorded in the consolidated balance sheets as of June 30, 2018 and 2017, respectively.

The estimated amounts of the self-insurance liability that will be recovered through insurance coverage as of June 30, 2018 and 2017 are $6,400 and $4,600, respectively, and are reported as insurance recoveries receivable in the accompanying consolidated balance sheets.

The Corporation is funding its self-insured risks based on a report of consulting actuaries.

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

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

(Dollars in thousands)

Note 14. Insurance and Contingencies (Continued)

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 refunds for patient services previously billed and paid. Management believes that the Corporation is in compliance with fraud and abuse, as well as other applicable government laws and regulations. While no regulatory inquiries that are expected to have a material adverse effect on the Corporation 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 unasserted at this time.

CMS Recovery Audit Contractor Program: Congress passed the Medicare Modernization Act in 2003, which among other things established a demonstration of The Medicare Recovery Audit Contractor (RAC) program. The RACs 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. CMS began rolling out this program in early 2010 in Illinois. The Hospital has recorded a reserve for estimated amounts that will be repaid under the RAC program based on the Corporation's RAC program experience to date.

Note 15. Income Taxes

SwedishAmerican Health Management Corporation (SAHM) and Physician's Care Network, Inc. (PCN) are for-profit corporations. SAHM and PCN are subsidiaries of State and Charles, Inc. and are treated as a consolidated group for federal and state tax purposes. The combined taxable companies have operating loss carryforwards totaling approximately $11,246 and $9,792 at June 30, 2018 and 2017, which expire as follows: $2,298 in 2020, $2,507 in 2021, $1,377 in 2022, $676 in 2034, $376 in 2035, $1,943 in 2036, and $2,069 in 2037. It is not anticipated that the tax benefits will be realized before the operating loss carryforwards expire and a valuation reserve has been recorded.

Net deferred tax assets, included in notes receivable and other assets in the consolidated balance sheets, consist of the following components as of June 30:

	2018	2017
Deferred tax assets–net operating loss carryforwards	$ 4,507	$ 3,925
Valuation allowance	(4,507)	(3,925)
Net deferred tax assets	$ -	$ -

(Dollars in thousands)

Note 15. Income Taxes (Continued)

The components of the income tax provision for the years ended June 30, 2018 and 2017 are as follows:

	2018	2017
Current	$ -	$ (29)
Total income tax provision	$ -	$ (29)

Note 16. Functional Expenses

The Corporation provides general health care services to residents within its geographic location. Expenses related to these functions for the years ended June 30, 2018 and 2017 are as follows:

	2018	2017
Direct patient services	$ 420,779	$ 404,072
Support services	99,965	99,147
	$ 520,744	$ 503,219

Certain costs have been allocated between direct patient services and support services. All of the Foundation's expenses are considered to be fundraising and these expenses were $1,836 and $1,615 for the years ended June 30, 2018 and 2017, respectively.

Note 17. Investments in Nonconsolidated Affiliates and Related Party Transactions

The Corporation has equity interests in the following organizations:

- The Featherstone Partnership, L.P., which operates a standalone surgery center located in Rockford, Illinois. The Corporation's interest is 29%.
- Northern Illinois Vein Clinic, a general partnership, which was formed to own and operate radio frequency equipment to treat vein conditions. The Corporation's interest is 50%.
- Forest City Diagnostic Imaging LLC, which operates a facility for magnetic resonance imaging and multi-modality imaging in Rockford, Illinois. The Corporation's interest is 49%.
- Ephraim, LLC, which was formed to own and operate an office building in Rockford, Illinois. The Corporation's interest is 33%.
- SwedishAmerican Health Alliance, a corporation, which was formed as a contracting agent for preferred provider contracts between the Hospital, physicians and consumers. The Corporation's interest is 50%.
- Three Rivers Partners, LLC, an Illinois limited liability company, was formed to establish an information technology consortium or cooperative servicing the Corporation and another health system. The Corporation's interest is 50%.
- TriLightNet, LLC, which was formed to manage a fiber optic network. Three Rivers Partners, LLC is the sole member.
- TriRivers Health Information Technology LLC, which was formed to manage a health information exchange network (HIE). Three Rivers Partners, LLC is the sole member.

(Dollars in thousands)

Note 17. Investments in Nonconsolidated Affiliates and Related Party Transactions (Continued)

Aggregate unaudited financial information relating to these investments, excluding Ephraim LLC, is as follows as of and for the years ended June 30, 2018 and 2017:

	2018	2017
Assets	$ 25,080	$ 20,197
Liabilities	8,495	8,817
Net income	1,119	927

Ephraim LLC's unaudited assets, liabilities and net loss as of and for the year ended December 31, 2017 were $5,649, $7,047, and $(54), respectively.

The Corporation's investment in nonconsolidated affiliates totaled $6,619 and $6,330 at June 30, 2018 and 2017, respectively, and is included in notes receivable and other assets on the consolidated balance sheets. The Corporation's interest in the earnings (losses) of nonconsolidated affiliates totaled $360 and $366 for the years ended June 30, 2018 and 2017, respectively, of which $362 and $312, respectively, is included in other revenue and $(2) and $(54) is included in other nonoperating income (expense) on the consolidated statements of operations and changes in net assets.

The Corporation passed through expenses to an affiliate for various operating expenses incurred on behalf of the affiliate totaling approximately $1,289 and $1,123 during the years ended June 30, 2018 and 2017, respectively. During the years ended June 30, 2018 and 2017, the Corporation purchased services of approximately $7,142 and $7,269, respectively, from one of its affiliates.

RSM

RSM US LLP

Independent Auditor's Report
on the Supplementary Information

To the Board of Directors
SwedishAmerican Health System Corporation

We have audited the consolidated financial statements of SwedishAmerican Health System Corporation and Subsidiaries as of and for the years ended June 30, 2018 and 2017, and have issued our report thereon, which contains an unmodified opinion on those consolidated financial statements. See page 1. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information is presented for purposes of additional analysis rather than to present the financial position and results of operations of the individual companies and is not a required part of the consolidated 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 consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.

RSM US LLP

Rockford, Illinois
October 22, 2018

SwedishAmerican Health System Corporation and Subsidiaries

Consolidating Balance Sheet
June 30, 2018
(Dollars in thousands)

	Consolidated	Eliminations	Swedish-American Hospital and Subsidiary	Swedish-American Health System Corporation	Swedish-American Realty Corporation	State and Charles, Inc. and Subsidiaries
Assets						
Current assets:						
Cash and cash equivalents	$ 64,913	$ -	$ 62,101	$ -	$ -	$ 2,812
Patient accounts receivable, less allowances for uncollectible accounts	65,184	-	64,619	-	-	565
Amounts due from third-party payors	7,386	-	1,687	-	-	5,699
Inventories	9,792	-	9,792	-	-	-
Prepaid expenses and other assets	12,079	-	11,969	-	77	33
Total current assets	159,354	-	150,168	-	77	9,109
Other assets:						
Assets limited as to use:						
Internally designated for self-insurance fund	12,621	-	12,621	-	-	-
Internally designated for deferred compensation agreements	5,852	-	5,852	-	-	-
Beneficial interest in investment pool	257,425	-	257,425	-	-	-
Insurance recoveries receivable	6,400	-	6,400	-	-	-
Beneficial interest in trust assets	4,759	-	4,759	-	-	-
Contribution receivable from lead trust	256	-	256	-	-	-
Due from affiliated organizations	-	(15,833)	14,917	-	916	-
Notes receivable and other assets	7,365	(46,999)	5,479	40,123	(240)	9,002
	294,678	(62,832)	307,709	40,123	676	9,002
Property and equipment, net	326,591	-	305,781	-	20,737	73
Total assets	$ 780,623	$ (62,832)	$ 763,658	$ 40,123	$ 21,490	$ 18,184

SwedishAmerican Health System Corporation and Subsidiaries

Consolidating Balance Sheet
June 30, 2018
(Dollars in thousands)

	Consolidated	Eliminations	Swedish-American Hospital and Subsidiary	Swedish-American Health System Corporation	Swedish-American Realty Corporation	State and Charles, Inc. and Subsidiaries
Liabilities and Net Assets						
Current liabilities:						
Accounts payable	$ 13,519	$ -	$ 13,100	$ -	$ 2	$ 417
Accrued expenses and other	48,394	-	44,972	-	758	2,664
Estimated settlements due to third-party payors	63,397	-	63,397	-	-	-
Current maturities of long-term debt	4,850	-	4,850	-	-	-
Total current liabilities	130,160	-	126,319	-	760	3,081
Noncurrent liabilities:						
Long-term debt, less current maturities	118,347	-	118,347	-	-	-
Self-insurance	18,230	-	18,230	-	-	-
Due to affiliated organizations	-	(15,833)	5,550	3,571	-	6,712
Deferred compensation agreements	5,852	-	5,852	-	-	-
Other	427	-	427	-	-	-
	142,856	(15,833)	148,406	3,571	-	6,712
Total liabilities	273,016	(15,833)	274,725	3,571	760	9,793
Net assets:						
Unrestricted	497,915	(38,608)	479,241	36,552	20,730	-
Temporarily restricted	3,462	-	3,462	-	-	-
Permanently restricted	6,230	-	6,230	-	-	-
Capital stock	-	(133)	-	-	-	133
Additional paid-in capital	-	(46,866)	-	-	-	46,866
Retained earnings (deficit)	-	38,608	-	-	-	(38,608)
Total net assets	507,607	(46,999)	488,933	36,552	20,730	8,391
Total liabilities and net assets	$ 780,623	$ (62,832)	$ 763,658	$ 40,123	$ 21,490	$ 18,184

SwedishAmerican Health System Corporation and Subsidiaries

Consolidating Statement of Operations
Year Ended June 30, 2018
(Dollars in thousands)

	Consolidated	Eliminations	Swedish-American Hospital and Subsidiary	Swedish-American Health System Corporation	Swedish-American Realty Corporation	State and Charles, Inc. and Subsidiaries
Unrestricted revenues, gains and other support:						
Net patient service revenue	$ 510,494	$ (8,871)	$ 519,365	$ -	$ -	$ -
Provision for bad debts	(44,108)	-	(44,108)	-	-	-
Net patient service revenue less provision for bad debts	466,386	(8,871)	475,257	-	-	-
Public Aid assessment revenue	30,059	-	30,059	-	-	-
Other revenue	45,603	(8,707)	21,380	-	7,388	25,542
Net assets released from restrictions - used for operating purposes	307	-	307	-	-	-
	542,355	(17,578)	527,003	-	7,388	25,542
Expenses:						
Salaries and employee benefits	274,672	107	271,258	1,237	-	2,070
Supplies, purchased services and rent	139,341	(16,664)	127,951	122	4,214	23,718
Professional fees	27,177	-	27,019	121	32	5
Management fees	3,832	(42)	2,424	-	118	1,332
Depreciation and amortization	23,622	-	20,628	-	2,974	20
Interest	2,968	(76)	2,968	-	-	76
Utilities	3,710	-	3,214	-	495	1
Repairs and maintenance	18,174	(930)	18,408	-	482	214
Insurance	5,802	-	5,666	94	36	6
Public Aid assessment expense	13,252	-	13,252	-	-	-
Other	8,194	-	7,301	29	628	236
	520,744	(17,605)	500,089	1,603	8,979	27,678
Operating income (loss)	21,611	27	26,914	(1,603)	(1,591)	(2,136)
Nonoperating income (expense):						
Change in value of beneficial interest in investment pool	(3,626)	-	(3,626)	-	-	-
Investment income	6,564	(76)	6,640	-	-	-
Foundation activity, net	1,092	49	1,043	-	-	-
Other	(159)	-	(138)	33	(54)	-
	3,871	(27)	3,919	33	(54)	-
Revenue in excess (less than) of expenses	$ 25,482	$ -	$ 30,833	$ (1,570)	$ (1,645)	$ (2,136)