

The St. George Corporation and Subsidiaries

Consolidated Financial Report
December 31, 2019

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RSM US LLP

Independent Auditor's Report

Board of Directors
The St. George Corporation

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of The St. George Corporation and Subsidiaries, which comprise the consolidated balance sheets as of December 31, 2019 and 2018, the related consolidated statements of operations, changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The St. George Corporation and Subsidiaries as of December 31, 2019 and 2018, and the results of their operations, their changes in net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 1 to the financial statements, in 2019, The St. George Corporation and Subsidiaries adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-01, *Financial Instruments – Overall, (Subtopic 825-10) Recognition and Measurement of Financial Assets and Financial Liabilities* and FASB ASU 2016-02, *Leases (Topic 842)*, and changed the classification of investment income within the consolidated statement of operations. Our opinion is not modified with respect to these matters.

Other Matter

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

RSM US LLP

Chicago, Illinois
April 14, 2020

The St. George Corporation and Subsidiaries

Consolidated Balance Sheets December 31, 2019 and 2018 (Dollars in Thousands)

	2019	2018
Assets		
Current assets:		
Cash and cash equivalents	\$ 8,548	\$ 13,007
Investments	115,474	52,244
Patient accounts receivable	46,010	48,198
Inventories	9,950	9,143
Assets limited as to use - internally designated for self-insurance	5,348	12,460
Other current assets	6,240	4,808
Total current assets	191,570	139,860
Investments and assets limited as to use:		
Investments internally designated for capital purposes	778,159	737,316
Investments internally designated for self-insurance, net of amounts required to meet current obligations	19,766	11,223
Trustee held investments	5,980	4,549
Total investments and assets limited as to use	803,905	753,088
Property and equipment:		
Land and land improvements	35,524	34,496
Buildings	606,078	604,184
Equipment	225,826	223,524
Construction in progress	4,688	4,461
Finance lease right-of-use assets, net	1,960	-
	874,076	866,665
Less accumulated depreciation	(338,113)	(307,516)
Property and equipment, net	535,963	559,149
Operating lease right-of-use assets, net	3,330	-
Other assets, net	11,633	10,418
Total assets	\$ 1,546,401	\$ 1,462,515
Liabilities and Net Assets		
Current liabilities:		
Current portion of long-term debt	\$ 10,470	\$ 10,060
Accounts payable	10,442	14,607
Accrued liabilities and other	34,394	36,392
Due to third-party payors	37,360	39,765
Current portion of professional liability	5,348	12,460
Current portion of operating lease liabilities	1,032	-
Current portion of finance lease liabilities	1,967	-
Total current liabilities	101,013	113,284
Professional liability, less current portion	29,155	26,620
Operating lease liabilities, less current portion	2,298	-
Other liabilities	5,980	4,549
Long-term debt, less current portion	329,102	339,664
Total liabilities	467,548	484,117
Commitments and contingencies (Note 12)		
Net assets:		
Without donor restrictions	1,078,229	978,007
With donor restrictions	624	391
Total net assets	1,078,853	978,398
Total liabilities and net assets	\$ 1,546,401	\$ 1,462,515

See notes to consolidated financial statements.

The St. George Corporation and Subsidiaries

**Consolidated Statements of Operations
Years Ended December 31, 2019 and 2018
(Dollars in Thousands)**

	2019	2018
Revenue:		
Patient service revenue	\$ 373,809	\$ 367,651
Medicaid assessment program revenue	15,742	13,643
Total patient service revenue	389,551	381,294
Other revenue	4,581	5,911
Total revenue	394,132	387,205
Expenses:		
Salaries and employee benefits	220,410	218,915
Supplies and other	110,706	108,119
Physicians' fees	7,290	5,853
Interest and financing costs	13,110	11,714
Depreciation and amortization	34,495	32,985
Insurance	3,449	9,471
Utilities	4,274	4,271
Leases	3,038	-
Medicaid assessment program expense	15,494	14,598
Total expenses	412,266	405,926
Operating loss	(18,134)	(18,721)
Nonoperating gains (losses):		
Investment income	118,354	20,166
Reclassification of unrealized losses based on trading security designation	(4,710)	-
Contributions without donor restrictions	2	255
Other	-	(370)
Excess of revenue over expenses	95,512	1,330
Net changes in unrealized gains and losses on investments	-	(52,170)
Reclassification of unrealized losses based on trading security designation	4,710	-
Increase (decrease) in net assets without donor restrictions	\$ 100,222	\$ (50,840)

See notes to consolidated financial statements.

The St. George Corporation and Subsidiaries

Consolidated Statements of Changes in Net Assets
Years Ended December 31, 2019 and 2018
(Dollars in Thousands)

	2019	2018
Net assets without donor restrictions:		
Excess of revenue over expenses	\$ 95,512	\$ 1,330
Net changes in unrealized gains and losses on investments	-	(52,170)
Reclassification of unrealized losses based on trading security designation	4,710	-
	<hr/>	<hr/>
Increase (decrease) in net assets without donor restrictions	100,222	(50,840)
Net assets with donor restrictions:		
Contributions	241	171
Net assets released from restriction	(8)	(134)
	<hr/>	<hr/>
Increase in net assets with donor restrictions	233	37
Increase (decrease) in net assets	100,455	(50,803)
Net assets:		
Beginning of year	<hr/> 978,398	<hr/> 1,029,201
End of year	<hr/> \$ 1,078,853	<hr/> \$ 978,398

See notes to consolidated financial statements.

The St. George Corporation and Subsidiaries

Consolidated Statements of Cash Flows
Years Ended December 31, 2019 and 2018
(Dollars in Thousands)

	2019	2018
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ 100,455	\$ (50,803)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Net changes in unrealized gains and losses on investments	(58,821)	52,170
Realized (gain) loss on investments	(37,011)	350
Loss on disposal of property and equipment	1,049	13
Change in undistributed income of investment in joint venture	473	1,291
Depreciation and amortization	34,403	32,884
Change in operating assets and liabilities:		
Patient accounts receivable	2,188	12,268
Other assets	(3,927)	(4,865)
Accounts payable	836	(1,811)
Accrued liabilities and other	(567)	(1,948)
Due to third-party payors	(2,405)	1,208
Professional liability	(4,577)	4,068
Net cash provided by operating activities	32,096	44,825
Cash flows from investing activities:		
Construction and other additions to property and equipment	(15,392)	(48,447)
Purchase of investments and assets limited as to use	(876,031)	(1,099,169)
Proceeds from sales of investments and assets limited as to use	864,928	1,118,155
Investment in joint ventures	-	(856)
Net cash used in investing activities	(26,495)	(30,317)
Cash flows from financing activities:		
Principal payments of long-term debt	(10,060)	(10,365)
Net cash used in financing activities	(10,060)	(10,365)
Net (decrease) increase in cash and cash equivalents	(4,459)	4,143
Cash and cash equivalents:		
Beginning of year	13,007	8,864
End of year	\$ 8,548	\$ 13,007
Supplemental disclosure of cash flow information:		
Cash paid for interest, net of amounts capitalized	\$ 13,110	\$ 11,714
Supplemental schedule of non-cash investing and financing activities:		
Property and equipment additions included in accounts payable and accrued liabilities	\$ 881	\$ 5,882
Contribution of equipment in exchange for joint venture investment	\$ -	\$ 6,500

See notes to consolidated financial statements.

The St. George Corporation and Subsidiaries

Notes to Consolidated Financial Statements (Dollars in Thousands)

Note 1. Nature of Organization and Significant Accounting Policies

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

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

PMG, a physician practice that was established as a separate corporate entity outside of the Obligated Group, employs primary care physicians and select specialists to help better serve the needs of the community as it relates to the projected shortages of such physicians.

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

Significant accounting policies are as follows:

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

Accounting policies: The Corporation follows accounting standards established by the Financial Accounting Standards Board (FASB) to ensure consistent reporting of financial condition, results of operations, and cash flows. References to accounting principles generally accepted in the United States (U.S. GAAP) in these footnotes are to the *FASB Accounting Standards Codification*[™], sometimes referred to as the Codification or ASC.

The St. George Corporation and Subsidiaries

Notes to Consolidated Financial Statements (Dollars in Thousands)

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

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

Basis of presentation: The Corporation's consolidated financial statements have been prepared in accordance with U.S. GAAP, which require the Corporation to report information regarding its financial position and activities according to the following net asset classifications:

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

The Board of Directors has designated, from net assets without donor restrictions, net assets for capital expenditures and for self-insurance. Investments internally designated for capital purposes were \$778,159 and \$737,316 at December 31, 2019 and 2018, respectively. Investments internally designated for self-insurance were \$25,114 and \$23,683 at December 31, 2019 and 2018, respectively.

The Corporation had net assets with donor restrictions of \$624 and \$391 at December 31, 2019 and 2018, respectively, whose use has been restricted to the Hospital's animal-assisted therapy program, nursing scholarships, and hospice care.

Donor-restricted gifts: Unconditional promises to give cash and other assets to the Corporation are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as either restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the consolidated statements of operations and changes in net assets as net assets released from restriction. Donor-restricted contributions whose restrictions are met within the same year as received are reported as contributions without donor restrictions in the accompanying consolidated financial statements.

The St. George Corporation and Subsidiaries

Notes to Consolidated Financial Statements (Dollars in Thousands)

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

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

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

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

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

Patient receivables due directly from patients are carried at the original charge for the service provided less amounts covered by third-party payors. Patients who meet certain criteria under the Hospital's charity care policy are eligible for discounts from the Hospital's established rates.

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

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

Inventories: Inventories are stated at the lower of cost (first-in, first-out method) or net realizable value. Inventories consist mainly of supplies and pharmaceuticals. During the year ended December 31, 2018, the Corporation recorded for the first time certain supply inventories totaling approximately \$2,492.

The St. George Corporation and Subsidiaries

Notes to Consolidated Financial Statements (Dollars in Thousands)

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

Investments, assets limited as to use and investment income: Investments, including investments held as assets limited as to use, consist of debt and equity securities recorded at fair value. Investments classified as assets limited as to use include investments set aside by the Board of Directors for future capital replacement and expansion and self-insurance over which the Board of Directors retains control and may, at its discretion, subsequently use for other purposes. Assets limited as to use also include trustee held investments related to the Corporation's deferred compensation plan. All other investments are classified as current assets and are available for current operations.

Investment income and realized gains and losses are included in investment income in the accompanying consolidated statements of operations. Effective January 1, 2019, the Corporation adopted the remaining provisions of Accounting Standards Update (ASU) 2016-01, and also designated the investments in debt securities within its investment portfolio as trading securities. As a result, effective January 1, 2019, all unrealized gains and losses on investments are also included in investment income.

In 2019, in the Corporation elected to change the classification of investment income within the consolidated statement of operations from other operating revenue to nonoperating income. This change in classification was made because the Corporation believes a nonoperating classification is more prevalent among the Corporation's peer organizations, enhancing comparability of the Corporation's consolidated financial statements with its peer organizations' financial statements. Additionally, the Corporation believes that a nonoperating classification will result in a more meaningful presentation of the Corporation's operating results, as this presentation better reflects the Corporation's core health care operations. Investment income in the accompanying consolidated statement of operations for the year ended December 31, 2018, has been reclassified to apply the new presentation retrospectively.

In 2018, the Corporation assessed whether declines in investment values were other-than-temporary on a quarterly basis. The Corporation considered factors affecting the investee, factors affecting the industry the investee operates within, and general debt and equity trends. The Corporation considered the length of time an investment's fair value has been below carrying value, the near-term prospects for recovery to carrying value, and whether it is more likely than not that the Corporation will be required to sell the security before recovery is realized. If and when a determination was made that a decline in fair value below the cost basis is other-than-temporary, the related investment was written down to its estimated fair value and included as a realized loss in excess of revenue over expenses. During 2018, the Corporation recorded other-than-temporary declines of \$10,956, which adjusted the cost basis for those investments.

Joint ventures: St. George had a joint venture arrangement with Palos Surgicenter, LLC (the Surgicenter), which included a 39 percent interest in the entity at December 31, 2017. In September 2018, St. George sold units in the joint venture to reduce its ownership interest to 20 percent. This investment was accounted for on the equity method and is included in other assets in the accompanying December 31, 2018 consolidated balance sheet. Effective April 1, 2019, St. George's interest in the Surgicenter was conveyed to the Hospital. Effective October 1, 2019, the Surgicenter redeemed the Hospital's investment in the Surgicenter.

In December 2018, the Hospital contributed \$856 of cash and formed a joint venture arrangement, Palos Health Surgery Center, LLC, which includes a 50.5 percent interest in the entity. This investment is accounted for on the equity method and is included in other assets in the accompanying consolidated balance sheets.

The St. George Corporation and Subsidiaries

Notes to Consolidated Financial Statements (Dollars in Thousands)

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

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

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

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

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

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

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

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

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

The St. George Corporation and Subsidiaries

Notes to Consolidated Financial Statements (Dollars in Thousands)

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

The Corporation determines the transaction price based on standard charges for goods and services provided to patients, reduced by explicit price concessions consisting of contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with the Corporation's policy, and/or implicit price concessions based on historical collection experience. The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amounts expected to be collected based on the Corporation's collection history with similar classes of patients using a portfolio approach as a practical expedient. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as a bad debt expense. Bad debt expense for the years ended December 31, 2019 and 2018 was not significant.

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

Charity care and community benefits: The Corporation provides care to all patients regardless of their ability to pay. Charity care provided by the Corporation is excluded from patient service revenue.

Operating income (loss): The consolidated statements of operations include operating income (loss). Changes in net assets without donor restrictions that are excluded from operating income (loss) include investment income, contributions without donor restrictions and other gains and losses, which management views as outside of normal activity.

Excess of revenue over expenses: The consolidated statements of operations include excess of revenue over expenses that represents the results of operations. Changes in net assets without donor restrictions that are excluded from excess of revenues over expenses in 2018 include net changes in unrealized gains and losses on investments not designated as trading securities.

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

The St. George Corporation and Subsidiaries

Notes to Consolidated Financial Statements (Dollars in Thousands)

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

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

Tax positions are not offset or aggregated with other positions. Tax positions that meet the “more-likely-than-not” recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely to be realized on settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying consolidated balance sheets along with any associated interest and penalties that would be payable to the taxing authorities upon examination. Upon the adoption of the FASB-issued guidance at January 1, 2007, and since that date through December 31, 2019, there were no unrecognized tax benefits identified and recorded as a liability.

Forms 990 and 990-T filed by St. George and the Hospital are subject to examination by the IRS up to three years from the extended due date of each return. Forms 990 and 990-T filed by St. George and the Hospital are no longer subject to examination for the years 2015 and prior.

Newly adopted accounting pronouncements: In January 2016, the FASB issued ASU 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, which changes how entities account for equity investments that do not result in consolidation and are not accounted for under the equity method of accounting. Entities will be required to measure these investments at fair value at the end of each reporting period and recognize changes in fair value in net income. ASU 2016-01 also changes certain disclosure requirements and other aspects of current U.S. GAAP. In 2015, the Corporation elected to early adopt the amendment within ASU 2016-01 that no longer requires disclosure of the fair value of financial instruments that are not measured at fair value and as such, these disclosures are not included herein. The Corporation adopted the remaining provisions of ASU 2016-01 on January 1, 2019. The effect on the Corporation’s consolidated financial statements of adopting ASU 2016-01 is that effective January 1, 2019, unrealized gains and losses on the Corporation’s investments in marketable equity securities are now reported in investment income. Such unrealized gains and losses were previously reported within other changes in net assets without donor restrictions, except unrealized losses that were considered other-than-temporary.

The St. George Corporation and Subsidiaries

Notes to Consolidated Financial Statements (Dollars in Thousands)

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

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*, which is intended to increase transparency and comparability among organizations related to their leasing arrangements. The new lease standard (“ASC 842”), including all the related amendments subsequent to its issuance, supersedes the current guidance for lease accounting and requires lessees to recognize a right-of-use (ROU) asset representing the right to use an underlying asset and a lease liability representing the obligation to make lease payments over the lease term for substantially all leases, as well as disclose key quantitative and qualitative information about leasing arrangements. The Corporation has made an accounting policy election available under the new lease standard to not recognize lease assets and lease liabilities for leases with a term of 12 months or less.

The Corporation adopted ASU 2016-02 on January 1, 2019, using the optional transition method to the modified retrospective approach, which eliminates the requirement to restate the prior period financial statements. Under this transition provision, the Corporation has applied ASU 2016-02 to reporting periods beginning on January 1, 2019, while prior periods continue to be reported and disclosed in accordance with the legacy guidance under ASC Topic 840, *Leases* (ASC 840). The adoption did not result in a material cumulative-effect adjustment to the opening balance of net assets without donor restrictions. A number of practical expedients are also available under the new guidance. The Corporation has elected the “package of practical expedients” that will retain lease classification and initial direct costs for any identified leases that exist prior to adoption of the standard. The Corporation has not elected to adopt the “hindsight” practical expedient, and therefore will measure the ROU asset and lease liability using the remaining portion of the lease term at adoption on January 1, 2019.

Adoption of the new lease standard resulted in the recording of additional operating lease ROU assets and operating lease liabilities of approximately \$4,300 at January 1, 2019, operating lease ROU assets and operating lease liabilities of approximately \$3,300 at December 31, 2019, and finance ROU assets and finance lease liabilities of approximately \$1,900 and \$2,000, respectively, at December 31, 2019. The adoption of the new lease standard did not materially impact the Corporation’s consolidated excess of revenue over expenses or consolidated cash flows.

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. The Corporation adopted ASU 2018-08 on January 1, 2019, without a significant effect on the consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. ASU 2016-15 provides guidance on how certain cash receipts and cash payments should be presented and classified in the statement of cash flows with the objective of reducing existing diversity in practice with respect to these items. The Corporation adopted ASU 2016-15 on January 1, 2019, without significant effect on the consolidated financial statements.

The St. George Corporation and Subsidiaries

Notes to Consolidated Financial Statements (Dollars in Thousands)

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

In 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. The Corporation adopted ASU 2016-18 on January 1, 2019, without significant effect on the consolidated financial statements.

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

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

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

Subsequent events: The Corporation has evaluated subsequent events for potential recognition and/or disclosure through April 14, 2020, the date the consolidated financial statements were issued.

Note 2. Patient Service Revenue

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

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

The St. George Corporation and Subsidiaries

Notes to Consolidated Financial Statements (Dollars in Thousands)

Note 2. Patient Service Revenue (Continued)

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

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

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Patient service revenue was increased in 2019 and 2018 by the impact of third-party settlements and changes in allowance estimates in the amounts of \$360 and \$367, respectively.

Illinois Medicaid reform: On March 12, 2018, the Governor of Illinois signed legislation to implement a redesigned Medicaid hospital tax assessment program. Among other changes, the redesigned program bases payments on updated patient utilization data, shifts funding from fixed payments to dynamic “live rates,” and recognizes and incentivizes the shift from inpatient to outpatient services. The redesigned program was approved by the Centers for Medicare and Medicaid Services (CMS) in June 2018. The redesigned hospital tax assessment program, which was effective July 1, 2018, will sunset on June 30, 2020.

Medicaid hospital tax assessment program: The Hospital participates in the State of Illinois Medicaid hospital tax assessment program which is administered by the Illinois Department of Healthcare and Family Services (IDHFS). The hospital tax assessment program payments are in effect for the state fiscal years ending each June 30. For the years ended December 31, 2019 and 2018, the Hospital has recorded \$15,742 and \$13,643, respectively, in assessment revenue and \$15,494 and \$14,598, respectively, in assessment expense (Medicaid tax).

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

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

The St. George Corporation and Subsidiaries

Notes to Consolidated Financial Statements (Dollars in Thousands)

Note 2. Patient Service Revenue (Continued)

The composition of patient service revenue (excluding hospital tax assessment program revenue) based on payor source for the years ended December 31, 2019 and 2018 was as follows:

	2019	2018
Blue Cross managed care	\$ 109,589	\$ 107,885
Commercial and managed care, other than Blue Cross	16,543	34,559
Medicare and Medicare managed care	211,923	201,276
Medicaid and Medicaid managed care	13,539	4,613
Self-pay	22,215	19,318
Patient service revenue	<u>\$ 373,809</u>	<u>\$ 367,651</u>

Hospital revenue includes a variety of services mainly covering inpatient services requiring overnight stays or outpatient operations that require anesthesia or use of complex diagnostic and surgical equipment as well as emergency care. Physician revenue includes services primarily focused on the care of outpatients covering primary and specialty health care needs. The composition of patient service revenue for the years ended December 31, 2019 and 2018 was as follows:

	2019	2018
Inpatient	\$ 179,554	\$ 187,431
Outpatient	161,591	152,849
Physician	32,664	27,371
Patient service revenue	<u>\$ 373,809</u>	<u>\$ 367,651</u>

Note 3. Concentration of Credit Risk

The Corporation grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at December 31, 2019 and 2018 was as follows:

	2019	2018
Blue Cross managed care	15 %	17 %
Commercial and managed care, other than Blue Cross	19	21
Self-pay	18	28
Medicare and Medicare managed care	38	28
Medicaid and Medicaid managed care	10	6
	<u>100 %</u>	<u>100 %</u>

The St. George Corporation and Subsidiaries

Notes to Consolidated Financial Statements (Dollars in Thousands)

Note 4. Charity Care and Community Benefits

In the ordinary course of business, the Corporation renders services to patients who are financially unable to pay for medical care. The Corporation provides care to these patients who meet certain criteria under its charity care policy without charge or at amounts less than the established rates. Charity care eligibility is established based on limited or no insurance coverage, income compared to published poverty levels and family size, as well as other factors. Because the Corporation does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The Corporation maintains records to identify and monitor the level of charity care it provides. Charity care is measured based on the Corporation's estimated direct and indirect costs of providing charity care services. That estimate is made by calculating a ratio of cost to gross charges, applied to the uncompensated charges associated with providing charity care to patients. The estimated cost of charity care provided during 2019 and 2018 was \$3,967 and \$2,826, respectively.

Note 5. Investments and Assets Limited as to Use

The composition of investments and assets limited as to use (including amounts classified as current assets) at December 31, 2019 and 2018, consists of the following:

	2019	2018
U.S. Government and agency securities	\$ 163,577	\$ 110,019
Equities	359,638	399,163
Corporate bonds	233,481	189,611
Collateralized mortgage obligations	145,779	108,091
Cash and cash equivalents	19,353	8,334
Accrued interest and other	2,891	2,565
International bond fund	8	9
	<u>\$ 924,727</u>	<u>\$ 817,792</u>

Investment income for 2019 and 2018 consists of the following:

	2019	2018
Interest and other investment income	\$ 22,522	\$ 20,516
Realized gain (loss), net (including other-than-temporary impairment loss of \$10,956 in 2018)	37,011	(350)
Net changes in unrealized gains and losses on investments	58,821	-
	<u>\$ 118,354</u>	<u>\$ 20,166</u>

Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, such as the collateralized mortgage obligations, it is reasonably possible that changes in the fair value of investment securities will occur in the near-term and that such change could materially affect amounts reported in the consolidated balance sheets. See Note 12 for additional information.

The St. George Corporation and Subsidiaries

Notes to Consolidated Financial Statements (Dollars in Thousands)

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

The following table summarizes the unrealized losses and fair value of the Corporation's investments with unrealized losses (that were not deemed to be other-than-temporarily impaired) aggregated by investment category and length of time that individual securities had been in a continuous unrealized loss position, at December 31, 2018.

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

U.S. Government and agency securities: The contractual cash flows of these investments are guaranteed by an agency of the U.S. Government. Accordingly, it is expected that the securities would not be settled at a price less than the amortized cost of the Corporation's investment.

Equities: The Corporation's investments in marketable equity securities consist of various investments in common stock.

Corporate bonds: The Corporation's unrealized losses on investments in corporate bonds relate to current economic conditions. The unrealized losses were primarily caused by decreases in profitability and near-term profit forecasts by industry analysts.

Collateralized mortgage obligations: The unrealized losses on the Corporation's investments in collateralized mortgage obligations were caused by current economic conditions.

Derivative financial instruments: To enhance investment return and manage risk associated with fixed income securities, the Corporation has entered into various futures and options contracts as a part of its investment portfolio. The Corporation backs these positions with liquid investments from its investment accounts. At December 31, 2019 and 2018, the Corporation had contracts to buy securities for \$90,720 and \$149,718, respectively, and contracts to sell securities for \$196,041 and \$49,376, respectively. The fair value of these contracts is insignificant and is included in cash and cash equivalents.

The St. George Corporation and Subsidiaries

Notes to Consolidated Financial Statements (Dollars in Thousands)

Note 6. Investments in Joint Ventures

Investments in joint ventures, included in other assets on the consolidated balance sheets, total \$6,777 and \$7,250 at December 31, 2019 and 2018, respectively. These investments are accounted for under the equity method. Net income from these investments is included in other revenue in the Corporation's consolidated statements of operations as these investments are directly related to the Corporation's core business. Summarized (unaudited) information as to assets, liabilities, total equity, and net loss of the investees as of and for the years ended December 31, 2019 and 2018, is presented below:

	2019		2018		
	South Campus Partners, Inc.	Palos Health Surgery Center, LLC	Palos Surgicenter, LLC	South Campus Partners, Inc.	Palos Health Surgery Center, LLC
Assets	\$ 20,451	\$ 10,557	\$ 3,911	\$ 18,514	\$ 1,680
Liabilities	9,010	8,691	1,654	6,628	-
Total equity	11,441	1,866	2,257	11,886	1,680
Net loss	(444)	(127)	(217)	(1,162)	-

Palos Surgicenter, LLC, a limited liability company owned 20 percent by St. George at December 31, 2018, performs outpatient surgical procedures. This 20 percent interest was transferred to the Hospital effective April 1, 2019, and was redeemed by Palos Surgicenter, LLC effective October 1, 2019.

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

Palos Health Surgery Center, LLC, a limited liability company owned 50.5 percent by St. George, developed the outpatient surgical center located at the Corporation's South Campus. The remaining 49 percent interest is owned by Loyola University Medical Center and USP Chicago, Inc.

The St. George Corporation and Subsidiaries

Notes to Consolidated Financial Statements (Dollars in Thousands)

Note 7. Long-Term Debt and Pledged Assets

Long-term debt at December 31, 2019 and 2018, consists of the following:

	2019	2018
Illinois Finance Authority Revenue Bonds, Series 2010C, bearing interest at fixed rates ranging from 5% to 5.37%, varying principal payments due through May 2035	\$ 118,525	\$ 123,465
Illinois Finance Authority Revenue Bonds, Series 2015B, variable interest at a LIBOR-based rate (2.188% and 2.732% at December 31, 2019 and 2018, respectively), varying principal payments due beginning October 2019 through October 2040	56,780	57,260
Illinois Finance Authority Revenue Bonds, Series 2015C, variable interest at a LIBOR-based rate (2.236% and 2.907% at December 31, 2019 and 2018, respectively), varying principal payments due beginning October 2019 through October 2040	42,855	43,215
Illinois Finance Authority Revenue Bonds, Series 2015D, bearing interest at a fixed interest rate of 2.25%, varying principal payments due beginning October 2019 through October 2037	43,560	44,790
Illinois Finance Authority Revenue Bonds, Series 2015E, bearing interest at a fixed interest rate of 2.32%, varying principal payments due beginning October 2019 through October 2037	35,970	36,970
Illinois Finance Authority Revenue Bonds, Series 2015F, bearing interest at a fixed rate of 2.99%, varying principal payments due through October 2037	42,080	44,130
	<u>339,770</u>	<u>349,830</u>
Add: unamortized bond premium	1,872	2,089
Less: unamortized deferred financing costs	(2,070)	(2,195)
	<u>339,572</u>	<u>349,724</u>
Less: current portion	(10,470)	(10,060)
Long-term debt	<u>\$ 329,102</u>	<u>\$ 339,664</u>

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

The St. George Corporation and Subsidiaries

Notes to Consolidated Financial Statements (Dollars in Thousands)

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

Scheduled repayments of long-term debt are as follows:

Years ending December 31:	
2020	\$ 10,470
2021	10,875
2022	11,325
2023	11,830
2024	12,370
Thereafter	282,900
	<u>\$ 339,770</u>

Interest and financing costs in 2019 and 2018 are comprised of the following:

	2019	2018
Interest	\$ 13,202	\$ 13,113
Less amounts capitalized	-	(1,298)
Amortization of bond premium	(217)	(225)
Amortization of deferred financing costs	125	124
	<u>\$ 13,110</u>	<u>\$ 11,714</u>

Note 8. Retirement and Deferred Compensation Plans

The Corporation has a contributory retirement plan (the Plan) covering eligible employees. The Plan is a defined contribution plan whereby benefits are determined by the accumulation of contributions made on each employee's behalf prior to retirement. Under the Plan, the Corporation is obligated to provide a matching contribution up to 7.5 percent. Annual contributions are based on a percentage of the eligible employee's salary. Expense related to the Corporation's contributions to the Plan was \$8,086 and \$8,277 in 2019 and 2018, respectively.

The Corporation maintains a deferred compensation plan under Section 457(b) of the Internal Revenue Code to provide enhanced benefits to eligible executives and physicians. Deferred amounts plus earnings are maintained in a trust and are available to participants or their beneficiaries at retirement, termination of employment, unforeseeable emergency or death. Amounts in the trust totaled \$5,980 and \$4,549 at December 31, 2019 and 2018, respectively, and are reported as trustee held investments, in the accompanying consolidated balance sheets. Related deferred compensation liabilities are reported as other noncurrent liabilities in the accompanying consolidated balance sheets.

The St. George Corporation and Subsidiaries

Notes to Consolidated Financial Statements (Dollars in Thousands)

Note 9. Professional Liability Insurance

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

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

The Corporation has recorded a discounted liability of \$34,503 and \$39,080 at December 31, 2019 and 2018, respectively, for professional and general liability insurance, of which \$29,155 and \$26,620 is recorded as a noncurrent liability at December 31, 2019 and 2018, respectively. The discount rate used was 2.5 percent in 2019 and 2018, respectively. The related undiscounted liability is approximately \$3,398 and \$3,073 higher at December 31, 2019 and 2018, respectively. At December 31, 2018, the Corporation reduced the actuarial confidence level at which the liability was recorded, which, together with a reduction in the discount rate, resulted in a \$4,708 reduction in the liability.

Insurance recoveries receivable of \$2,608 and \$2,169 have been recorded as of December 31, 2019 and 2018, respectively, and are included in other assets in the accompanying consolidated balance sheets.

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

The St. George Corporation and Subsidiaries

Notes to Consolidated Financial Statements (Dollars in Thousands)

Note 10. Functional Expenses

The Corporation's expenses related to providing health care services to its patients for the years ended December 31, 2019 and 2018, including allocations of depreciation and interest expense, are as follows:

	December 31, 2019						
	Health Care Services				Supporting Activities		
	Inpatient Services	Outpatient Services	Palos Medical Group	Palos Imaging Center	General and Administrative	Total Fundraising Expenses	
Salaries and employee benefits	\$ 84,514	\$ 63,954	\$ 27,875	\$ 1,350	\$ 42,717	\$ -	\$220,410
Supplies and other	39,659	33,073	1,739	619	35,616	-	110,706
Physicians' fees	1,264	1,198	1,183	1,665	1,980	-	7,290
Interest and financing costs	6,695	6,415	-	-	-	-	13,110
Depreciation and amortization	15,695	15,048	71	-	3,681	-	34,495
Insurance	491	462	1,549	132	815	-	3,449
Utilities	1,848	1,854	-	76	496	-	4,274
Lease expense	521	1,466	-	-	1,051	-	3,038
Medicaid assessment program expense	7,910	7,584	-	-	-	-	15,494
Total expenses	\$ 158,597	\$ 131,054	\$ 32,417	\$ 3,842	\$ 86,356	\$ -	\$412,266

	December 31, 2018						
	Health Care Services				Supporting Activities		
	Inpatient Services	Outpatient Services	Palos Medical Group	Palos Imaging Center	General and Administrative	Total Fundraising Expenses	
Salaries and employee benefits	\$ 97,128	\$ 53,982	\$ 23,689	\$ 1,015	\$ 43,101	\$ -	\$218,915
Supplies and other	38,060	28,170	1,470	564	39,824	31	108,119
Physicians' fees	832	714	1,205	1,138	1,964	-	5,853
Interest and financing costs	6,290	5,424	-	-	-	-	11,714
Depreciation and amortization	15,607	13,841	55	-	3,482	-	32,985
Insurance	2,378	2,262	3,851	93	887	-	9,471
Utilities	1,945	1,755	-	76	495	-	4,271
Medicaid assessment program expense	7,766	6,832	-	-	-	-	14,598
Total expenses	\$ 170,006	\$ 112,980	\$ 30,270	\$ 2,886	\$ 89,753	\$ 31	\$405,926

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

The St. George Corporation and Subsidiaries

Notes to Consolidated Financial Statements (Dollars in Thousands)

Note 11. Financial Assets Available and Liquidity

The following table presents financial assets available for general expenditures within one year at December 31, 2019 and 2018:

	2019	2018
Cash and cash equivalents	\$ 8,548	\$ 13,007
Investments	115,474	52,244
Patient accounts receivable	46,010	48,198
Other current assets	2,149	861
Assets limited to use:		
Investments internally designated for capital purposes and self-insurance	803,273	760,999
Investments held by trustees	5,980	4,549
Total financial assets	<u>981,434</u>	<u>879,858</u>
Investments internally designated for self-insurance	(25,114)	(23,683)
Investments held by trustees	(5,980)	(4,549)
Financial assets not available to be used within one year	<u>(31,094)</u>	<u>(28,232)</u>
Financial assets available to meet general expenditures within one year	<u>\$ 950,340</u>	<u>\$ 851,626</u>

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

Note 12. Commitments and Contingencies

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

Construction in progress: At December 31, 2019, the Corporation had entered into commitments totaling approximately \$4,246 related to construction projects and technology upgrades, of which \$3,365 had been paid and \$881 has been accrued as of December 31, 2019.

The St. George Corporation and Subsidiaries

Notes to Consolidated Financial Statements (Dollars in Thousands)

Note 12. Commitments and Contingencies (Continued)

Lease commitments: The Corporation leases property under leases that expire at various dates through 2023. Rental expense under operating lease agreements totaled approximately \$886, for the year ended December 31, 2018, which is included in supplies and other expense on the accompanying consolidated statement of operations.

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. The U.S. Department of Justice, other federal agencies and the Illinois Department of Public Aid routinely conduct regulatory investigations and compliance audits of health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the Hospital, PMG and the Imaging Center are in compliance with fraud and abuse, as well as other applicable government laws and regulations. While no regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory actions unknown or asserted at this time.

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

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

The St. George Corporation and Subsidiaries

Notes to Consolidated Financial Statements (Dollars in Thousands)

Note 12. Commitments and Contingencies (Continued)

On January 5, 2016, the Fourth District Appellate Court of Illinois ruled that Section 15-86 of the Illinois *Property Tax Code* (Section 15-86) is unconstitutional. The decision was appealed to the Illinois Supreme Court, which on March 23, 2017, vacated the Fourth District Appellate Court's ruling, citing a lack of jurisdiction, and remanded the case to the Circuit Court of Cook County for reconsideration. However, in its 2017 decision the Illinois Supreme Court did not rule on the constitutionality of Section 15-86 of the Illinois *Property Tax Code*. On September 20, 2018, the Illinois Supreme Court upheld the First District Appellate Court of Illinois ruling that Section 15-86 is constitutional. However, additional legal challenges to this law may occur. Management continues to believe that the Hospital meets the requirements under the law to maintain its property tax and sales tax exemption; however, such requirements may change based on the outcome of such future legal challenges.

Effects of COVID-19: The spread of COVID-19, a novel strain of coronavirus, appears to be altering the behavior of business and people in a manner that is having negative effects on local, regional and global economies. Further, stock markets in the United States and globally have recently experienced significant declines attributed to coronavirus concerns. The Corporation has holdings in a broad range of investments. Market fluctuations may affect the value of those investments and those fluctuations at times may be material. The continued spread of COVID-19 or any similar outbreaks in the future may adversely impact the local, regional and national economies and, accordingly, may have a material adverse effect on the financial condition of the Corporation.

Note 13. Fair Value Disclosures

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

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

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

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

The St. George Corporation and Subsidiaries

Notes to Consolidated Financial Statements (Dollars in Thousands)

Note 13. Fair Value Disclosures (Continued)

For 2019 and 2018, the application of valuation techniques applied to similar assets and liabilities has been consistent. The following is a description of the valuation techniques and inputs used for instruments measured at fair value:

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

The table below presents the balances of assets measured at fair value on a recurring basis, as of December 31, 2019 and 2018.

	December 31, 2019			
	Level 1	Level 2	Level 3	Total
U.S. Government and agency securities	\$ -	\$ 163,577	\$ -	\$ 163,577
Equities ^A	359,638	-	-	359,638
Corporate bonds	149	233,332	-	233,481
Collateralized mortgage obligations	-	145,779	-	145,779
	<u>\$ 359,787</u>	<u>\$ 542,688</u>	<u>\$ -</u>	<u>902,475</u>
Investment measured at NAV:				
International bond fund				8
Cash and cash equivalents				19,353
Accrued interest and other				2,891
				<u>\$ 924,727</u>

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

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

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

The St. George Corporation and Subsidiaries

Notes to Consolidated Financial Statements (Dollars in Thousands)

Note 14. Leases

The Corporation determines if an arrangement is or contains a lease at inception, which is the date on which the terms of the contract are agreed to and the agreement creates enforceable rights and obligations. Under ASC 842, a contract is or contains a lease when (i) explicitly or implicitly identified assets have been deployed in the contract and (ii) the customer obtains substantially all of the economic benefits from the use of that underlying asset and directs how and for what purpose the asset is used during the term of the contract. The Corporation also considers whether its service arrangements include the right to control the use of an asset. In connection with the package of practical expedients, the Corporation has not reassessed whether any existing contracts at January 1, 2019, are or contain leases, and has carried forward its initial determination under legacy lease guidance upon the adoption of ASC 842.

Under ASC Topic 842, a lease is a contract, or part of a contract, that conveys the right to control the use of identified property, plant or equipment (i.e., an identified asset) for a period of time in exchange for consideration. The Corporation's contracts determined to be or contain a lease include explicitly or implicitly identified assets where the Corporation has the right to obtain substantially all of the economic benefits of the assets and has the ability to direct how and for what purpose the assets are used during the lease term. Leases are classified as either operating or financing. For operating leases, the Corporation has recognized a lease liability equal to the present value of the remaining lease payments, and a right of use asset equal to the lease liability, subject to certain adjustments, such as for prepaid rents. The Corporation used a risk-free, based on the United States Treasury rates, to determine the present value of the lease payments.

Upon adoption, the Corporation recognized right-of-use assets and lease liabilities for operating leases in the amount of \$4,306 and \$4,306, respectively. The cumulative effect adjustment recorded to the opening balance of net assets without donor restrictions upon adoption was not material to the consolidated balance sheet.

The Corporation enters into contracts to lease real estate and various equipment. The Corporation's most significant lease liability relates to a real estate lease with an initial lease term expiring during 2023. Equipment leases have initial lease terms ranging up to four years. Certain leases include renewal, termination or purchase options. Under ASC Topic 842, the lease term at the lease commencement date is determined based on the non-cancellable period for which the Corporation has the right to use the underlying asset, together with any periods covered by an option to extend the lease if the Corporation is reasonably certain to exercise that option, periods covered by an option to terminate the lease if the Corporation is reasonably certain not to exercise that option, and periods covered by an option to extend (or not to terminate) the lease in which the exercise of the option is controlled by the lessor. The Corporation considered a number of factors when evaluating whether the options in its lease contracts were reasonably certain of exercise, such as length of time before option exercise, expected value of the leased asset at the end of the initial lease term, importance of the lease to overall operations, costs to negotiate a new lease, and any contractual or economic penalties.

Operating leases result in a straight-line lease expense, while finance leases result in a front-loaded expense pattern. The assets associated with financing leases have been included in property and equipment in the consolidated balance sheet. The Corporation's lease agreements do not contain any residual value guarantees or restrictive covenants.

ASC Topic 842 includes practical expedient and policy election choices. The Corporation elected the package of practical expedients available in the standard and as a result, did not reassess the lease classification of existing contracts or leases or the initial direct costs associated with existing leases. The Corporation did not elect the hindsight practical expedient, and so did not re-evaluate lease term for existing leases.

The St. George Corporation and Subsidiaries

Notes to Consolidated Financial Statements (Dollars in Thousands)

Note 14. Leases (Continued)

The Corporation has made an accounting policy election not to recognize right of use assets and lease liabilities for leases with a lease term of 12 months or less, including renewal options that are reasonably certain to be exercised, that also do not include an option to purchase the underlying asset that is reasonably certain of exercise. Instead, lease payments for these leases are recognized as lease cost on a straight-line basis over the lease term.

ASC Topic 842 includes a number of reassessment and re-measurement requirements for lessees based on certain triggering events or conditions, including whether a contract is or contains a lease, assessment of lease term and purchase options, measurement of lease payments, assessment of lease classification and assessment of the discount rate. The Corporation reviewed the reassessment and re-measurement requirements and did not identify any events or conditions during the year ended December 31, 2019 that required a reassessment or re-measurement. In addition, there were no impairment indicators identified during the year ended December 31, 2019 that required an impairment test for the Corporation's right-of-use assets or other long-lived assets in accordance with ASC 360-10.

Certain of the Corporation's leases include non-lease components that transfer a distinct service to the Company, such as such consumable products used in medical procedures. The Corporation has elected not to separate the accounting for lease components and non-lease components, for all classes of leased assets.

Certain of the Corporation's leases include variable lease costs. These variable payments typically represent additional services transferred to the Corporation, such as consumable products used in medical procedures, and recorded in lease expense in the period incurred.

The components of lease expense and supplemental cash flow information related to leases for the year ended December 31, 2019, are as follows:

	<u>2019</u>
Finance lease cost:	
Amortization of right-of-use assets	\$ 41
Interest on lease liabilities	8
Operating lease cost	1,123
Short-term lease cost	1,408
Variable lease cost	507
Total lease cost	<u>\$ 3,087</u>
Other information	
Cash paid for amounts included in the measurement of lease liabilities:	<u>2019</u>
Operating cash flows from operating leases	\$ 1,123
Right-of-use assets obtained in exchange for new finance lease liabilities	\$ 1,959
Weighted-average remaining lease term - finance leases	4 years
Weighted-average remaining lease term - operating leases	1 year
Weighted-average discount rate - finance leases	2.50%
Weighted-average discount rate - operating leases	2.46%

The St. George Corporation and Subsidiaries

Notes to Consolidated Financial Statements (Dollars in Thousands)

Note 14. Leases (Continued)

As of December 31, 2019, maturities of the Corporation's lease liabilities are as follows:

Years ending December 31:	Operating Leases	Finance Leases
2020	\$ 1,100	\$ 2,000
2021	1,020	-
2022	969	-
2023	374	-
Total lease payments	3,463	2,000
Less imputed interest	133	33
Present value of lease liabilities	<u>\$ 3,330</u>	<u>\$ 1,967</u>

The Corporation is the lessor under certain space leases that expire at various dates through 2028. Future minimum lease payments under these noncancellable leases in effect as of December 31, 2019 are approximately as follows for the next five years:

Years ending December 31:	
2020	\$ 3,439
2021	3,134
2022	2,542
2023	2,119
2024	2,112
	<u>\$ 13,346</u>

The Corporation's leases as a lessor include a lease with Palos Health Surgery Center, LLC through December 2028 with currently monthly payments of approximately \$58, and a lease with South Campus Partners, Inc. through June 2028 with monthly payments of approximately \$45.

Supplementary Information

The St. George Corporation and Subsidiaries

Consolidating Balance Sheet Information

December 31, 2019

(Dollars in Thousands)

	The St. George Corporation	Palos Community Hospital	Eliminations	Obligated Group	Palos Medical Group	St. George Assurance	Chicago Health Colleagues	Palos Imaging	Sigma PSO	Eliminations	Consolidated
Assets											
Current assets:											
Cash and cash equivalents	\$ 19	\$ 6,336	\$ -	\$ 6,355	\$ 457	\$ -	\$ 177	\$ 1,559	\$ -	\$ -	\$ 8,548
Investments	115,466	8	-	115,474	-	-	-	-	-	-	115,474
Patient accounts receivable	-	42,384	-	42,384	3,009	-	-	617	-	-	46,010
Inventories	-	9,950	-	9,950	-	-	-	-	-	-	9,950
Assets limited as to use - internally designated for self-insurance	-	-	-	-	-	5,348	-	-	-	-	5,348
Other current assets	-	5,200	-	5,200	445	3,313	412	-	-	(3,130)	6,240
Due from affiliated organizations	2,410	29,569	(191)	31,788	3,606	-	150	1,547	3	(37,094)	-
Total current assets	117,895	93,447	(191)	211,151	7,517	8,661	739	3,723	3	(40,224)	191,570
Investments and assets limited as to use:											
Investments internally designated for capital purposes	778,159	-	-	778,159	-	-	-	-	-	-	778,159
Investments internally designated for self-insurance, net of amounts required to meet current obligations	-	-	-	-	-	19,766	-	-	-	-	19,766
Trustee held investments	-	5,980	-	5,980	-	-	-	-	-	-	5,980
Total investments and assets limited as to use	778,159	5,980	-	784,139	-	19,766	-	-	-	-	803,905
Property and equipment:											
Land and land improvements	1,399	34,125	-	35,524	-	-	-	-	-	-	35,524
Buildings	5,414	600,575	-	605,989	89	-	-	-	-	-	606,078
Equipment	-	225,067	-	225,067	759	-	-	-	-	-	225,826
Construction in progress	217	4,471	-	4,688	-	-	-	-	-	-	4,688
Finance lease right-of-use assets, net	-	1,960	-	1,960	-	-	-	-	-	-	1,960
	7,030	866,198	-	873,228	848	-	-	-	-	-	874,076
Less accumulated depreciation	(2,400)	(335,128)	-	(337,528)	(585)	-	-	-	-	-	(338,113)
Property and equipment, net	4,630	531,070	-	535,700	263	-	-	-	-	-	535,963
Operating lease right-of-use assets, net											
Other assets, net	-	3,330	-	3,330	-	-	-	-	-	-	3,330
	-	15,416	-	15,416	97	-	-	-	-	(3,880)	11,633
Total assets	\$ 900,684	\$ 649,243	\$ (191)	\$ 1,549,736	\$ 7,877	\$ 28,427	\$ 739	\$ 3,723	\$ 3	\$ (44,104)	\$ 1,546,401

(Continued)

The St. George Corporation and Subsidiaries

Consolidating Balance Sheet Information (Continued)

December 31, 2019

(Dollars in Thousands)

	The St. George Corporation	Palos Community Hospital	Eliminations	Obligated Group	Palos Medical Group	St. George Assurance	Chicago Health Colleagues	Palos Imaging	Sigma PSO	Eliminations	Consolidated
Liabilities and Net Assets											
Current liabilities:											
Current portion of long-term debt	\$ -	\$ 10,470	\$ -	\$ 10,470	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 10,470
Accounts payable	133	10,108	-	10,241	131	-	-	70	-	-	10,442
Accrued liabilities and other	1,058	31,431	-	32,489	2,373	2,270	106	286	-	(3,130)	34,394
Due to third-party payors	-	37,360	-	37,360	-	-	-	-	-	-	37,360
Current portion of professional liability	-	4,501	-	4,501	825	-	-	22	-	-	5,348
Current portion of operating lease liabilities	-	1,032	-	1,032	-	-	-	-	-	-	1,032
Current portion of finance lease liabilities	-	1,967	-	1,967	-	-	-	-	-	-	1,967
Due to affiliated organizations	-	191	(191)	-	7,408	26,057	1,762	1,825	42	(37,094)	-
Total current liabilities	1,191	97,060	(191)	98,060	10,737	28,327	1,868	2,203	42	(40,224)	101,013
Professional liability, less current portion	-	24,538	-	24,538	4,496	-	-	121	-	-	29,155
Operating lease liabilities, less current portion	-	2,298	-	2,298	-	-	-	-	-	-	2,298
Other liabilities	-	5,980	-	5,980	-	-	-	-	-	-	5,980
Long-term debt, less current portion	-	329,102	-	329,102	-	-	-	-	-	-	329,102
Total liabilities	1,191	458,978	(191)	459,978	15,233	28,327	1,868	2,324	42	(40,224)	467,548
Net assets:											
Without donor restrictions (deficit)	899,189	189,945	-	1,089,134	(7,356)	100	(1,129)	1,399	(39)	(3,880)	1,078,229
With donor restrictions	304	320	-	624	-	-	-	-	-	-	624
Total net assets (deficit)	899,493	190,265	-	1,089,758	(7,356)	100	(1,129)	1,399	(39)	(3,880)	1,078,853
Total liabilities and net assets	\$ 900,684	\$ 649,243	\$ (191)	\$ 1,549,736	\$ 7,877	\$ 28,427	\$ 739	\$ 3,723	\$ 3	\$ (44,104)	\$ 1,546,401

The St. George Corporation and Subsidiaries

Consolidating Statement of Operations Information
Year Ended December 31, 2019
(Dollars in Thousands)

	The St. George Corporation	Palos Community Hospital	Eliminations	Obligated Group	Palos Medical Group	St. George Assurance	Chicago Health Colleagues	Palos Imaging	Sigma PSO	Eliminations	Consolidated
Revenue:											
Patient service revenue	\$ -	\$ 341,149	\$ -	\$ 341,149	\$ 24,851	\$ -	\$ -	\$ 7,809	\$ -	\$ -	\$ 373,809
Medicaid assessment program revenue	-	15,742	-	15,742	-	-	-	-	-	-	15,742
Total patient service revenue	-	356,891	-	356,891	24,851	-	-	7,809	-	-	389,551
Other revenue	441	8,500	(86)	8,855	24	-	575	-	3	(4,876)	4,581
Total revenue	441	365,391	(86)	365,746	24,875	-	575	7,809	3	(4,876)	394,132
Expenses:											
Salaries and employee benefits	610	186,386	-	186,996	30,937	-	361	2,101	15	-	220,410
Supplies and other	1,519	104,846	(86)	106,279	5,172	-	227	3,877	27	(4,876)	110,706
Physicians' fees	-	4,428	-	4,428	1,183	7	7	1,665	-	-	7,290
Interest and financing costs	-	13,110	-	13,110	-	-	-	-	-	-	13,110
Depreciation and amortization	259	34,157	-	34,416	79	-	-	-	-	-	34,495
Insurance	-	2,208	-	2,208	1,241	-	-	-	-	-	3,449
Utilities	67	4,207	-	4,274	-	-	-	-	-	-	4,274
Leases	-	2,942	-	2,942	3	-	-	93	-	-	3,038
Medicaid assessment program expense	-	15,494	-	15,494	-	-	-	-	-	-	15,494
Total expenses	2,455	367,778	(86)	370,147	38,615	7	595	7,736	42	(4,876)	412,266
Operating income (loss)	(2,014)	(2,387)	-	(4,401)	(13,740)	(7)	(20)	73	(39)	-	(18,134)
Nonoperating gains (losses):											
Investment income	118,016	318	-	118,334	-	7	10	3	-	-	118,354
Reclassification of unrealized losses based on trading security designation	(4,710)	-	-	(4,710)	-	-	-	-	-	-	(4,710)
Contributions without donor restrictions	-	2	-	2	-	-	-	-	-	-	2
	113,306	320	-	113,626	-	7	10	3	-	-	113,646
Excess (deficiency) of revenue over expenses	111,292	(2,067)	-	109,225	(13,740)	-	(10)	76	(39)	-	95,512
Other changes in net assets without donor restrictions:											
Net asset transfers	(13,009)	1,500	-	(11,509)	8,509	-	-	3,000	-	-	-
Reclassification of unrealized losses based on trading security designation	4,710	-	-	4,710	-	-	-	-	-	-	4,710
Increase (decrease) in net assets without donor restrictions	\$ 102,993	\$ (567)	\$ -	\$ 102,426	\$ (5,231)	\$ -	\$ (10)	\$ 3,076	\$ (39)	\$ -	\$ 100,222

The St. George Corporation and Subsidiaries

Consolidating Statement of Changes in Net Assets Information

Year Ended December 31, 2019

(Dollars in Thousands)

	The St. George Corporation	Palos Community Hospital	Eliminations	Obligated Group	Palos Medical Group	St. George Assurance	Chicago Health Colleagues	Palos Imaging	Sigma PSO	Eliminations	Consolidated
Net assets without donor restrictions:											
Excess (deficiency) of revenue over expenses	\$ 111,292	\$ (2,067)	\$ -	\$ 109,225	\$ (13,740)	\$ -	\$ (10)	\$ 76	\$ (39)	\$ -	\$ 95,512
Net asset transfers	(13,009)	1,500	-	(11,509)	8,509	-	-	3,000	-	-	-
Reclassification of unrealized losses based on trading security designation	4,710	-	-	4,710	-	-	-	-	-	-	4,710
Increase (decrease) in net assets without donor restrictions	102,993	(567)	-	102,426	(5,231)	-	(10)	3,076	(39)	-	100,222
Net assets with donor restrictions:											
Contributions	147	94	-	241	-	-	-	-	-	-	241
Net assets released from restriction	(4)	(4)	-	(8)	-	-	-	-	-	-	(8)
Net asset transfers	153	(153)	-	-	-	-	-	-	-	-	-
Increase (decrease) in net assets with donor restrictions	296	(63)	-	233	-	-	-	-	-	-	233
Increase (decrease) in net assets	103,289	(630)	-	102,659	(5,231)	-	(10)	3,076	(39)	-	100,455
Net assets (deficit):											
Beginning of year	796,204	190,895	-	987,099	(2,125)	100	(1,119)	(1,677)	-	(3,880)	978,398
End of year	\$ 899,493	\$ 190,265	\$ -	\$ 1,089,758	\$ (7,356)	\$ 100	\$ (1,129)	\$ 1,399	\$ (39)	\$ (3,880)	\$ 1,078,853

The St. George Corporation and Subsidiaries

Consolidating Balance Sheet Information

December 31, 2018

(Dollars in Thousands)

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

(Continued)

The St. George Corporation and Subsidiaries

Consolidating Balance Sheet Information (Continued)

December 31, 2018

(Dollars in Thousands)

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

The St. George Corporation and Subsidiaries

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

	The St. George Corporation	Palos Community Hospital	Eliminations	Obligated Group	Palos Medical Group	St. George Assurance	Chicago Health Colleagues	Palos Imaging	Eliminations	Consolidated
Revenue:										
Patient service revenue	\$ -	\$340,280	\$ -	\$ 340,280	\$ 21,531	\$ -	\$ -	\$ 5,840	\$ -	\$ 367,651
Medicaid assessment program revenue	-	13,643	-	13,643	-	-	-	-	-	13,643
Total patient service revenue	-	353,923	-	353,923	21,531	-	-	5,840	-	381,294
Other revenue	(202)	8,492	(115)	8,175	4	-	1,730	-	(3,998)	5,911
Total revenue	(202)	362,415	(115)	362,098	21,535	-	1,730	5,840	(3,998)	387,205
Expenses:										
Salaries and employee benefits	-	190,364	-	190,364	26,321	-	315	1,915	-	218,915
Supplies and other	706	102,781	(115)	103,372	4,350	-	1,018	3,377	(3,998)	108,119
Physicians' fees	-	3,467	-	3,467	1,205	11	21	1,149	-	5,853
Interest and financing costs	-	11,714	-	11,714	-	-	-	-	-	11,714
Depreciation and amortization	204	32,720	-	32,924	61	-	-	-	-	32,985
Insurance	-	5,719	-	5,719	3,752	-	-	-	-	9,471
Utilities	70	4,201	-	4,271	-	-	-	-	-	4,271
Medicaid assessment program expense	-	14,598	-	14,598	-	-	-	-	-	14,598
Total expenses	980	365,564	(115)	366,429	35,689	11	1,354	6,441	(3,998)	405,926
Operating income (loss)	(1,182)	(3,149)	-	(4,331)	(14,154)	(11)	376	(601)	-	(18,721)
Nonoperating gains (losses):										
Investment income	19,068	1,082	-	20,150	-	11	1	4	-	20,166
Contributions without donor restrictions	-	255	-	255	-	-	-	-	-	255
Other	-	(370)	-	(370)	-	-	-	-	-	(370)
	19,068	967	-	20,035	-	11	1	4	-	20,051
Excess (deficiency) of revenue over expenses	17,886	(2,182)	-	15,704	(14,154)	-	377	(597)	-	1,330
Other changes in net assets without donor restrictions:										
Net asset transfers	65,244	(77,633)	-	(12,389)	12,389	-	-	-	-	-
Net changes in unrealized gains and losses on investments	(51,973)	(197)	-	(52,170)	-	-	-	-	-	(52,170)
Increase (decrease) in net assets without donor restrictions	\$ 31,157	\$ (80,012)	\$ -	\$ (48,855)	\$ (1,765)	\$ -	\$ 377	\$ (597)	\$ -	\$ (50,840)

The St. George Corporation and Subsidiaries

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

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