

# **Genesis Health, Inc. and Affiliates d/b/a Brooks Rehabilitation**

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**Consolidated Financial Statements**

**Years Ended December 31, 2018 and 2017**



## **Table of Contents**

<b>Independent Auditors' Report</b> .....	1
<b>Consolidated Financial Statements:</b>	
Consolidated Balance Sheets .....	3
Consolidated Statements of Operations .....	4
Consolidated Statements of Changes in Net Assets .....	5
Consolidated Statements of Cash Flows .....	6
Notes to Consolidated Financial Statements .....	8
<b>Supplementary Information:</b>	
Consolidating Balance Sheet Information .....	33
Consolidating Statement of Operations Information .....	35
Consolidating Statement of Changes in Net Assets Information .....	36



## **Independent Auditors' Report**

Board of Directors  
Genesis Health, Inc. and Affiliates  
d/b/a Brooks Rehabilitation  
Jacksonville, Florida

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

We have audited the accompanying consolidated financial statements of Genesis Health, Inc. and Affiliates, d/b/a Brooks Rehabilitation (Brooks), which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

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

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these consolidated 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 audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to Brooks' preparation and fair presentation of the consolidated 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 Brooks' 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Genesis Health, Inc. and Affiliates, d/b/a Brooks Rehabilitation as of December 31, 2018 and 2017, and the results of operations, changes in net assets, and cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

***Change in Accounting Principles***

As discussed in Note 1 to the consolidated financial statements, Brooks adopted FASB Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* and FASB ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)* in 2018. The primary impact of adopting these ASU's is further described in Note 1. Our opinion is not modified with respect to these matters.

***Supplementary Information***

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

*Dixon Hughes Goodman LLP*

**Greenville, South Carolina  
April 23, 2019**

**Genesis Health, Inc. and Affiliates d/b/a Brooks Rehabilitation**  
**Consolidated Balance Sheets**  
**December 31, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 13,512,622	\$ 5,044,423
Patient receivables, net	23,123,768	24,423,858
Other current assets	7,265,183	7,767,592
Total current assets	<u>43,901,573</u>	37,235,873
Investments, at fair value	278,683,250	311,493,159
Assets limited as to use	11,459,152	16,950,817
Property and equipment, net	135,496,692	137,172,922
Land held for development	23,088,609	23,088,609
Other investments	4,482,334	4,387,229
Other assets, net	80,330	312,781
Goodwill	21,423,636	20,247,160
Intangible assets, net	8,856,762	9,124,620
Total assets	<u>\$ 527,472,338</u>	<u>\$ 560,013,170</u>
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 25,166,996	\$ 22,414,159
Lines of credit	39,204,805	39,204,805
Current portion of long-term debt	4,130,004	3,918,201
Estimated third-party payor settlements	245,214	1,234,156
Other current liabilities	530,000	1,021,470
Total current liabilities	<u>69,277,019</u>	67,792,791
Long-term debt, net of current portion	205,158,058	209,875,238
Other liabilities	6,724,317	6,442,086
Total liabilities	<u>281,159,394</u>	284,110,115
Net assets:		
Without donor restrictions	243,346,673	273,335,185
With donor restrictions	2,384,077	2,283,239
Total net assets attributable to Brooks Rehabilitation	<u>245,730,750</u>	275,618,424
Noncontrolling interest	582,194	284,631
Total net assets	<u>246,312,944</u>	275,903,055
Total liabilities and net assets	<u>\$ 527,472,338</u>	<u>\$ 560,013,170</u>

See accompanying notes.

**Genesis Health, Inc. and Affiliates d/b/a Brooks Rehabilitation**  
**Consolidated Statements of Operations**  
**For the Years Ended December 31, 2018 and 2017**

	<u>2018</u>	<u>As Adjusted 2017</u>
Unrestricted revenues, gains, and other support:		
Net patient service revenue	\$ 192,993,687	\$ 175,425,994
Contract service revenue	15,406,991	15,174,048
Investment income, net	19,466,418	31,558,178
Net assets released from restrictions for operations	313,753	458,087
Other	12,312,508	9,622,016
	<u>240,493,357</u>	<u>232,238,323</u>
Expenses:		
Salaries, wages and benefits	152,949,998	140,083,021
Supplies	6,415,453	5,744,446
Depreciation and amortization	10,649,560	9,842,488
Leases and rentals	4,217,285	3,852,164
Interest	8,308,863	9,287,541
Professional fees	2,252,549	2,195,042
Insurance	2,004,196	1,870,728
Purchased services	22,670,579	20,066,624
Other	16,274,849	19,782,014
	<u>225,743,332</u>	<u>212,724,068</u>
Total expenses	<u>225,743,332</u>	<u>212,724,068</u>
Operating income	<u>14,750,025</u>	<u>19,514,255</u>
Other (losses) gains:		
Community programs and other support	(555,308)	(306,321)
Change in fair value of ineffective interest rate swaps	(98,341)	(1,645,288)
Net unrealized (losses) gains on investments	(44,835,002)	22,904,545
Loss on refunding of long-term debt	-	(2,290,119)
Other gains (losses)	48,412	(2,757)
	<u>(45,440,239)</u>	<u>18,660,060</u>
Total other (losses) gains, net	<u>(45,440,239)</u>	<u>18,660,060</u>
(Deficit) excess of revenues over expenses	(30,690,214)	38,174,315
Net (income) loss attributable to noncontrolling interest	<u>(252,258)</u>	<u>7,110</u>
(Deficit) excess of revenues over expenses, attributable to Brooks Rehabilitation	<u>\$ (30,942,472)</u>	<u>\$ 38,181,425</u>

See accompanying notes.

**Genesis Health, Inc. and Affiliates d/b/a Brooks Rehabilitation**  
**Consolidated Statements of Changes in Net Assets**  
**For the Years Ended December 31, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
<b>Net assets without donor restrictions:</b>		
(Deficit) excess of revenues over expenses	\$ (30,942,472)	\$ 38,181,425
Net assets released from restrictions for purchase of property and equipment	7,340	59,656
Change in fair value of effective interest rate swaps	<u>946,620</u>	<u>749,679</u>
(Decrease) increase in net assets without donor restrictions	<u>(29,988,512)</u>	<u>38,990,760</u>
<b>Net assets with donor restrictions:</b>		
Net assets released from restrictions	(321,093)	(517,743)
Contributions	<u>421,931</u>	<u>773,638</u>
Increase in net assets with donor restrictions	<u>100,838</u>	<u>255,895</u>
<b>Noncontrolling interest:</b>		
Change in noncontrolling interest	<u>297,563</u>	<u>135,018</u>
(Decrease) increase in net assets	<u>(29,590,111)</u>	<u>39,381,673</u>
Net assets, beginning of year	<u>275,903,055</u>	<u>236,521,382</u>
Net assets, end of year	<u>\$ 246,312,944</u>	<u>\$ 275,903,055</u>

See accompanying notes.

**Genesis Health, Inc. and Affiliates d/b/a Brooks Rehabilitation**  
**Consolidated Statements of Cash Flows**  
**For the Years Ended December 31, 2018 and 2017**

	<u>2018</u>	<u>As Adjusted 2017</u>
Cash flows from operating activities:		
(Decrease) increase in net assets	\$ (29,590,111)	\$ 39,381,673
Adjustments to reconcile (decrease) increase in net assets to net cash provided (used) by operating activities:		
Restricted contributions	(421,931)	(773,638)
Net unrealized losses (gains) on investments	44,835,002	(22,904,545)
Net realized gains on investments	(12,314,298)	(26,427,421)
Depreciation and amortization	10,649,560	9,842,488
Amortization of bond discounts, premiums, and debt issuance costs	(582,970)	122,945
Loss on disposal of property and equipment	22,028	65,786
Change in fair value of effective interest rate swaps	(946,620)	(749,679)
Change in fair value of ineffective interest rate swaps	98,341	1,645,288
Loss on write-off of trade name	-	2,977,000
Loss on refunding of long-term debt	-	2,290,119
Changes in operating assets and liabilities:		
Patient receivables, net	1,300,090	(3,723,309)
Estimated third-party payor settlements	(988,942)	(514,008)
Other current assets	601,594	(1,289,682)
Other assets, net	269,901	(238,788)
Accounts payable and accrued expenses	2,296,811	(1,499,814)
Pledges payable	(937,889)	(666,667)
Other liabilities	1,576,929	(2,114,204)
Net cash provided (used) by operating activities	<u>15,867,495</u>	<u>(4,576,456)</u>
Cash flows from investing activities:		
Purchase of outpatient facilities	(1,058,147)	-
Additions to property and equipment	(8,526,438)	(17,114,421)
Additions to land held for development	-	(942,351)
(Increase) decrease of equity in Halifax	(95,105)	244,374
Sales of investments and assets limited as to use	167,114,133	246,161,168
Purchases of investments	(161,333,263)	(214,291,901)
Net cash (used) provided by investing activities	<u>\$ (3,898,820)</u>	<u>\$ 14,056,869</u>

**(Continued)**

**Genesis Health, Inc. and Affiliates d/b/a Brooks Rehabilitation**  
**Consolidated Statements of Cash Flows**  
**For the Years Ended December 31, 2018 and 2017**

**(Continued)**

	<u>2018</u>	<u>2017</u>
Cash flows from financing activities:		
<b>Issuance of long-term debt, including premium</b>	\$ -	\$ <b>82,254,940</b>
Repayment of long-term debt	(3,922,407)	(91,432,176)
Payment of debt issuance costs	-	(787,957)
Restricted contributions	<u>421,931</u>	<u>773,638</u>
Net cash used by financing activities	<u>(3,500,476)</u>	<u>(9,191,555)</u>
Net increase in cash and cash equivalents	<b>8,468,199</b>	288,858
Cash and cash equivalents beginning of the year	<u>5,044,423</u>	<u>4,755,565</u>
Cash and cash equivalents end of the year	<u><u>\$ 13,512,622</u></u>	<u><u>\$ 5,044,423</u></u>
<u>Supplemental Cash Flow Information</u>		
Cash paid for interest during the year	<u><u>\$ 9,532,101</u></u>	<u><u>\$ 10,146,032</u></u>
Accrued property and equipment	<u><u>\$ -</u></u>	<u><u>\$ 354,061</u></u>

See accompanying notes.

## **Notes to Consolidated Financial Statements**

### **1. Organization and Significant Accounting Policies**

#### ***Organization and basis of presentation***

The accompanying consolidated financial statements of Genesis Health, Inc. d/b/a Brooks Rehabilitation (BHS) and its affiliates (together as "Brooks") includes the following not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code:

- Genesis Rehabilitation Hospital, Inc. d/b/a Brooks Rehabilitation Hospital (BRH)
- The Genesis Health Foundation, Inc. d/b/a Brooks Health Foundation (the Foundation)
- Genesis Health Development, Inc. d/b/a Brooks Health Development (BHD)
- Brooks Home Health d/b/a Brooks AmeriCare Home Health (BAHH)
- Brooks Skilled Nursing, Inc. (BSN)
- Brooks Skilled Nursing Facility A, Inc. (BSNFA)
- Brooks Skilled Nursing Facility A Holdings, Inc. (BSNFAH)
- Brooks Skilled Nursing Facility B, Inc. (BSNFB), dissolved in June 2017
- Brooks Skilled Nursing Facility B Holdings, Inc. (BSNFBH)
- Brooks Rehabilitation Clinical Research Center, Inc. (BRCRC)
- Physical Medicine Specialists, Inc. d/b/a Brooks Rehabilitation Medical Group (BRMG)

BHS is the sole member of BRH, the Foundation, BSN, BHD, BAHH, and BRCRC. Brooks operates a rehabilitation hospital located in Jacksonville, Florida, along with hospital-based outpatient centers. Brooks also operates regional outpatient centers located throughout Florida, a home health agency, a skilled nursing unit, two skilled nursing facilities, assisted living facility, memory care, physician practice, and research center.

The accompanying consolidated financial statements of Brooks also include the operations of GH Holdings, Inc. d/b/a BH Holdings, Inc. (Holdings), a taxable entity. Included in Holdings are the following wholly-owned taxable entities:

- GH Management, Inc. d/b/a BH Management (BHM)
- GH Medical Services, Inc. d/b/a BH Medical Services (BMD)
- St. Augustine MOB, Ltd. (MOB)

BHD maintains a 50% interest equity in HB Rehabilitative Services, Inc. (HBRS). HBRS is organized to manage and operate a 40-bed rehabilitation unit in an unrelated acute care hospital in Daytona Beach, Florida. In October 2017, HBRS began operations of an outpatient pediatric facility in Daytona Beach, Florida. BHD accounts for its investment in HBRS using the equity method. In October 2016, BHD entered into a membership agreement with East Volusia Health Services, Inc. to form HB Outpatient Rehabilitative Services, Inc. (HBORS). BHD maintains 50% ownership in HBORS. HBORS is organized to create and develop outpatient rehabilitation facilities in the Florida counties of Flagler and Volusia. BHD accounts for its investment in HBORS using the consolidation method.

All significant intercompany transactions among the entities have been eliminated from the consolidated financial statements. For consolidating purposes, the Foundation and Holdings are included within BHS.

## **Genesis Health, Inc. And Affiliates d/b/a Brooks Rehabilitation**

### **Notes to Consolidated Financial Statements**

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These consolidated financial statements, which are presented on the accrual basis of accounting, have been prepared to show Brooks as a whole, and to present balances and transactions according to the existence or absence of donor-imposed restrictions. This has been accomplished by classification of fund balances and transactions into two classes of net assets – with donor restrictions and without donor restrictions as follows:

- *With donor restrictions* - Net assets subject to donor-imposed stipulations that may or will be met by actions of Brooks and/or the passage of time, and net assets that will be maintained permanently by Brooks. There were no permanently maintained restricted net assets as of December 31, 2018 or 2017.
- *Without donor restrictions* - Net assets which represent resources generated from operations, unrestricted donations, lapse of temporary restrictions, and are not subject to donor-imposed stipulations.

#### ***Use of estimates***

The preparation of these consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities as of the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and assumptions.

#### ***Cash and cash equivalents***

Brooks considers cash, treasury bills, certificates of deposit, and other short-term investments with an original maturity of three months or less when purchased to be cash equivalents.

#### ***Investments***

All investments in debt and marketable equity securities with readily determinable fair values are measured at fair value in the accompanying consolidated balance sheets. Investments in securities without readily determinable fair values are measured based on net asset value per share (NAV) as a practical expedient for fair value. Investment income or loss (including unrealized and realized gains and losses on investments, interest, and dividends) is included in the (deficit) excess of revenues over expenses for trading securities unless the income or loss is restricted by donor or law.

#### ***Assets limited as to use***

Assets limited as to use include assets held by trustees under indenture agreements and board restricted funds for self-insurance trust arrangements. Assets limited as to use consist of cash and cash equivalents and fixed income mutual funds which are classified as trading securities and stated at fair value.

#### ***Charitable gift annuity***

During 1991, the Foundation entered into a gift annuity program known as a Section 170 plan. The Foundation charitable gift annuity program stopped receiving additional gifts during 2010. The gift annuity program is a general obligation of the Foundation. The annuities are not issued by an insurance company, are subject only to limited regulation by the State of Florida, and are not protected or otherwise guaranteed by any government agency. The Foundation is contractually obligated to make annuity payments to its gift annuitants regardless of investment performance or current market conditions. The liabilities are discounted using the expected rate of return of the related investments which amounted to approximately 6% for the years ended December 31, 2018 and 2017. The estimated liability for these gift annuities, which are reflected in other non-current liabilities, amounted to approximately \$2,234,000 and \$2,215,000 as of December 31, 2018 and 2017, respectively.

**Genesis Health, Inc. And Affiliates d/b/a Brooks Rehabilitation**  
**Notes to Consolidated Financial Statements**

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***Contributions and pledges***

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is executed. Conditional promises to give and indications of intentions to give are reported at fair value at the date the condition is met and the gift is executed.

***Property and equipment***

Property and equipment have been recorded at historical cost at the date of acquisition or fair market value at the date of donation. Brooks capitalizes assets with a minimum cost or fair value of \$500 and a minimum useful life of two years. Assets are depreciated using the straight-line method over their estimated useful lives. Major asset classifications and useful lives are consistent with those recommended by the American Hospital Association as follows:

Land improvements	5 – 10 years
Buildings and improvements	20 – 40 years
Equipment	3 – 15 years

Losses and gains on disposal of property and equipment are recorded in other operating expenses on the consolidated statements of operations in the year of disposal.

***Capitalized interest***

Interest costs incurred on borrowed funds during the period(s) of capital asset construction are capitalized as a component of the cost of acquisition and were approximately \$40,000 and \$430,000 for the years ended December 31, 2018 and 2017, respectively.

***Debt issuance costs***

Debt issuance costs are amortized over the term of the related debt using the effective interest method. Amortization of debt issuance costs is included in interest expense on the consolidated statements of operations for the years ended December 31, 2018 and 2017.

Unamortized debt issuance costs of approximately \$1,889,000 and \$2,033,000 are included as a reduction of the related debt on the consolidated balance sheets at December 31, 2018 and 2017, respectively.

***Bond discount and premium***

Bond discount and premium are amortized over the term of the related debt using the effective interest method. Amortization of the bond discount and premium are included in interest expense on the consolidated statements of operations for the years ended December 31, 2018 and 2017.

Unamortized bond discounts of approximately \$1,101,000 and \$1,163,000 at December 31, 2018 and 2017, respectively, are recorded as a reduction of the related debt, and the premium of approximately \$10,087,000 and \$10,876,000 at December 31, 2018 and 2017, respectively, is recorded as an increase of the related debt on the consolidated balance sheets.

***Intangible assets***

Intangible assets primarily represent the estimated fair value of the certificate of need licensures and non-compete agreements acquired directly or through Brooks' acquisitions. Brooks amortizes the cost of intangible assets with finite useful lives over their respective estimated useful lives. Brooks amortizes the certificate of need licenses that are in service over a period of approximately 40 years once placed in service. Non-compete agreements are amortized over the life of the agreement. The value of these intangible assets were approximately \$8,857,000 and \$9,125,000 at December 31, 2018 and 2017, respectively.

## **Genesis Health, Inc. And Affiliates d/b/a Brooks Rehabilitation**

### **Notes to Consolidated Financial Statements**

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Intangible assets are tested annually for impairment, or when a possible impairment is indicated. There was no impairment charge for the year ended December 31, 2018. At the end of 2017, Brooks elected to discontinue the use of a trademark acquired in 2015 with the purchase of a home health agency. The impairment loss of \$2,977,000 is included in the accompanying consolidated statement of operations within other operating expenses.

#### ***Goodwill***

Goodwill is the excess of Brooks' purchase price over the fair value of the net assets of acquired businesses. In accordance with authoritative bodies, Brooks no longer amortizes goodwill as of January 1, 2010. Goodwill is subject to at least an annual assessment for impairment by applying a fair-value based test. Brooks compares the fair value of each reporting unit with its carrying amount to determine if there is a potential impairment of goodwill. If the fair value of the reporting unit is less than its carrying value, an impairment loss would be recorded to the extent that the fair value of the goodwill within the reporting unit is less than its carrying value.

There is no impairment charge for goodwill for the years ended December 31, 2018 and 2017.

#### ***Derivative financial instruments***

Brooks has entered into interest rate swap agreements as part of its interest rate risk management strategy. These agreements are accounted for under the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Section 815, *Derivatives and Hedging*. FASB ASC 815 establishes accounting and reporting standards requiring that derivative instruments be recorded at fair value as either an asset or liability.

For derivative instruments that are designed and qualify as a cash flow hedge (i.e., hedging the exposure of variability in expected future cash flows that is attributable to a particular risk), the effective portion of the gain or loss on the derivative instrument is reported as a component of net assets without donor restrictions. The ineffective component, if any, is recorded in (deficit) excess of revenues over expenses in the period in which the hedge transaction affects earnings. If the hedging relationship ceases to be highly effective or it becomes probable that an expected transaction will no longer occur, gains or losses on the derivative are recorded in (deficit) excess of revenues over expenses. For derivative instruments not designated as hedging instruments, the unrealized gain or loss is recognized in other gains (losses) during the period of change.

Brooks is exposed to credit loss in the event of nonperformance by the counterparty in relation to its interest rate swap agreements. Management believes that the counterparty will be able to fully satisfy its obligations under the agreement. Credit exposure exists in relation to all of Brooks' financial instruments, and is not unique to derivatives.

#### ***Income taxes***

Brooks is comprised of not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code (IRC) and is exempt from federal income taxes on related income pursuant to Section 501(a) of the IRC. Holdings is a for-profit holding corporation which is the parent company for Brooks' for-profit businesses. As Holdings has accumulated federal net operating loss carryforwards (NOLs) of approximately \$11,428,000 for federal income taxes and \$24,242,000 for Florida state income taxes, no amounts have been reflected as tax liabilities on the accompanying consolidated balance sheet as of December 31, 2018. Due to uncertainties as to future utilization of these NOLs, no amounts have been recorded as a deferred tax asset. Brooks has determined that it does not have any material unrecognized tax benefits or obligations as of December 31, 2018.

#### ***Estimated self-insurance liabilities***

Brooks is self-insured and retains a portion of the risk for certain employee health insurance claims, workers' compensation claims, and professional liability claims. The provision for estimated employee health insurance claims, workers' compensation and professional liability claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported. The estimated self-insurance liabilities, included in other liabilities and accounts payable and accrued expenses on the consolidated balance sheets, include the estimate of the self-insured portion on employee health insurance, workers' compensation and professional liability claims. Brooks also maintains an incurred but not reported reserve for each self-insurance category.

**Genesis Health, Inc. And Affiliates d/b/a Brooks Rehabilitation**  
**Notes to Consolidated Financial Statements**

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***Compensated absences***

Brooks accrues for compensated absences according to the authoritative bodies, which dictate a liability exists for an employee's compensation of future absences if all of the following conditions are met: a) an obligation exists for services rendered; b) the obligation relates to rights that vest or accumulate; c) payment is probable, and d) the amount can be reasonably estimated. For the years ended December 31, 2018 and 2017, Brooks has accrued approximately \$3,503,000 and \$3,132,000, respectively, related to compensated absences, which is classified as accounts payable and accrued expenses on the consolidated balance sheets.

***Impairment of long-lived assets***

Management regularly evaluates whether events or changes in circumstances have occurred that could indicate impairment in the value of long-lived assets. In accordance with authoritative bodies, if there is an indication that the carrying amount of an asset is not recoverable, Brooks estimates the projected undiscounted cash flows from the use and eventual disposition of the asset to determine if an impairment loss should be recognized. The amount of impairment loss, if any, is determined by comparing the historical carrying value of the asset to its estimated fair value.

In addition to consideration of impairment upon the events or changes in circumstances described above, management regularly evaluates the remaining estimated useful lives of its long-lived assets. If estimates are revised, the carrying value of affected assets is depreciated or amortized over the remaining estimated useful lives. There are no impairments or changes in estimated useful lives for the years ended December 31, 2018 and 2017.

***Other investments***

Profits and losses on other equity investments have been recorded using the consolidation method for investments in which Brooks has an ownership interest of more than 50% or exercises control. The equity method is used for investments in which Brooks has a 20% or greater ownership and does not control the organization. The cost method is used for all investments not measured at fair value in which Brooks has an ownership interest of less than 20%.

***Net patient service revenue and patient receivables, net***

Brooks has agreements with third-party payors that provide for payments at amounts different than established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is recognized when obligations under the terms of the contract are satisfied; generally, this occurs as Brooks provides healthcare services, as each service provided is distinct and future services rendered are not dependent on previously rendered services. Net patient service revenue is recognized at an amount equal to the consideration Brooks expects to receive in exchange for providing healthcare services to its patients. The performance obligation is determined based on the type of healthcare service provided. These amounts are due from patients; third-party payors, including health insurers and government programs and other payors. Retroactive adjustments are estimated and accrued in the period the related services are rendered and adjusted in future periods as final settlements are determined. 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 length of a performance obligation is from admission or onset of care plan to the time when a patient no longer receives services from Brooks, generally the discharge date or end of care plan. If a performance obligation is satisfied at a point in time, Brooks recognizes the revenue when the service is provided.

Because all of its performance obligations relate to contracts with a duration of less than one year, Brooks has elected to apply the optional exemption provided in FASB ASC 606-10-15-14(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 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.

## **Genesis Health, Inc. And Affiliates d/b/a Brooks Rehabilitation**

### **Notes to Consolidated Financial Statements**

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The estimate for doubtful accounts is provided in an amount equal to the estimated losses to be incurred in collection of the receivables and is based on historical collection experiences and a review of the current status of the existing receivables.

As part of the adoption of ASC 606, Brooks elected certain available practical expedients under the standard. First, Brooks elected the practical expedient that allows nonrecognition of the promised amount of consideration from patients and third-party payors for the effects of a significant financing component due to Brooks' 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, Brooks 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 to be significant to the contract. Additionally, Brooks has applied the practical expedient whereby all incremental customer contract acquisition costs are expensed as they are incurred, as the amortization period of the asset that Brooks otherwise would have recognized is one year or less in duration.

#### ***Contract service revenue***

Contract service revenue is reported at the estimated net realizable amounts due from hospitals and health systems for contract management and rehabilitative services.

#### ***Charity care***

Brooks provides care to patients who meet certain criteria under its charity care policy without charge. Such patients are identified based on financial information obtained from the patient and subsequent analysis. Because Brooks does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient service revenue.

#### ***(Deficit) excess of revenues over expenses***

The consolidated statements of operations include (deficit) excess of revenues over expenses as Brooks' performance indicator. As is consistent with industry practice, changes in net assets without donor restrictions, including the fair value change of effective interest rate swaps, change in noncontrolling interest, and contributions of long-lived assets are excluded from (deficit) excess of revenues over expenses.

Brooks' consolidated statements of operations distinguish between operating and nonoperating revenues, gains, other support and expenses. Operating revenues, gains, other support and expenses include transactions deemed by management to be ongoing, major, or central to the provision of healthcare services. Net unrealized investment (losses) gains, change in fair value of ineffective interest rate swaps and certain peripheral or incidental transactions are reported as nonoperating activities.

#### ***Concentrations of credit risk***

Brooks maintains its cash and cash equivalents with several large financial institutions. All accounts at each financial institution are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per financial institution. Brooks has cash deposits which exceed the federally insured deposited amount. Management does not anticipate nonperformance by any of the financial institutions.

#### ***New accounting standards***

In May 2014, the FASB issued Accounting Standards Update (ASU) 2014-09, "Revenue from Contracts with Customers" and has subsequently issued supplemental and/or clarifying ASUs (collectively "ASC 606"). ASC 606 outlines a five-step framework that supersedes the principles for recognizing revenue and eliminates industry-specific guidance. In addition, ASC 606 revises current disclosure requirements in an effort to help financial statement users better understand the nature, amount, timing, and uncertainty of revenue that is recognized. Brooks adopted ASC 606 on January 1, 2018 using the full retrospective model. The primary impact of adopting under ASC 606 is that all amounts we previously presented as bad debts are now considered an implicit price concession in determining net patient service revenue. Such concessions reduce the transaction price and therefore net patient

**Genesis Health, Inc. And Affiliates d/b/a Brooks Rehabilitation**  
**Notes to Consolidated Financial Statements**

service revenue. Adopting ASC 606 on January 1, 2018 using the full retrospective transition method had the following impact to the previously reported consolidated statements of operations:

	For the Year Ended December 31, 2017		
	As Reported	Adjustment for ASC 606	As Adjusted
Net patient service revenue	\$ 176,396,592	\$ (970,598)	\$ 175,425,994
Bad debts, net of recoveries	\$ 970,598	\$ (970,598)	\$ -

During fiscal year 2018, Brooks adopted ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The Update addresses the complexity and understandability of net asset classification, deficiencies in information provided about expenses and investment return. The 2017 consolidated financial statements have been adjusted to reflect retrospective application of the new accounting guidance, except for the disclosures around liquidity and availability of resources and analysis of expenses by functional and natural categories. These disclosures have been presented for 2018 as allowed by ASU 2016-14.

A recap of the net asset reclassifications driven by the adoption of ASU 2016-14 as of December 31, 2017 is as follows:

<u>Net Asset Classifications</u>	<u>ASU 2016-14 Classification:</u>		
	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total net assets</u>
As previously presented:			
Unrestricted	\$ 273,335,185	\$ -	\$ 273,335,185
Temporarily restricted	-	2,283,239	2,283,239
Net assets as previously presented	<u>\$ 273,335,185</u>	<u>\$ 2,283,239</u>	<u>\$ 275,618,424</u>

**2. Fair Value Measurements**

Fair value is defined as the “exit price”, the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability.

As a basis for considering assumptions, authoritative guidance establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

- Level 1 includes observable inputs which are inputs that market participants would use in valuing the asset or liability and are developed based on market data obtained from sources independent of Brooks, in an active market with sufficient volume and frequency of transactions.
- Level 2 includes inputs other than quoted prices included within Level 1 that are observable for the instruments such as quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets with insufficient volume or infrequent transactions (less active markets) or model-driven valuations in which significant inputs are observable or can be derived principally from, or corroborated by, observable market data, including market interest rate curves, referenced credit spreads and pre-payment rates.

## Genesis Health, Inc. And Affiliates d/b/a Brooks Rehabilitation

### Notes to Consolidated Financial Statements

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- Level 3 includes financial instruments derived from unobservable inputs for which there is little or no market data, which require Brooks to develop its own assumptions and use valuation techniques including pricing models and discounted cash flow models in which one or more significant inputs are unobservable, including Brooks' own assumptions.

The guidance for measuring assets and liabilities at fair value is based on one or more of three valuation techniques. The three valuation techniques are as follows:

- The market approach generates prices and other relevant information by market transactions involving identical or comparable assets or liabilities;
- The cost approach takes the amount that would be required to replace the service capacity of an asset (i.e., replacement cost); and
- The income approach uses techniques to convert future amounts to a single present amount based on market expectations (including present value techniques, option-pricing models, and lattice models).

On a recurring basis, Brooks is required to measure trading securities at fair value. The fair values of trading securities are determined based on quoted market prices in active markets and based upon the marketability of those assets or model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data. Each series of cash flows is discounted by market rates of interest.

Brooks invests in certain investments for which quoted prices are not available in active markets for identical instruments. When available, Brooks utilizes the NAV provided by the administrator of the fund as a practical expedient to estimate fair value. This practical expedient would not be used if it were determined to be probable that the fund will sell the investment for an amount different from the reported NAV. These investments are not required to be classified within a level on the fair value hierarchy.

There were no changes during the years ended December 31, 2018 and 2017 to Brooks' valuation techniques used to measure asset and liability fair values on a recurring and nonrecurring basis.

Interest rate swaps are valued using both observable and unobservable inputs, such as quotations received from the counterparty, dealers or brokers, whenever available and considered reliable. In instances where models are used, the value of the interest rate swap depends upon the contractual terms of, and specific risks inherent in, the instrument as well as the availability and reliability of observable inputs. Such inputs include market prices for reference securities, yield curves, credit curves, measures of volatility, prepayment rates, assumptions for nonperformance risk and correlations of such inputs. The interest rate swaps have inputs which can generally be corroborated by market data and are therefore classified within Level 2.

Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Brooks' assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels.

**Genesis Health, Inc. And Affiliates d/b/a Brooks Rehabilitation**  
**Notes to Consolidated Financial Statements**

The fair values of financial assets and liabilities that are measured at fair value on a recurring basis at December 31 are as follows:

	<b>Fair value at December 31, 2018</b>	<b>Fair Value Measurements at December 31, 2018 using:</b>		
		<b>Level 1 inputs</b>	<b>Level 2 inputs</b>	<b>Level 3 inputs</b>
Assets measured at fair value:				
Cash and cash equivalents	\$ 13,512,622	\$ 13,512,622	\$ -	\$ -
Investments and assets limited as to use	<u>255,131,248</u>	<u>255,131,248</u>	<u>-</u>	<u>-</u>
Total assets in the fair value hierarchy	\$ 268,643,870	<u>\$ 268,643,870</u>	<u>\$ -</u>	<u>\$ -</u>
Investments at NAV (a)	<u>35,011,154</u>			
Total investments and cash and cash equivalents at fair value	<u>\$ 303,655,024</u>			
Liabilities measured at fair value:				
Interest rate swaps	\$ <u>192,158</u>	\$ <u>-</u>	\$ <u>192,158</u>	\$ <u>-</u>

	<b>Fair value at December 31, 2017</b>	<b>Fair Value Measurements at December 31, 2017 using:</b>		
		<b>Level 1 inputs</b>	<b>Level 2 inputs</b>	<b>Level 3 inputs</b>
Assets measured at fair value:				
Cash and cash equivalents	\$ 5,044,423	\$ 5,044,423	\$ -	\$ -
Investments and assets limited as to use	<u>244,952,581</u>	<u>244,952,581</u>	<u>-</u>	<u>-</u>
Total assets in the fair value hierarchy	\$ 249,997,004	<u>\$ 249,997,004</u>	<u>\$ -</u>	<u>\$ -</u>
Investments at NAV (a)	<u>83,491,395</u>			
Total investments and cash and cash equivalents at fair value	<u>\$ 333,488,399</u>			
Liabilities measured at fair value:				
Interest rate swaps	\$ <u>1,040,434</u>	\$ <u>-</u>	\$ <u>1,040,434</u>	\$ <u>-</u>

- (a) In accordance with Topic 820, certain investments that were measured at NAV per share (or its equivalent) have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented on the consolidated balance sheets. Further information on investments measured at NAV is summarized below:

**Genesis Health, Inc. And Affiliates d/b/a Brooks Rehabilitation**  
**Notes to Consolidated Financial Statements**

	<u>Fair Value at 12/31/2018</u>	<u>Fair Value at 12/31/2017</u>	<u>Unfunded Commitments</u>	<u>Other Redemption Restrictions</u>	<u>Redemption Notice Period</u>
Focus Asian Equity Fund	\$ 5,853,670	\$ 4,441,007	None	Monthly	Thirty business days
International Value Equity Fund	\$20,009,938	\$23,455,760	None	Monthly	Ten business days
Small Cap Equity Fund	\$ -	\$20,116,015	None	Monthly	On or before the fifteenth day of the prior month
Global Absolute Return Fund	\$ -	\$30,905,194	None	Monthly	Five business days
Global Emerging Markets Fund	\$ 9,147,546	\$ 4,573,419	None	Daily	None

Brooks recognizes transfers between the levels as of the beginning of the reporting period. There were no gross transfers between the levels for the years ended December 31, 2018 and 2017.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future values. Furthermore, although Brooks believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

**3. Investments and Assets Limited as to Use**

Investments consist of marketable securities held for operating and investment purposes. Investments consist of the following as of December 31:

	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	\$ 609,851	\$ 2,095,005
Marketable equity securities	18,323,226	37,393,196
Mutual funds – fixed income securities	43,440,544	5,851,080
Mutual funds – equity securities	181,298,475	182,662,483
Funds of funds	<u>35,011,154</u>	<u>83,491,395</u>
	<u>\$ 278,683,250</u>	<u>\$ 311,493,159</u>

Investment income on cash and cash equivalents, investments, and assets limited as to use is comprised of the following for the years ended December 31:

	<u>2018</u>	<u>2017</u>
Interest and dividend income	\$ 7,152,120	\$ 5,130,757
Net realized gains	<u>12,314,298</u>	<u>26,427,421</u>
Investment income, net	<u>\$ 19,466,418</u>	<u>\$ 31,558,178</u>
Net unrealized (losses) gains on investments included as a component of (deficit) excess of revenues over expenses	<u>\$ (44,835,002)</u>	<u>\$ 22,904,545</u>

**Genesis Health, Inc. And Affiliates d/b/a Brooks Rehabilitation**  
**Notes to Consolidated Financial Statements**

Assets limited as to use are held in the following asset classes and consist of the following as of December 31:

<u>Asset Class</u>	<u>Comprised of</u>	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	Assets held by Bond Trustee	\$ 9,501,089	\$ 14,762,228
Mutual funds – fixed income securities	Board designated for self-insurance funds	<u>1,958,063</u>	<u>2,188,589</u>
		<u>\$ 11,459,152</u>	<u>\$ 16,950,817</u>

**4. Net Patient Service Revenue**

Brooks has agreements with third-party payors that provide for reimbursement at amounts different from its established rates. Brooks is reimbursed for inpatient services under the Medicare Prospective Payment System methodology based on diagnosis related case mix groups. Inpatient, outpatient, and skilled nursing services provided to Medicaid program beneficiaries by Brooks are reimbursed based upon a cost reimbursement methodology. Under the cost reimbursement methodology, Brooks is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by Brooks and audits by the Medicare and Medicaid fiscal intermediary. Outpatient services rendered to Medicare program beneficiaries, BHD Medicaid beneficiaries and physician services are reimbursed according to prospectively determined fee schedules. The Medicare and Medicaid combined utilization rate for years December 31, 2018 and 2017 was approximately 51% and 53%, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates associated with these programs will change by a material amount in the near term.

Brooks' Medicare cost reports for all years through 2017 have been filed. The Medicare cost reports for all years through 2015 have been examined and final settlements have been determined by the governmental agency intermediary. Brooks' Rehabilitation Medicaid cost reports for all years through 2017 have been filed. The cost reports for all years through 2016 have been examined and final settlements have been determined by the governmental agency intermediary. There were no other significant adjustments recorded as a change in net patient service revenue related to third-party settlements for prior years in 2018 or 2017.

Brooks has also entered into reimbursement agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The bases for reimbursement under these agreements include prospectively determined rates-per-discharge, discounts from established charges, prospectively determined per-diem rates and fee schedules. Brooks is reimbursed by these payors using a variety of payment methodologies and the amounts received are generally less than the standard billing rates. Brooks' estimate of the transaction price includes estimates of explicit and implicit price concessions for such items as contractual allowances, potential adjustments that may arise from payment and other reviews and uncollectible amounts. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense. Bad debt expense for the years ended December 31, 2018 and 2017 was not significant.

Our accounting systems calculate contractual allowances on a patient-by-patient basis based on the rates in effect for each primary third-party payor. Adjustments related to payment reviews by third-party payors or their agents are based on our historical experience and success rates in the claims adjudication process. Estimates for uncollectible amounts are based on the aging of our accounts receivable, our historical collection experience for each type of payor, and other relevant factors.

Management continually reviews the revenue transaction price estimation process to consider and incorporate updates to laws and regulations and the frequent changes in managed care contractual terms that result from contract renegotiations and renewals.

**Genesis Health, Inc. And Affiliates d/b/a Brooks Rehabilitation**  
**Notes to Consolidated Financial Statements**

BRH, BHD and BSN revenues are recognized over time as the services are provided to the patient. The performance obligation is the rendering of services to the patient during the term of their inpatient stay. Revenues are recognized (or measured) using the input method as therapy, nursing, and auxiliary services are provided based on our estimate of the respective transaction price. Revenues recognized by Brooks are subject to a number of elements which impact both the overall amount of revenue realized as well as the timing of the collection of the related accounts receivable. Factors considered in determining the estimated transaction price include the patient's total length of stay for in-house patients, each patient's discharge destination, the proportion of patients with secondary insurance coverage and the level of reimbursement under that secondary coverage, and the amount of charges that will be disallowed by payors. Such additional factors are assumed to remain consistent with the experience for patients discharged in similar time periods for the same payor classes.

Under the Medicare home health prospective payment system, BAHH is paid by Medicare based on episodes of care. The performance obligation is the rendering of services to the patient during the term of the episode of care. An episode of care is defined as a length of stay up to 60 days, with multiple continuous episodes allowed. A base episode payment is established by the Medicare program through federal regulation. The base episode payment can be adjusted based on each patient's health including clinical condition, functional abilities, and service needs, as well as for the applicable geographic wage index, low utilization, patient transfers, and other factors. The services covered by the episode payment include all disciplines of care in addition to medical supplies.

The components of net patient service revenue for the years ended December 31 are as follows:

	<b>Year Ended December 31, 2018</b>				
	<b>Brooks Rehabilitation Hospital</b>	<b>Brooks Health Development</b>	<b>Brooks Skilled Nursing</b>	<b>Brooks Home Health</b>	<b>Consolidated</b>
Medicare	\$ 41,047,487	\$ 7,547,744	\$ 21,087,342	\$ 24,245,248	\$ 93,927,821
Medicare Advantage	10,127,301	2,128,034	-	-	12,255,335
Managed care	35,747,085	4,707,339	7,740,141	7,782,421	55,976,986
Medicaid	12,768,514	(23,959)	3,053,664	-	15,798,219
Workers' compensation	7,843,234	639,333	-	-	8,482,567
Other	2,854,934	(896,395)	4,206,604	387,616	6,552,759
Total net patient service revenue	<u>\$ 110,388,555</u>	<u>\$ 14,102,096</u>	<u>\$ 36,087,751</u>	<u>\$ 32,415,285</u>	<u>\$ 192,993,687</u>

	<b>Year Ended December 31, 2017</b>				
	<b>Brooks Rehabilitation Hospital</b>	<b>Brooks Health Development</b>	<b>Brooks Skilled Nursing</b>	<b>Brooks Home Health</b>	<b>Consolidated</b>
Medicare	\$ 41,574,834	\$ 4,728,468	\$ 18,838,859	\$ 24,442,107	\$ 89,584,268
Medicare Advantage	9,784,007	1,153,378	-	-	10,937,385
Managed care	32,233,733	3,559,831	4,997,982	5,473,230	46,264,776
Medicaid	7,501,889	50,859	2,084,590	-	9,637,338
Workers' compensation	5,753,955	485,937	-	-	6,239,892
Other	5,767,623	1,000,752	5,638,494	355,466	12,762,335
Total net patient service revenue	<u>\$ 102,616,041</u>	<u>\$ 10,979,225</u>	<u>\$ 31,559,925</u>	<u>\$ 30,270,803</u>	<u>\$ 175,425,994</u>

**Genesis Health, Inc. And Affiliates d/b/a Brooks Rehabilitation**  
**Notes to Consolidated Financial Statements**

**5. Property and Equipment**

A summary of property and equipment is as follows at December 31:

	<u>2018</u>	<u>2017</u>
Land and land improvements	\$ 39,677,377	\$ 39,165,577
Buildings and building improvements	130,183,196	126,596,306
Equipment	<u>66,612,667</u>	<u>57,770,168</u>
	236,473,240	223,532,051
Less: Accumulated depreciation	<u>(103,159,566)</u>	<u>(93,014,048)</u>
	133,313,674	130,518,003
Construction in progress	<u>2,183,018</u>	<u>6,654,919</u>
Property and equipment, net	<u>\$ 135,496,692</u>	<u>\$ 137,172,922</u>

Depreciation expense for the years ended December 31, 2018 and 2017 was approximately \$10,163,000 and \$9,436,000, respectively.

**6. Land Held for Development**

In November 2015, BHS purchased a parcel of land in Clay County, Florida for future use. The acquisition cost was approximately \$5,225,000 and was financed through lines of credit (Note 8). During 2018 and 2017, additional costs of approximately \$- and \$943,000, respectively, were incurred related to this land parcel.

BHS also holds land for future development in Southern Duval County, Florida, which was purchased in 2005. The recorded value of the undeveloped land as of December 31, 2018 and 2017 is approximately \$16,817,000.

During 2018, there were no triggering events that would require BHS to test these parcels of land for impairment.

The carrying value of land held for development as of December 31, 2018 and 2017 is approximately \$23,089,000.

**7. Intangible Assets**

Intangible assets consist of the following at December 31:

	<u>2018</u>			
	<u>Gross Carrying Value</u>	<u>Accumulated Amortization</u>	<u>Net Carrying Value</u>	<u>Weighted Average Remaining Life (Years)</u>
Licenses – AmeriCare	\$ 1,459,000	\$ (340,412)	\$ 1,118,588	11.6
Non-Compete – AmeriCare	485,000	(323,332)	161,668	1.6
License – University Crossing	4,186,802	(251,399)	3,935,403	37.7
License – Bartram	4,142,598	(770,256)	3,372,342	34.5
Service Agreement – Greenhouse	190,000	(49,875)	140,125	14.8
Non-Compete – World Golf Village	172,000	(86,000)	86,000	1.0
Non-Compete – Callahan	23,256	(1,938)	21,318	2.8
Non-Compete – Fernandina	23,256	(1,938)	21,318	2.8
	<u>\$ 10,681,912</u>	<u>\$ (1,825,150)</u>	<u>\$ 8,856,762</u>	

**Genesis Health, Inc. And Affiliates d/b/a Brooks Rehabilitation**  
**Notes to Consolidated Financial Statements**

	<b>2017</b>			
	<b>Gross Carrying Value</b>	<b>Accumulated Amortization</b>	<b>Net Carrying Value</b>	<b>Weighted Average Remaining Life (Years)</b>
Licenses – AmeriCare	\$ 1,459,000	\$ (243,145)	\$ 1,215,855	12.6
Non-Compete – AmeriCare	485,000	(226,333)	258,667	2.6
License – University Crossing	4,186,802	(158,739)	4,028,063	38.7
License – Bartram	4,142,598	(670,188)	3,472,410	35.5
Service Agreement – Greenhouse	190,000	(40,375)	149,625	15.8
	<u>\$ 10,463,400</u>	<u>\$ (1,338,780)</u>	<u>\$ 9,124,620</u>	

In July 2015, BHS purchased the home care licenses and trade name of AmeriCare, Inc., and acquired non-compete agreements as part of the acquisition. The licenses and non-compete agreements are amortized over the useful lives of 15 years and 5 years, respectively. At the end of 2017, Brooks elected to discontinue the use of the AmeriCare trade name and recorded an impairment loss of \$2,977,000, which is included in the accompanying consolidated statement of operations within other operating expenses for the year ended December 31, 2017.

## **8. Lines of Credit and Long Term Debt**

In October 2012 Brooks issued a \$12,500,000 revolving unsecured line of credit, which expired on October 28, 2013. This revolving line of credit was renewed in November 2013, structured as two loan accounts of \$6,250,000 each, with both scheduled to expire on October 29, 2019.

In October 2012 BMD issued a revolving unsecured line of credit for \$18,000,000, which expired on October 29, 2013. This revolving line of credit was renewed in November 2013, structured as two loan accounts of \$9,000,000 each, with both scheduled to expire on November 5, 2019.

BSNFA entered into a \$1,000,000 revolving unsecured line of credit on July 26, 2011. The line of credit expires on July 23, 2019.

BSNFAH entered into a revolving unsecured \$800,000 line of credit dated May 28, 2010 which has been renewed annually. The line of credit expires on July 23, 2019.

BRH entered into a revolving unsecured \$2,000,000 line of credit dated June 28, 2011 to fund short-term operating needs. The line of credit expires on July 23, 2019.

BHS entered into an unsecured revolving \$10,000,000 line of credit dated July 7, 2014, to finance the purchase of land, land improvements, building, building improvements, equipment, and start-up costs for an outpatient clinic in Clay County, Florida. This line of credit expires on July 23, 2019.

The line of credit agreements do contain financial and non-financial covenants.

**Genesis Health, Inc. And Affiliates d/b/a Brooks Rehabilitation**  
**Notes to Consolidated Financial Statements**

The following is a summary of lines of credit outstanding at December 31:

	<u>2018</u>	<u>2017</u>
Brooks \$6,250,000 line of credit, interest of one month LIBOR rate plus 1.12%. Interest rate on December 31, 2018 and 2017 was 3.42% and 2.48%, respectively.	\$ 6,250,000	\$ 6,250,000
Brooks \$6,250,000 line of credit, interest of one month LIBOR rate plus 1.12%. Interest rate on December 31, 2018 and 2017 was 3.42% and 2.48%, respectively.	6,249,910	6,249,910
BMD \$9,000,000 line of credit, interest of one month LIBOR rate plus 1.12%. Interest rate on December 31, 2018 and 2017 was 3.42% and 2.48%, respectively.	8,666,150	8,666,150
BMD \$9,000,000 line of credit, interest of one month LIBOR rate plus 1.12%. Interest rate on December 31, 2018 and 2017 was 3.42% and 2.48%, respectively.	9,000,000	9,000,000
BSNFA \$1,000,000 line of credit, interest of one month LIBOR rate plus 1.25%. Interest rate on December 31, 2018 and 2017 was 3.57% and 2.80%, respectively.	23,383	23,383
BSNFAH \$800,000 line of credit, interest of one month LIBOR rate plus 1.25%. Interest rate on December 31, 2018 and 2017 was 3.57% and 2.80%, respectively.	385,626	385,626
BRH \$2,000,000 line of credit, interest of one month LIBOR plus 1.25%. Interest rate on December 31, 2018 and 2017 was 3.75% and 2.80%, respectively.	150,000	150,000
BHS \$10,000,000 line of credit, interest of one month LIBOR rate plus 1.00%. Interest rate on December 31, 2018 and 2017 was 3.5% and 2.55%, respectively.	<u>8,479,736</u>	<u>8,479,736</u>
	<u>\$ 39,204,805</u>	<u>\$ 39,204,805</u>

***Long-Term Debt***

In October 2017, Brooks Rehabilitation issued Health Care Facilities Revenue Bonds, Series 2017 (Series 2017 Bonds), in the amount of \$71,230,000. The proceeds of the bonds, and trustee funds on hand, were used to refund the outstanding \$87,885,000 Jacksonville Health Facilities Authority Hospital Revenue Bonds, Series 2007, pay the termination payment for the forward swap agreement related to the Series 2007 Bonds, and pay costs associated with the issuance of the Series 2017 Bonds.

For the Series 2017 Bonds, principal payments are to be made in various amounts through November 2038. Interest rates vary between 4% and 5% based on maturity. The carrying value of the bonds is approximately \$81,037,000 and \$82,106,000 at December 31, 2018 and 2017, respectively, including unamortized premium. The Series 2017 Bonds are collateralized through mortgaged property.

The Jacksonville Health Facilities Revenue Bonds, Series 2015 (Series 2015 Bonds) were issued September 2015 in the amount of \$55,095,000 to (i) refinance the acquisition of certain home healthcare assets, (ii) finance the construction and equipping of a new outpatient rehabilitation clinic in Orange Park, Florida, (iii) finance the construction and equipping of a new inpatient family housing facility at the main campus of BRH, (iv) finance additional costs to complete a skilled nursing facility at the main campus of BRH, (v) finance additional capital expenditures for BRH and its affiliates, (vi) refinance certain debt, and (vii) pay the costs of issuance of the Series 2015 Bonds.

## **Genesis Health, Inc. And Affiliates d/b/a Brooks Rehabilitation**

### **Notes to Consolidated Financial Statements**

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The Series 2015 Bonds consists of \$7,430,000 of Serial Bonds and \$47,665,000 of Term Bonds. The principal payments for the Serial Bonds are due in various amounts through November 2027, with interest rates that vary between 3% and 5%. The Term Bonds are payable in various amounts from November 2034 through November 2040 at an interest rate of 4%. The carrying value of the bonds is approximately \$52,469,000 and \$52,932,000 at December 31, 2018 and 2017, respectively, net of unamortized discount. The Series 2015 bonds are collateralized through mortgaged property.

The Jacksonville Economic Development Commission Health Care Revenue Bond was approved at \$35,000,000. The draw for \$35,000,000 (2013 Private Issue Debt) was in July 2013. The purpose of the draw was to (i) repay two lines of credit that were related to HBRS, and (ii) fund the construction of Brooks University Crossings.

For the 2013 Private Issue Debt, payments of approximately \$177,000 are made monthly. The interest rate was 2.72% and 2.36% for the years ended December 31, 2018 and 2017, respectively. On December 28, 2016, Brooks made an additional \$3,000,000 payment on this loan. The carrying value of the 2013 Private Issue Debt was approximately \$23,988,000 and \$25,520,000 at December 31, 2018 and 2017, respectively. The carrying value is based on the face value. The 2013 Private Issue Debt is collateralized through mortgaged property. The 2013 Private Issue Debt matures in June 2033.

The Jacksonville Economic Development Commission Health Care Revenue Bonds were approved at \$65,000,000 to be disbursed in three separate draws. The first draw was for \$34,100,000 (2010 Private Issue Debt) in August 2010. The purpose of the draw was to (i) finance a portion of the cost of capital improvements, (ii) refinance certain indebtedness of Brooks which financed the acquisition of Brooks Home Care Advantage, Inc. and (iii) pay the costs associated with the issuance of the debt. The capital improvements consisted of (i) building the infrastructure on land held for investment, (ii) improvements at Brooks' existing inpatient rehabilitation hospital and (iii) routine capital improvements to healthcare facilities of Brooks. The remaining draws were issued in May 2011 (2011 Private Issue Debt). The first draw of \$3,300,000 was used to refinance the acquisition by BSNFA and BSNFAH. The remaining \$27,600,000 was drawn down for the construction of post-acute care facilities at Bartram Park.

For the 2011 Private Issue Debt, payments of \$141,929 are made monthly. The interest rate was 2.72% and 3.63% for the years ended December 31, 2018 and 2017, respectively. The carrying value of the 2011 Private Issue Debt was approximately \$26,040,000 and \$26,765,000 at December 31, 2018 and 2017, respectively. The carrying value is based on the face value. The 2011 Private Issue Debt is collateralized through mortgaged property. The 2011 Private Issue Debt matures in June 2026.

For the 2010 Private Issue Debt, payments of \$149,046 are made monthly. The interest rate was 2.72% and 3.24% for the years ended December 31, 2018 and 2017, respectively. The carrying value of the 2010 Private Issue Debt was approximately \$27,643,000 and \$28,504,000 at December 31, 2018 and 2017, respectively. The carrying value is based on the face value. The 2010 Private Issue Debt is collateralized through mortgaged property. The 2010 Private Issue Debt matures in August 2025.

The Jacksonville Health Facilities Authority Hospital Revenue Bonds, Series 2007 (Series 2007 Bonds) were issued in the amount of \$95,000,000 for the purpose of (i) financing a portion of the cost of the capital improvements, (ii) refinancing certain indebtedness of BRH which financed the acquisition of unimproved land for future use, (iii) refunding the Jacksonville Health Facilities Authority Hospital Revenue and Refunding Bonds (Series 1996 Bonds) previously issued to provide financing for the benefit of BRH, (iv) funding a debt service reserve fund in connection with the Series 2007 Bonds, and (v) paying costs associated with the issuance of the Series 2007 Bonds. The capital improvements consisted of (i) improvements at Brooks' existing inpatient rehabilitation hospital, (ii) the acquisition and construction of an administrative support building, and (iii) routine capital improvements to healthcare facilities of Brooks. Land purchased by Brooks is expected to be used by Brooks or its affiliates as the future site for post-acute care and related healthcare facilities.

**Genesis Health, Inc. And Affiliates d/b/a Brooks Rehabilitation**  
**Notes to Consolidated Financial Statements**

The Series 2007 Bonds were refunded in October 2017 with the issuance of Health Care Facilities Revenue Bonds, Series 2017. Brooks recorded a loss on the refunding of approximately \$2,290,000 related to the write off of the unamortized discount and costs of issuance related to the Series 2007 Bonds. The loss is included within other gains (losses) on the accompanying consolidated statement of operations for the year ended December 31, 2017.

The following is a summary of long-term debt at December 31:

	<u>2018</u>	<u>2017</u>
Series 2017 Bonds	\$ 70,950,000	\$ 71,230,000
Series 2015 Bonds	53,570,000	54,095,000
Series 2013 Private Issue Debt	23,988,390	25,519,786
Series 2011 Private Issue Debt	26,039,644	26,764,676
Series 2010 Private Issue Debt	<u>27,643,388</u>	<u>28,504,367</u>
	202,191,422	206,113,829
Add: Net unamortized bond premium	10,086,892	10,875,731
Less: Net unamortized bond discounts	(1,100,989)	(1,162,999)
Less: Net unamortized debt issuance costs	<u>(1,889,263)</u>	<u>(2,033,122)</u>
Total debt	209,288,062	213,793,439
Less: Current portion	<u>(4,130,004)</u>	<u>(3,918,201)</u>
Long-term portion	<u>\$ 205,158,058</u>	<u>\$ 209,875,238</u>

Scheduled maturities on long-term debt during the next five years and thereafter are summarized as follows:

2019	\$ 4,130,004
2020	5,755,500
2021	5,975,807
2022	6,207,779
2023	6,452,833
Thereafter	<u>173,669,499</u>
	202,191,422
Net unamortized bond premium	10,086,892
Net unamortized bond discounts	(1,100,989)
Net unamortized debt issuance costs	<u>(1,889,263)</u>
	<u>\$ 209,288,062</u>

The Series 2017 Bonds, the Series 2015 Bonds, the 2013 Private Issue Debt, the 2011 Private Issue Debt and the 2010 Private Issue Debt agreements contain financial and non-financial covenants with which the Obligated Group must comply. Members of the Obligated Group include BHS, BRH, BHD, BRMG, BAHH, BSN, BSNFA, BSNFAH and BSNFBH as of December 31, 2018.

The fair values of the Series 2017 Bonds are based on quoted market prices. The fair value of the Series 2017 Bonds was approximately \$79,581,000 and \$82,242,000 at December 31, 2018 and 2017, respectively.

The fair values of the Series 2015 Bonds are based on quoted market prices. The fair value of the Series 2015 Bond was approximately \$54,419,000 and \$56,502,000 at December 31, 2018 and 2017, respectively.

The fair value of the 2013 Private Issue Debt, 2011 Private Issue Debt and 2010 Private Issue Debt approximates the carrying value.

**Genesis Health, Inc. And Affiliates d/b/a Brooks Rehabilitation**  
**Notes to Consolidated Financial Statements**

**9. Derivative Instruments**

In September 2015, Brooks entered into a forward swap agreement in order to mitigate cash flow risk in anticipation of the refunding of the Series 2007 bonds. The bonds were refunded in October 2017, and the forward swap liability in the amount of \$4,252,000 was paid. Brooks recorded valuation losses of approximately \$2,752,000 for the year ended December 31, 2017, which are included in other (losses) gains on the consolidated statement of operations.

In 2011, Brooks entered into two interest swaps in order to mitigate the cash flow risk associated with the 2011 Private Issue Debt. Included in the consolidated statements of changes in net assets are swap valuation gains of approximately \$519,000 and \$401,000 for the years ended December 31, 2018 and 2017, respectively.

In 2010, Brooks entered into an interest rate swap in order to mitigate the cash flow risk associated with the 2010 Private Issue Debt. Included in the consolidated statements of changes in net assets are swap valuation gains of approximately \$427,000 and \$349,000 for the years ended December 31, 2018 and 2017, respectively.

In 2008, Brooks entered into an interest rate swap in order to mitigate cash flow risk associated with the interest payments on the Series 2007 Bonds. Due to the nature of the swap, it does not qualify for hedge accounting treatment according to the regulatory authority. For the years ended December 31, 2018 and 2017, a swap valuation loss of approximately \$98,000 and a swap valuation gain of approximately \$1,107,000, respectively, was included in other gains (losses) on the consolidated statements of operations.

Excluding the 2015 forward rate swap, the derivative financial instrument agreements that were outstanding as of December 31, 2018 and 2017 are set forth in the tables below:

<b>December 31, 2018</b>				
<b>Notional Amount</b>	<b>Pay(1)</b>	<b>Receive</b>	<b>Maturity Date</b>	<b>Fair Value</b>
\$ 2,780,933	3.63%	65.0% USD-LIBOR-BBA+ 1.20%	Through 6/01/2026	\$ (140,151)
\$ 23,258,712	3.63%	65.0% USD-LIBOR-BBA+ 1.20%	Through 6/01/2026	\$ (1,172,175)
\$ 27,643,389	3.24%	65.0% USD-LIBOR-BBA+ 1.20%	Through 8/01/2025	\$ (676,605)
\$ 85,090,000	SIFMA	67.0% USD-LIBOR-BBA+ 0.51%	Through 11/01/2038	\$ 1,796,773

<b>December 31, 2017</b>				
<b>Notional Amount</b>	<b>Pay(1)</b>	<b>Receive</b>	<b>Maturity Date</b>	<b>Fair Value</b>
\$ 2,858,363	3.63%	65.0% USD-LIBOR-BBA+ 1.20%	Through 6/01/2026	\$ (195,601)
\$ 23,906,312	3.63%	65.0% USD-LIBOR-BBA+ 1.20%	Through 6/01/2026	\$ (1,635,938)
\$ 28,504,366	3.24%	65.0% USD-LIBOR-BBA+ 1.20%	Through 8/01/2025	\$ (1,104,009)
\$ 86,520,000	SIFMA	67.0% USD-LIBOR-BBA+ 0.51%	Through 11/01/2038	\$ 1,895,114

(1) Securities Industry and Financial Markets Association (SIFMA)

**Genesis Health, Inc. And Affiliates d/b/a Brooks Rehabilitation**  
**Notes to Consolidated Financial Statements**

As of December 31, Brooks had the following derivative instruments:

	2018		2017	
	Consolidated Balance Sheet Location	Fair Value	Consolidated Balance Sheet Location	Fair Value
Derivatives designated as effective hedging instruments under ASC 815	Other liabilities	\$ 1,988,928	Other liabilities	\$ 2,935,548
Derivatives not designated as effective hedging instruments under ASC 815	Other liabilities	\$ (1,796,773)	Other liabilities	\$ (1,895,114)
			<b>Amount of Gain Recognized in Net Assets</b>	
			<b>2018</b>	<b>2017</b>
Derivatives designated as effective hedging instruments under ASC 815			<u>\$ 946,620</u>	<u>\$ 749,679</u>
			<b>Amount of Loss Recognized in (Deficit) Excess of Revenues Over Expenses</b>	
			<b>2018</b>	<b>2017</b>
Derivatives not designated as effective hedging instruments under ASC 815			<u>\$ (98,341)</u>	<u>\$ (1,645,288)</u>

**10. Benefit Plans**

Brooks maintains a defined contribution plan (the Plan) for substantially all full-time employees. The annual contribution under the Plan is based on a fixed percentage of salary of 3%, with an additional matching contribution made by Brooks for a portion of the voluntary employee contributions, subject to limits which begins after one year of service. Upon completion of the one year waiting period, step vesting occurs at 20% per year. The contribution expense under the Plan amounted to approximately \$3,783,000 and \$3,728,000 for the years ended December 31, 2018 and 2017, respectively.

Forfeitures are taken to offset employer contributions; if there are not enough contributions in the applicable Plan, forfeitures are not taken. Forfeitures may also be used to offset and pay the cost of administration fees. Forfeitures used amounted to approximately \$173,000 and \$197,000 for the years ended December 31, 2018 and 2017, respectively.

***Supplemental Executive Retirement Plan***

Brooks also maintains a nonqualified, unfunded deferred compensation plan for the benefit of certain management employees of the organization. At December 31, 2018 and 2017, management estimated that the net present value of the contingent estimated obligation for supplemental executive retirement benefits approximated \$2,217,000 and \$2,095,000, respectively, which was recorded in other liabilities on the consolidated balance sheets. Expenses related to the contingent supplemental executive retirement benefit plan were approximately \$122,000 and \$662,000 for the years ended December 31, 2018 and 2017, respectively. The contingent benefits expected to be paid in the future subject to a 10 year vesting period are estimated as follows:

2019	\$ 594,297
2020	658,404
2021	728,399
2022	804,793
2023	<u>888,139</u>
	<u>\$ 3,674,032</u>

**Genesis Health, Inc. And Affiliates d/b/a Brooks Rehabilitation**  
**Notes to Consolidated Financial Statements**

**11. Other Investments**

Brooks has other investments as of December 31, 2018 and 2017 as follows:

	Ownership		Investment	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
HBRS	50%	50%	\$ 4,469,132	\$ 4,267,229
BMD Investment in D1	10%	10%	-	100,000
Cyberdyne	33%	0%	13,202	-
Other	0%	<1%	-	<u>20,000</u>
			<u>\$ 4,482,334</u>	<u>\$ 4,387,229</u>

**12. Purchased Services**

Memorial Hospital Jacksonville (MHJ), which is owned by Hospital Corporation of America (HCA), is an acute care hospital located adjacent to BRH which provides certain administrative and ancillary services to BRH subject to a contract between the parties. In 2012, Brooks renegotiated the contract to a cost per charge for ancillary services and a cost per unit for facility and administrative services. The contract, which details the provision of services, is renewed annually. These costs, which are included in purchased services on the consolidated statements of operations, were approximately \$7,802,000 and \$8,133,000 for the years ended December 31, 2018 and 2017, respectively.

Amounts payable to MHJ were approximately \$698,000 and \$626,000 at December 31, 2018 and 2017, respectively, and are included in accounts payable and accrued expenses on the consolidated balance sheets.

**13. Pledges Payable**

Brooks will periodically contribute funds to local, not-for-profit organizations.

In 2015, Brooks pledged to give \$2,750,000 to Jacksonville University ratably over a five year period to continue the build-out and support of the viability of the Brooks Rehabilitation Speech-Pathology Program, including the hiring of new faculty, development, advancement, and laboratory resources for faculty and students, branding and research and development, and other support. It also was used for the expansion of the 2016 undergraduate Speech-Language Pathology distance learning degree to include branding and faculty recruitment; launch of the Masters in Health Informatics on campus and online; launch of Masters in Mental Health Counseling; launch of Masters in Kinesiology; development of a cohort program under the clinical leadership, management, clinical sciences plan; and the development of Science and Technology Labs in the College of Arts and Sciences.

All other pledges made are to organizations that align their values and mission with those of Brooks.

The portion that is to be paid within one year is recorded in other current liabilities on the consolidated balance sheet, and the remaining amount is held in other liabilities on the consolidated balance sheet.

Future payments of the pledges, by year, consist of the following at December 31, 2018:

Years ending:	
2019	\$ 530,000
2020	<u>25,000</u>
Total balance	<u>\$ 555,000</u>

**Genesis Health, Inc. And Affiliates d/b/a Brooks Rehabilitation**  
**Notes to Consolidated Financial Statements**

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**14. Operating Leases**

Certain outpatient centers are being rented by Brooks from unaffiliated third parties under noncancelable operating leases through 2023. Future minimum lease payments, by year, consist of the following at December 31, 2018:

Years ending:	
2019	\$ 3,417,072
2020	2,886,203
2021	2,192,281
2022	1,043,689
2023	671,977
Thereafter	<u>568,505</u>
	<u>\$ 10,779,727</u>

Leases and rental expenses for all operating leases were approximately \$2,857,000 and \$3,481,000 for the years ended December 31, 2018 and 2017, respectively.

**15. Concentration of Credit Risk**

Brooks grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements.

The net mix of receivables from patients and third-party payors for BRH as of December 31, 2018 and 2017 was as follows:

	<u>2018</u>	<u>2017</u>
Medicare	28%	26%
Medicaid	3	2
Blue Cross	14	18
HMO/PPO	18	25
Commercial and Other	34	27
Self-pay	<u>3</u>	<u>2</u>
	<u>100%</u>	<u>100%</u>

The Medicare component of accounts receivable for other affiliates as of December 31, 2018 and 2017 was as follows:

	<u>2018</u>	<u>2017</u>
BHD	42%	21%
BAHH	74%	75%
BSN	60%	52%

**Genesis Health, Inc. And Affiliates d/b/a Brooks Rehabilitation**  
**Notes to Consolidated Financial Statements**

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**16. Financial Assistance**

Brooks maintains records to identify and monitor the level of charity care it provides. These recorded amounts include the amount of charges forgone for services and supplies furnished under its charity care policy. The estimated total cost of charity care provided was approximately \$2,655,000 and \$2,728,000 for the years ended December 31, 2018 and 2017, respectively. The total cost estimate is based on total direct and indirect costs per equivalent service statistic.

***Un-sponsored community benefit***

Community benefit is a planned, managed, organized and measured approach to a healthcare organization's participation in meeting identified community health needs. It implies collaboration with a "community" to "benefit" its residents, particularly the poor and other underserved groups, by improving health status and quality of life. Community benefit projects and services are identified by healthcare organizations in response to findings of a community health assessment, strategic, and/or clinical priorities and partnership areas of attention.

Community benefit categories include financial assistance, community health services, health professions education, research and contributions. Brooks has policies providing financial assistance for patients requiring care but who have limited or no means to pay for that care. These policies provide free or discounted health and health-related services to persons who qualify under certain income and asset assistance; they are not reported as net patient service revenue. Brooks maintains records to identify and monitor the level of financial assistance it provides.

In addition to financial assistance, Brooks provides benefits for the broader community. The cost of providing these community benefits can exceed the revenue sources available. Examples of the benefits provided by Brooks and general definitions regarding those benefits are described below:

- Community health services include activities carried out to improve community health. They extend beyond patient care activities and are usually subsidized by the healthcare organization. Examples include community health education, counseling and support services.
- Health professions education includes education provided in clinical settings such as internships and programs for physicians, therapists, nurses and allied health professionals.
- Research includes unreimbursed studies focused on the rehabilitation and human performance needs of individuals with disabling conditions.
- Contributions and other support include funds benefiting the community-at-large.

Brooks' valuation of financial assistance provided and actual expenses incurred, net of funds received, related to the benefits for the broader community for the years ended December 31 are as follows:

	<u>2018</u>	<u>2017</u>
Financial assistance provided (net of government support)	\$ 2,655,237	\$ 2,727,646
Benefits for the broader community (unaudited):		
Community health services	3,215,892	3,353,406
Health professions education	1,236,118	1,033,441
Research	980,310	652,274
Contributions and other support	<u>496,769</u>	<u>416,195</u>
	<u>\$ 8,584,326</u>	<u>\$ 8,182,962</u>

**Genesis Health, Inc. And Affiliates d/b/a Brooks Rehabilitation**  
**Notes to Consolidated Financial Statements**

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**17. Contingencies**

***Professional liabilities***

Brooks is involved in litigation and claims arising from the ordinary course of business. Claims alleging malpractice have been asserted against Brooks and are currently in various stages of litigation. Brooks insures its malpractice risk on a claims-made basis.

Coverage limits for the policies are \$1,000,000 per occurrence and \$3,000,000 in the aggregate. There is a self-insurance retention limit per claims of: \$500,000 – Hospital, \$250,000 – Skilled Nursing, and \$75,000 – Home Health. As of December 31, 2018 and 2017, respectively, Brooks has recorded approximately a \$1,809,000 and \$1,257,000 liability in other liabilities on the consolidated balance sheets for its estimated losses.

***Workers compensation insurance***

The self-insurance fund is reported in assets limited as to use in the accompanying consolidated balance sheets and includes the estimate of self-insured claims for workers' compensation.

Brooks has recorded approximately \$2,057,000 and \$621,000 in non-current other liabilities on the consolidated balance sheets for its estimated workers compensation losses at December 31, 2018 and 2017, respectively.

***Health Insurance***

Beginning January 2011, Brooks became self-insured for health and medical coverage for its employees. Amounts contributed by Brooks and its employees to the plan are determined by the level of benefits coverage selected by each employee. Expenses related to the self-insured health and medical plan for the years ended December 31, 2018 and 2017, were approximately \$11,711,000 and \$10,661,000, respectively. The estimated claims incurred, payments on claims, and the balance of the reserve for health insurance claims for the years ended December 31, 2018 and 2017 were as follows:

	<u>2018</u>	<u>2017</u>
Claims liabilities, January 1	\$ 1,307,866	\$ 1,041,127
Expense	11,710,825	10,660,744
Claim payments	<u>(11,708,032)</u>	<u>(10,394,005)</u>
Claims liabilities, December 31	<u>\$ 1,310,659</u>	<u>\$ 1,307,866</u>

It is the opinion of management that its insurance coverages and self-insurance liabilities at December 31, 2018 and 2017 are adequate to provide for potential losses resulting from outstanding claims and pending or threatened litigation.

**18. Liquidity**

Brooks' financial assets available within one year of December 31, 2018 for general expenditures are as follows:

Cash and cash equivalents	\$ 13,512,622
Patient receivables, net	23,123,768
Other current assets	<u>7,265,183</u>
	<u>\$ 43,901,573</u>

Brooks' liquidity management structures its financial assets to be available as its general expenditures, liabilities and other obligations come due. To help manage unanticipated liquidity needs, Brooks has committed lines of credit of \$44,300,000. Brooks has access to investments of approximately \$278,700,000 that may be liquidated, if necessary, to meet unexpected liquidity needs.

**Genesis Health, Inc. And Affiliates d/b/a Brooks Rehabilitation**  
**Notes to Consolidated Financial Statements**

**19. Schedule of Functional Expenses**

The consolidated financial statements report certain expense categories that are attributable to more than one healthcare service or support function. Therefore, these expenses require an allocation on a reasonable basis that is consistently applied. Costs not directly attributable to a function are allocated to a function based on revenues or full-time equivalents. The allocation of operating expenses by function for the year ended December 31, 2018 was as follows:

	Healthcare Services				Total
	Hospital Based Rehabilitation	Outpatient Based Rehabilitation	Skilled Nursing	Home Health	
Salaries, wages and benefits	\$ 59,888,090	\$ 24,085,089	\$ 25,206,349	\$ 24,152,539	\$ 133,332,067
Supplies	2,348,953	281,465	2,742,960	744,396	6,117,774
Depreciation and amortization	4,395,552	922,854	2,669,425	533,191	8,521,022
Leases and rentals	1,720,900	1,715,224	122,503	644,326	4,202,953
Interest	1,763,077	403,046	1,544,043	1,238,483	4,948,649
Professional fees	671,209	56,904	228,535	167,800	1,124,448
Insurance	1,233,986	127,433	399,611	115,207	1,876,237
Purchased services	13,172,228	806,773	5,332,312	564,881	19,876,194
Other	7,457,595	(1,998,858)	2,164,013	3,744,624	11,367,374
	<u>\$ 92,651,590</u>	<u>\$ 26,399,930</u>	<u>\$ 40,409,751</u>	<u>\$ 31,905,447</u>	<u>\$ 191,366,718</u>
	Support Services				
	Management, General and Administrative	Fundraising	Research	Total	
Salaries, wages and benefits	\$ 18,587,865	\$ 125,671	\$ 904,395	\$ 19,617,931	
Supplies	278,842	6,687	12,150	297,679	
Depreciation and amortization	2,127,936	602	-	2,128,538	
Leases and rentals	29,496	(16,497)	1,333	14,332	
Interest	3,360,214	-	-	3,360,214	
Professional fees	1,051,749	2,502	73,850	1,128,101	
Insurance	127,959	-	-	127,959	
Purchased services	2,670,705	57,376	66,304	2,794,385	
Other	4,436,315	393,480	77,680	4,907,475	
	<u>\$ 32,671,081</u>	<u>\$ 569,821</u>	<u>\$ 1,135,712</u>	<u>\$ 34,376,614</u>	
	Total Healthcare Services	Total Support Services	Total Expenses		
Salaries, wages and benefits	\$ 133,332,067	\$ 19,617,931	\$ 152,949,998		
Supplies	6,117,774	297,679	6,415,453		
Depreciation and amortization	8,521,022	2,128,538	10,649,560		
Leases and rentals	4,202,953	14,332	4,217,285		
Interest	4,948,649	3,360,214	8,308,863		
Professional fees	1,124,448	1,128,101	2,252,549		
Insurance	1,876,237	127,959	2,004,196		
Purchased services	19,876,194	2,794,385	22,670,579		
Other	11,367,374	4,907,475	16,274,849		
	<u>\$ 191,366,718</u>	<u>\$ 34,376,614</u>	<u>\$ 225,743,332</u>		

**20. Subsequent Events**

Brooks has evaluated subsequent events through April 23, 2019 the date the consolidated financial statements were issued.

**Genesis Health, Inc. and Affiliates d/b/a Brooks Rehabilitation**  
**Consolidating Balance Sheet Information**  
**December 31, 2018**

	<b>Brooks Health System (Parent Company)</b>	<b>Brooks Rehabilitation Hospital</b>	<b>Brooks Health Development</b>	<b>Brooks Skilled Nursing</b>	<b>Brooks Home Health</b>	<b>Eliminations</b>	<b>Consolidated</b>
<b>ASSETS</b>							
Current assets:							
Cash and cash equivalents	\$ 4,574,039	\$ 3,540,801	\$ 2,928,773	\$ 819,698	\$ 1,649,311	\$ -	\$ 13,512,622
Patient receivables, net	-	12,896,467	2,292,576	4,724,094	3,210,631	-	23,123,768
Due from affiliates	43,871,283	53,984,365	279,782	-	-	(98,135,430)	-
Other current assets	3,440,091	1,271,756	1,496,113	917,938	139,285	-	7,265,183
<b>Total current assets</b>	<b>51,885,413</b>	<b>71,693,389</b>	<b>6,997,244</b>	<b>6,461,730</b>	<b>4,999,227</b>	<b>(98,135,430)</b>	<b>43,901,573</b>
Investments, at fair value	278,683,250	-	-	-	-	-	278,683,250
Assets limited as to use	11,459,152	-	-	-	-	-	11,459,152
Property and equipment, net	43,612,435	37,684,722	3,311,972	50,297,626	589,937	-	135,496,692
Land held for development	23,088,609	-	-	-	-	-	23,088,609
Investment in affiliates	60,107,201	-	-	-	-	(60,107,201)	-
Other investments	13,202	-	4,469,132	-	-	-	4,482,334
Other assets, net	39,038	-	40,347	-	945	-	80,330
Goodwill	-	-	1,820,603	-	19,603,033	-	21,423,636
Intangible assets, net	-	-	128,636	7,447,870	1,280,256	-	8,856,762
<b>Total assets</b>	<b>\$ 468,888,300</b>	<b>\$ 109,378,111</b>	<b>\$ 16,767,934</b>	<b>\$ 64,207,226</b>	<b>\$ 26,473,398</b>	<b>\$ (158,242,631)</b>	<b>\$ 527,472,338</b>

(Continued)

**Genesis Health, Inc. and Affiliates d/b/a Brooks Rehabilitation  
Consolidating Balance Sheet Information  
December 31, 2018**

**(Continued)**

	<b>Brooks Health System (Parent Company)</b>	<b>Brooks Rehabilitation Hospital</b>	<b>Brooks Health Development</b>	<b>Brooks Skilled Nursing</b>	<b>Brooks Home Health</b>	<b>Eliminations</b>	<b>Consolidated</b>
<b>LIABILITIES AND NET ASSETS</b>							
Current liabilities:							
Accounts payable and accrued expenses	\$ 6,846,884	\$ 10,594,928	\$ 3,236,425	\$ 3,079,773	\$ 1,408,986	\$ -	\$ 25,166,996
Lines of credit	38,645,796	150,000	-	409,009	-	-	39,204,805
Current portion of long-term debt	2,719,898	278,992	38,407	760,321	332,386	-	4,130,004
Due to affiliates	7,367,865	2,911,362	16,389,859	53,075,358	18,390,986	(98,135,430)	-
Estimated third-party payor settlements	-	371,637	-	(212,074)	85,651	-	245,214
Other current liabilities	530,000	-	-	-	-	-	530,000
<b>Total current liabilities</b>	<b>56,110,443</b>	<b>14,306,919</b>	<b>19,664,691</b>	<b>57,112,387</b>	<b>20,218,009</b>	<b>(98,135,430)</b>	<b>69,277,019</b>
Long-term debt, net of current portion	160,700,174	8,271,636	1,138,718	25,192,862	9,854,668	-	205,158,058
Other liabilities	5,764,739	(588,984)	(14,378)	1,312,326	250,614	-	6,724,317
<b>Total liabilities</b>	<b>222,575,356</b>	<b>21,989,571</b>	<b>20,789,031</b>	<b>83,617,575</b>	<b>30,323,291</b>	<b>(98,135,430)</b>	<b>281,159,394</b>
Net assets (deficit):							
Net assets without donor restrictions	243,346,673	87,388,540	(4,603,291)	(19,410,349)	(3,849,893)	(59,525,007)	243,346,673
Net assets with donor restrictions	2,384,077	-	-	-	-	-	2,384,077
<b>Total net assets (deficit) attributable to Brooks Rehabilitation</b>	<b>245,730,750</b>	<b>87,388,540</b>	<b>(4,603,291)</b>	<b>(19,410,349)</b>	<b>(3,849,893)</b>	<b>(59,525,007)</b>	<b>245,730,750</b>
Noncontrolling interest	582,194	-	582,194	-	-	(582,194)	582,194
<b>Total net assets (deficit)</b>	<b>246,312,944</b>	<b>87,388,540</b>	<b>(4,021,097)</b>	<b>(19,410,349)</b>	<b>(3,849,893)</b>	<b>(60,107,201)</b>	<b>246,312,944</b>
<b>Total liabilities and net assets (deficit)</b>	<b>\$ 468,888,300</b>	<b>\$ 109,378,111</b>	<b>\$ 16,767,934</b>	<b>\$ 64,207,226</b>	<b>\$ 26,473,398</b>	<b>\$ (158,242,631)</b>	<b>\$ 527,472,338</b>

**See independent auditors' report.**

**Genesis Health, Inc. and Affiliates d/b/a Brooks Rehabilitation  
Consolidating Statement of Operations Information  
For the Year Ended December 31, 2018**

	<b>Brooks Health System (Parent Company)</b>	<b>Brooks Rehabilitation Hospital</b>	<b>Brooks Health Development</b>	<b>Brooks Skilled Nursing</b>	<b>Brooks Home Health</b>	<b>Eliminations</b>	<b>Consolidated</b>
Unrestricted revenues, gains, and other support:							
Net patient service revenue	\$ -	\$ 110,388,555	\$ 14,102,096	\$ 36,087,751	\$ 32,415,285	\$ -	\$ 192,993,687
Contract service revenue	-	4,143,883	8,793,251	2,469,857	-	-	15,406,991
Investment income, net	14,254,327	3,213,344	1,838,960	104,057	55,730	-	19,466,418
Net assets released from restrictions for operations	313,753	-	-	-	-	-	313,753
Other	26,188,905	(583,182)	6,432,480	913,201	58,953	(20,697,849)	12,312,508
Total unrestricted revenues, gains, and other support	<u>40,756,985</u>	<u>117,162,600</u>	<u>31,166,787</u>	<u>39,574,866</u>	<u>32,529,968</u>	<u>(20,697,849)</u>	<u>240,493,357</u>
Expenses:							
Salaries, wages and benefits	19,617,931	59,888,090	24,085,089	25,206,349	24,152,539	-	152,949,998
Supplies	297,678	2,348,954	281,465	2,742,960	744,396	-	6,415,453
Depreciation and amortization	2,128,538	4,395,552	922,854	2,669,425	533,191	-	10,649,560
Leases and rentals	112,492	1,773,143	1,842,271	122,503	644,326	(277,450)	4,217,285
Interest	3,360,214	1,763,077	403,046	1,544,043	1,238,483	-	8,308,863
Professional fees	1,128,101	671,209	56,904	260,935	167,800	(32,400)	2,252,549
Insurance	127,959	1,233,986	127,433	399,611	115,207	-	2,004,196
Purchased services	2,794,385	13,172,228	806,773	5,332,312	564,881	-	22,670,579
Other	5,773,236	22,246,198	(491,181)	3,370,822	5,763,773	(20,387,999)	16,274,849
Total expenses	<u>35,340,534</u>	<u>107,492,437</u>	<u>28,034,654</u>	<u>41,648,960</u>	<u>33,924,596</u>	<u>(20,697,849)</u>	<u>225,743,332</u>
Operating income (loss)	<u>5,416,451</u>	<u>9,670,163</u>	<u>3,132,133</u>	<u>(2,074,094)</u>	<u>(1,394,628)</u>	<u>-</u>	<u>14,750,025</u>
Other gains (losses) :							
Equity in income from other investments	9,795,109	-	-	-	-	(9,795,109)	-
Community programs and other support	(555,308)	-	-	-	-	-	(555,308)
Change in fair value of ineffective interest rate swaps	(52,220)	(43,749)	(2,372)	-	-	-	(98,341)
Net unrealized losses on investments	(44,835,002)	-	-	-	-	-	(44,835,002)
Other gains (losses)	117,196	(8,101)	(60,683)	-	-	-	48,412
Total other losses	<u>(35,530,225)</u>	<u>(51,850)</u>	<u>(63,055)</u>	<u>-</u>	<u>-</u>	<u>(9,795,109)</u>	<u>(45,440,239)</u>
(Deficit) excess of revenues over expenses	(30,113,774)	9,618,313	3,069,078	(2,074,094)	(1,394,628)	(9,795,109)	(30,690,214)
Net income attributable to noncontrolling interest	-	-	(252,258)	-	-	-	(252,258)
(Deficit) excess of revenues over expenses, attributable to Brooks Rehabilitation	<u>\$ (30,113,774)</u>	<u>\$ 9,618,313</u>	<u>\$ 2,816,820</u>	<u>\$ (2,074,094)</u>	<u>\$ (1,394,628)</u>	<u>\$ (9,795,109)</u>	<u>\$ (30,942,472)</u>

See independent auditors' report.

**Genesis Health, Inc. and Affiliates d/b/a Brooks Rehabilitation  
Consolidating Statement of Changes in Net Assets Information  
For the Year Ended December 31, 2018**

	<b>Brooks Health System (Parent Company)</b>	<b>Brooks Rehabilitation Hospital</b>	<b>Brooks Health Development</b>	<b>Brooks Skilled Nursing</b>	<b>Brooks Home Health</b>	<b>Eliminations</b>	<b>Consolidated</b>
<b>Net assets without donor restrictions:</b>							
(Deficit) excess of revenue over expenses	\$ (30,113,774)	\$ 9,618,313	\$ 2,816,820	\$ (2,074,094)	\$ (1,394,628)	\$ (9,795,109)	\$ (30,942,472)
Net assets released from restrictions for purchase of property and equipment	7,340	-	-	-	-	-	7,340
Change in fair value of effective interest rate swaps	117,922	132,879	18,293	519,216	158,310	-	946,620
(Decrease) increase in net assets without donor restrictions	<u>(29,988,512)</u>	<u>9,751,192</u>	<u>2,835,113</u>	<u>(1,554,878)</u>	<u>(1,236,318)</u>	<u>(9,795,109)</u>	<u>(29,988,512)</u>
<b>Net assets with donor restrictions:</b>							
Net assets released from restrictions	(321,093)	-	-	-	-	-	(321,093)
Contributions	421,931	-	-	-	-	-	421,931
Increase in net assets with donor restrictions	<u>100,838</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>100,838</u>
<b>Noncontrolling interest:</b>							
Change in noncontrolling interest	<u>297,563</u>	<u>-</u>	<u>297,563</u>	<u>-</u>	<u>-</u>	<u>(297,563)</u>	<u>297,563</u>
(Decrease) increase in net assets	(29,590,111)	9,751,192	3,132,676	(1,554,878)	(1,236,318)	(10,092,672)	(29,590,111)
Net assets (deficit), beginning of year	<u>275,903,055</u>	<u>77,637,348</u>	<u>(7,153,773)</u>	<u>(17,855,471)</u>	<u>(2,613,575)</u>	<u>(50,014,529)</u>	<u>275,903,055</u>
Net assets (deficit), end of year	<u>\$ 246,312,944</u>	<u>\$ 87,388,540</u>	<u>\$ (4,021,097)</u>	<u>\$ (19,410,349)</u>	<u>\$ (3,849,893)</u>	<u>\$ (60,107,201)</u>	<u>\$ 246,312,944</u>

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