

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

Consolidated Financial Statements

Years Ended December 31, 2019 and 2018

Table of Contents

Independent Auditors' Report	1
Consolidated Financial Statements:	
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
Supplementary Information:	
Consolidating Balance Sheet Information	35
Consolidating Statement of Operations Information	37
Consolidating Statement of Changes in Net Assets Information	38



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, 2019 and 2018, 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 auditor considers 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, 2019 and 2018, and the results of its 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) 2016-02, *Leases (Topic 842)*, FASB ASU 2016-18, *Statement of Cash Flows (Topic 230)*, and FASB ASU 2019-06, *Extending the Private Company Alternatives on Goodwill and Certain Identifiable Intangible Assets to Not-for-Profit Entities (Topic 350)* in 2019. 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 22, 2020**

Genesis Health, Inc. and Affiliates d/b/a Brooks Rehabilitation
Consolidated Balance Sheets
December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 23,810,357	\$ 13,512,622
Patient receivables, net	22,867,625	23,123,768
Other current assets	4,839,981	7,265,183
Total current assets	<u>51,517,963</u>	43,901,573
Investments, at fair value	343,480,770	278,683,250
Assets limited as to use	7,756,800	11,459,152
Property and equipment, net	135,428,687	135,496,692
Operating lease right-of-use assets	7,858,050	-
Land held for development	23,088,609	23,088,609
Other investments	4,134,448	4,482,334
Other assets, net	111,147	80,330
Goodwill	19,281,274	21,423,636
Intangible assets, net	8,342,597	8,856,762
Total assets	<u>\$ 601,000,345</u>	<u>\$ 527,472,338</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	\$ 29,562,885	\$ 25,166,996
Lines of credit	39,204,751	39,204,805
Current portion of long-term debt	5,755,501	4,130,004
Estimated third-party payor settlements	908,762	245,214
Current portion of operating lease liabilities	2,338,899	-
Other current liabilities	575,000	530,000
Total current liabilities	<u>78,345,798</u>	69,277,019
Long-term debt, net of current portion	198,781,482	205,158,058
Operating lease liabilities	5,756,058	-
Other liabilities	10,179,224	6,724,317
Total liabilities	<u>293,062,562</u>	281,159,394
Net assets:		
Without donor restrictions	304,810,424	243,346,673
With donor restrictions	2,373,876	2,384,077
Total net assets attributable to Brooks Rehabilitation	<u>307,184,300</u>	245,730,750
Noncontrolling interest	753,483	582,194
Total net assets	<u>307,937,783</u>	246,312,944
Total liabilities and net assets	<u>\$ 601,000,345</u>	<u>\$ 527,472,338</u>

See accompanying notes.

Genesis Health, Inc. and Affiliates d/b/a Brooks Rehabilitation
Consolidated Statements of Operations
For the Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Revenues, gains, and other support:		
Net patient service revenue	\$ 207,263,005	\$ 192,993,687
Contract service revenue	14,373,066	15,406,991
Investment income, net	21,436,435	19,466,418
Net assets released from restrictions for operations	116,994	313,753
Other	8,351,061	12,312,508
	<u>251,540,561</u>	<u>240,493,357</u>
Revenues, gains, and other support		
Expenses:		
Salaries, wages and benefits	155,896,450	152,949,998
Supplies	6,263,593	6,415,453
Depreciation and amortization	12,766,258	10,649,560
Leases and rentals	3,110,101	4,217,285
Interest	9,040,609	8,308,863
Professional fees	3,319,366	2,252,549
Insurance	1,986,888	2,004,196
Purchased services	22,875,285	22,670,579
Other	15,648,535	16,274,849
	<u>230,907,085</u>	<u>225,743,332</u>
Total expenses		
Operating income	<u>20,633,476</u>	<u>14,750,025</u>
Other gains (losses):		
Community programs and other support	(3,063,738)	(555,308)
Change in fair value of ineffective interest rate swaps	1,064,169	(98,341)
Net unrealized gains (losses) on investments	43,874,362	(44,835,002)
Other (losses) gains	(20,349)	48,412
	<u>41,854,444</u>	<u>(45,440,239)</u>
Total other gains (losses), net		
Excess (deficit) of revenues over expenses	62,487,920	(30,690,214)
Net income attributable to noncontrolling interest	(171,289)	(252,258)
Excess (deficit) of revenues over expenses, attributable to Brooks Rehabilitation	<u>\$ 62,316,631</u>	<u>\$ (30,942,472)</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, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Net assets without donor restrictions:		
Excess (deficit) of revenues over expenses, attributable to Brooks Rehabilitation	\$ 62,316,631	\$ (30,942,472)
Net assets released from restrictions for purchase of property and equipment	391,092	7,340
Change in fair value of effective interest rate swaps	<u>(1,243,972)</u>	<u>946,620</u>
Increase (decrease) in net assets without donor restrictions	<u>61,463,751</u>	<u>(29,988,512)</u>
Net assets with donor restrictions:		
Net assets released from restrictions	(508,086)	(321,093)
Contributions	<u>497,885</u>	<u>421,931</u>
(Decrease) increase in net assets with donor restrictions	<u>(10,201)</u>	<u>100,838</u>
Noncontrolling interest:		
Change in noncontrolling interest	<u>171,289</u>	<u>297,563</u>
Increase (decrease) in net assets	61,624,839	(29,590,111)
Net assets, beginning of year	<u>246,312,944</u>	<u>275,903,055</u>
Net assets, end of year	<u>\$ 307,937,783</u>	<u>\$ 246,312,944</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, 2019 and 2018

	<u>2019</u>	<u>As Adjusted 2018</u>
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ 61,624,839	\$ (29,590,111)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Restricted contributions	(497,885)	(421,931)
Net unrealized (gains) losses on investments	(43,874,362)	44,835,002
Net realized gains on investments	(13,653,000)	(12,314,298)
Depreciation and amortization	12,766,258	10,649,560
Amortization of bond discounts, premiums, and debt issuance costs	(614,948)	(582,970)
Loss on disposal of property and equipment	62,803	22,028
Change in fair value of effective interest rate swaps	1,243,972	(946,620)
Change in fair value of ineffective interest rate swaps	(1,064,169)	98,341
Changes in operating assets and liabilities:		
Patient receivables, net	256,143	1,300,090
Estimated third-party payor settlements	663,548	(988,942)
Other current assets	2,425,202	601,594
Other assets, net	220,951	269,901
Accounts payable and accrued expenses	5,537,606	2,296,811
Pledges payable	2,155,000	(937,889)
Other liabilities	1,165,104	1,576,929
Net cash provided by operating activities	<u>28,417,062</u>	<u>15,867,495</u>
Cash flows from investing activities:		
Purchase of outpatient facilities	-	(1,058,147)
Additions to property and equipment	(11,261,107)	(8,526,438)
Decrease (increase) of equity in investments	347,886	(95,105)
Sales of investments and assets limited as to use	133,211,728	161,852,994
Purchases of investments	(140,937,161)	(161,333,263)
Net cash used by investing activities	<u>\$ (18,638,654)</u>	<u>\$ (9,159,959)</u>

(Continued)

Genesis Health, Inc. and Affiliates d/b/a Brooks Rehabilitation
Consolidated Statements of Cash Flows
For the Years Ended December 31, 2019 and 2018

(Continued)

	<u>2019</u>	<u>As Adjusted 2018</u>
Cash flows from financing activities:		
Repayment of long-term debt	\$ (4,136,185)	\$ (3,922,407)
Restricted contributions	497,885	421,931
Net cash used by financing activities	<u>(3,638,300)</u>	<u>(3,500,476)</u>
Net increase in cash and cash equivalents	6,140,108	3,207,060
Cash and cash equivalents, beginning of the year	<u>23,013,711</u>	<u>19,806,651</u>
Cash and cash equivalents, end of the year	<u>\$ 29,153,819</u>	<u>\$ 23,013,711</u>
<u>Reconciliation of cash and cash equivalents</u>		
Cash and cash equivalents	\$ 23,810,357	\$ 13,512,622
Cash and cash equivalents in assets limited as to use	5,343,462	9,501,089
	<u>\$ 29,153,819</u>	<u>\$ 23,013,711</u>
<u>Supplemental Cash Flow Information</u>		
Cash paid for interest during the year	<u>\$ 10,154,467</u>	<u>\$ 9,532,101</u>
Accrued property and equipment	<u>\$ 1,141,717</u>	<u>\$ 1,261,413</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 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

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, 2019 or 2018.
- *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 excess (deficit) of revenues over expenses for trading and equity 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, 2019 and 2018. The estimated liability for these gift annuities, which are reflected in other non-current liabilities, amounted to approximately \$2,336,000 and \$2,234,000 as of December 31, 2019 and 2018, respectively.

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

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 \$- and \$40,000 for the years ended December 31, 2019 and 2018, 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, 2019 and 2018.

Unamortized debt issuance costs of approximately \$1,776,000 and \$1,889,000 are included as a reduction of the related debt on the consolidated balance sheets at December 31, 2019 and 2018, 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, 2019 and 2018.

Unamortized bond discounts of approximately \$1,041,000 and \$1,101,000 at December 31, 2019 and 2018, respectively, are recorded as a reduction of the related debt, and the premium of approximately \$9,299,000 and \$10,087,000 at December 31, 2019 and 2018, 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 \$8,343,000 and \$8,857,000 at December 31, 2019 and 2018, respectively.

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

Notes to Consolidated Financial Statements

Intangible assets are tested annually for impairment, or when a possible impairment is indicated. There was no impairment charge for the years ended December 31, 2019 or 2018.

Goodwill

Goodwill is the excess of Brooks' purchase price over the fair value of the net assets of acquired businesses. Brooks elected to adopt Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2019-06, *Extending the Private Company Accounting Alternatives on Goodwill and Certain Identifiable Intangible Assets to Not-for-Profit Entities* effective January 1, 2019. As a result of adopting the goodwill accounting alternative, Brooks amortized goodwill on a straight-line basis over 10 years and performs a one-step impairment test at the reporting unit level only when an impairment indicator exists. For the year ended December 31, 2019, amortization expense was approximately \$2,142,000 and is included in depreciation and amortization on the consolidated statements of operations. There is no impairment charge for goodwill for the years ended December 31, 2019 or 2018.

Leases

At lease inception, Brooks determines whether an arrangement is or contains a lease. Operating leases are included in operating lease right-of-use ("ROU") assets, current portion of operating lease liabilities, and operating lease liabilities in the consolidated financial statements.

ROU assets represent Brooks' right to use leased assets over the terms of the leases. Lease liabilities represent Brooks' contractual obligation to make lease payments over the leases term.

For operating leases, ROU assets and lease liabilities are recognized at the commencement date. The lease liability is measured as the present value of the lease payments over the lease term. Brooks uses the rate implicit in the lease if it is determinable. When the rate implicit in the lease is not determinable, Brooks uses its incremental borrowing rate at the commencement date of the lease to determine the present value of the lease payments. Operating ROU assets are calculated as the present value of the lease payments plus initial direct costs, plus any prepayments less any lease incentives received. Lease terms may include renewal or extension options to the extent they are reasonably certain to be exercised. The assessment of whether renewal or extension options are reasonably certain to be exercised is made at lease commencement. Factors considered in determining whether an option is reasonably certain of exercise include, but are not limited to, the value of any leasehold improvements, the value of renewal rates compared to market rates, and the presence of factors that would cause a significant economic penalty to Brooks if the option were not exercised. Lease expense is recognized on a straight-line basis over the lease term. Brooks has elected not to recognize an ROU asset and obligation for leases with an initial term of twelve months or less. The expense associated with short-term leases is included in lease and rental expense in the consolidated statement of operations.

To the extent a lease arrangement includes both lease and non-lease components, the components are accounted for separately.

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 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 excess (deficit) 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 excess (deficit) 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.

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

Notes to Consolidated Financial Statements

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, 2019. 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, 2019.

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. Brooks has provided a letter of credit with a commercial bank in a maximum amount of \$100,000 related to the self-insurance programs.

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, 2019 and 2018, Brooks has accrued approximately \$4,348,000 and \$3,503,000, 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, 2019 and 2018.

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.

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

Notes to Consolidated Financial Statements

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.

Implicit price concessions are 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 in 2018, 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.

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

Notes to Consolidated Financial Statements

Excess (deficit) of revenues over expenses

The consolidated statements of operations include excess (deficit) 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 excess (deficit) 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 gains (losses), 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

On January 1, 2019, Brooks adopted the requirements of ASU 2016-02, "Leases (Topic 842)." The objective of this ASU, along with several related ASUs issued subsequently, is to increase transparency and comparability between organizations that enter into lease agreements. For lessees, the key difference of the new standard from the previous guidance (Topic 840) is the recognition of a ROU asset and lease liability on the consolidated balance sheet. The most significant change is the requirement to recognize ROU assets and lease liabilities for leases classified as operating leases. The standard requires disclosures to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. As part of the transition to the new standard, Brooks was required to measure and recognize leases that existed at January 1, 2019 using a modified retrospective approach. For leases existing at the effective date, Brooks elected the package of three transition practical expedients and therefore did not reassess whether an arrangement is or contains a lease, did not reassess lease classification, and did not reassess what qualifies as an initial direct cost. The adoption of Topic 842 resulted in the recognition of operating ROU assets and lease liabilities of approximately \$8,394,000, respectively, as of January 1, 2019.

In May 2019, FASB issued ASU 2019-06, "Extending the Private Company Accounting Alternatives on Goodwill and Certain Identifiable Intangible Assets to Not-for-Profit Entities," which allows not-for-profit companies to apply accounting alternatives that simplify the subsequent accounting for goodwill. Companies that elect the goodwill accounting alternative will amortize goodwill and perform a one-step impairment test at the reporting unit level, only when an impairment indicator exists. Brooks adopted the guidance effective January 1, 2019.

In 2019, Brooks adopted ASU 2016-18, "Statement of Cash Flows (Topic 230): Restricted Cash". This ASU was issued to address diversity in practice in the classification and presentation of changes in restricted cash on the statement of cash flows. The amendments in this ASU require that a statement of cash flows explain the change during the period in the total of cash and amounts generally described as restricted cash, including assets limited as to use. The 2018 consolidated financial statements have been adjusted to reflect retrospective application of the new accounting guidance.

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

A summary follows of the adjustments made to the consolidated statement of cash flows for the year ended December 31, 2018 as a result of the implementation of ASU 2016-18:

	As Previously Presented	Adjustment	As Adjusted
Net cash used by investing activities	\$(3,898,820)	\$(5,261,139)	\$(9,159,959)
Net increase in cash and cash equivalents	\$ 8,468,199	\$(5,261,139)	\$ 3,207,060
Cash and cash equivalents, beginning of the year	\$ 5,044,423	\$14,762,228	\$19,806,651
Cash and cash equivalents, ending of the year	\$13,512,622	\$ 9,501,089	\$23,013,711

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.
- 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).

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

On a recurring basis, Brooks is required to measure trading and equity securities at fair value. The fair values of trading and equity 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, 2019 and 2018 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.

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

	<u>Fair value at December 31, 2019</u>	<u>Fair Value Measurements at December 31, 2019 using:</u>		
		<u>Level 1 inputs</u>	<u>Level 2 inputs</u>	<u>Level 3 inputs</u>
Assets measured at fair value:				
Cash and cash equivalents	\$ 23,810,357	\$ 23,810,357	\$ -	\$ -
Investments and assets limited as to use	<u>314,051,741</u>	<u>314,051,741</u>	<u>-</u>	<u>-</u>
Total assets in the fair value hierarchy	\$ 337,862,098	<u>\$ 337,862,098</u>	<u>\$ -</u>	<u>\$ -</u>
Investments at NAV (a)	<u>37,185,829</u>			
Total investments and cash and cash equivalents at fair value	<u>\$ 375,047,927</u>			
Liabilities measured at fair value:				
Interest rate swaps	\$ <u>371,962</u>	\$ <u>-</u>	\$ <u>371,962</u>	\$ <u>-</u>

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

	Fair value at December 31, 2018	Fair Value Measurements at December 31, 2018 using:		
		Level 1 inputs	Level 2 inputs	Level 3 inputs
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	\$ 192,158	\$ -	\$ 192,158	\$ -

- (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:

	Fair Value at 12/31/2019	Fair Value at 12/31/2018	Unfunded Commitments	Other Redemption Restrictions	Redemption Notice Period
Focus Asian Equity Fund	\$ 6,908,608	\$ 5,853,670	None	Monthly	Thirty business days
International Value Equity Fund	\$23,347,314	\$20,009,938	None	Monthly	Ten business days
Global Emerging Markets Fund	\$ 6,929,907	\$ 9,147,546	None	Daily	None

Brooks recognizes transfers between the levels as of the beginning of the reporting period. There were no transfers between the levels for the years ended December 31, 2019 or 2018.

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.

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

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>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 565,784	\$ 609,851
Marketable equity securities	17,699,176	18,323,226
Mutual funds – fixed income securities	76,028,975	43,440,544
Mutual funds – equity securities	212,001,006	181,298,475
Funds of funds	<u>37,185,829</u>	<u>35,011,154</u>
	<u>\$ 343,480,770</u>	<u>\$ 278,683,250</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>2019</u>	<u>2018</u>
Interest and dividend income	\$ 7,783,435	\$ 7,152,120
Net realized gains	<u>13,653,000</u>	<u>12,314,298</u>
Investment income, net	<u>\$ 21,436,435</u>	<u>\$ 19,466,418</u>
Net unrealized gains (losses) on investments included as a component of excess (deficit) of revenues over expenses	<u>\$ 43,874,362</u>	<u>\$ (44,835,002)</u>

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>2019</u>	<u>2018</u>
Cash and cash equivalents	Assets held by Bond Trustee	\$ 5,343,462	\$ 9,501,089
Mutual funds – fixed income securities	Board designated for self-insurance funds	<u>2,413,338</u>	<u>1,958,063</u>
		<u>\$ 7,756,800</u>	<u>\$ 11,459,152</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, 2019 and 2018 was approximately 57%. 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.

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

Brooks' Medicare cost reports for all years through 2018 have been filed. The Medicare cost reports for all years through 2016 have been examined and final settlements have been determined by the governmental agency intermediary. Brooks' Rehabilitation Medicaid cost reports for all years through 2018 have been filed. The cost reports for all years through 2017 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 2019 or 2018.

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, 2019 and 2018 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.

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.

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

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

	Year Ended December 31, 2019				
	Brooks Rehabilitation Hospital	Brooks Health Development	Brooks Skilled Nursing	Brooks Home Health	Consolidated
Net patient service revenue					
Medicare	\$ 41,433,013	\$ 7,261,342	\$ 21,907,178	\$ 25,170,220	\$ 95,771,753
Medicare Advantage	13,355,189	2,361,139	-	-	15,716,328
Managed care	35,864,856	5,199,815	6,454,916	7,074,083	54,593,670
Medicaid	19,354,828	372,967	3,484,766	-	23,212,561
Workers' compensation	8,063,057	658,956	-	-	8,722,013
Other	4,950,833	216,293	3,678,994	400,560	9,246,680
Total net patient service revenue	<u>\$ 123,021,776</u>	<u>\$ 16,070,512</u>	<u>\$ 35,525,854</u>	<u>\$ 32,644,863</u>	<u>\$ 207,263,005</u>

	Year Ended December 31, 2018				
	Brooks Rehabilitation Hospital	Brooks Health Development	Brooks Skilled Nursing	Brooks Home Health	Consolidated
Net patient service revenue					
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>

5. Property and Equipment

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

	<u>2019</u>	<u>2018</u>
Land and land improvements	\$ 39,747,700	\$ 39,677,377
Buildings and building improvements	133,675,793	130,183,196
Equipment	<u>69,023,203</u>	<u>66,612,667</u>
	242,446,696	236,473,240
Less: Accumulated depreciation	<u>(109,725,567)</u>	<u>(103,159,566)</u>
	132,721,129	133,313,674
Construction in progress	<u>2,707,558</u>	<u>2,183,018</u>
Property and equipment, net	<u>\$ 135,428,687</u>	<u>\$ 135,496,692</u>

Depreciation expense for the years ended December 31, 2019 and 2018 was approximately \$10,125,000 and \$10,163,000, 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). In prior years, approximately \$1,047,000 in additional costs were incurred and capitalized. During 2019 and 2018, no additional costs 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, 2019 and 2018 is approximately \$16,817,000.

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

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 25, 2020.

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 25, 2020.

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 25, 2020.

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

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

	<u>2019</u>	<u>2018</u>
Brooks \$6,250,000 line of credit, interest of one month LIBOR rate plus 1.12%. Interest rate on December 31, 2019 and 2018 was 2.81% and 3.42%, 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, 2019 and 2018 was 2.81% and 3.42%, respectively.	6,249,856	6,249,910
BMD \$9,000,000 line of credit, interest of one month LIBOR rate plus 1.12%. Interest rate on December 31, 2019 and 2018 was 2.81% and 3.42%, 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, 2019 and 2018 was 2.81% and 3.42%, 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, 2019 and 2018 was 3.04% and 3.57%, 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, 2019 and 2018 was 3.04% and 3.57%, 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, 2019 and 2018 was 2.95% and 3.75%, 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, 2019 and 2018 was 2.79% and 3.5%, respectively.	<u>8,479,736</u>	<u>8,479,736</u>
	<u>\$ 39,204,751</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 \$79,889,000 and \$81,037,000 at December 31, 2019 and 2018, respectively, including unamortized premium. The Series 2017 Bonds are collateralized through mortgaged property.

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

Notes to Consolidated Financial Statements

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.

The Series 2015 Bonds consist 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 \$51,979,000 and \$52,469,000 at December 31, 2019 and 2018, 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 2.36% and 2.72% as of December 31, 2019 and 2018, 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 \$22,420,000 and \$23,988,000 at December 31, 2019 and 2018, 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 2.31% and 2.72% as of December 31, 2019 and 2018, respectively. The carrying value of the 2011 Private Issue Debt was approximately \$25,279,000 and \$26,040,000 at December 31, 2019 and 2018, 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 2.29% and 2.72% as of December 31, 2019 and 2018, respectively. The carrying value of the 2010 Private Issue Debt was approximately \$26,746,000 and \$27,643,000 at December 31, 2019 and 2018, 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.

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

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

	<u>2019</u>	<u>2018</u>
Series 2017 Bonds	\$ 70,590,000	\$ 70,950,000
Series 2015 Bonds	53,020,000	53,570,000
Series 2013 Private Issue Debt	22,419,947	23,988,390
Series 2011 Private Issue Debt	25,279,323	26,039,644
Series 2010 Private Issue Debt	<u>26,746,021</u>	<u>27,643,388</u>
	198,055,291	202,191,422
Add: Net unamortized bond premium	9,298,839	10,086,892
Less: Net unamortized bond discounts	(1,041,025)	(1,100,989)
Less: Net unamortized debt issuance costs	<u>(1,776,122)</u>	<u>(1,889,263)</u>
Total debt	204,536,983	209,288,062
Less: Current portion	<u>(5,755,501)</u>	<u>(4,130,004)</u>
Long-term portion	<u>\$ 198,781,482</u>	<u>\$ 205,158,058</u>

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

2020	\$ 5,755,501
2021	5,975,807
2022	6,207,779
2023	6,452,833
2024	6,691,761
Thereafter	<u>166,971,610</u>
	198,055,291
Net unamortized bond premium	9,298,839
Net unamortized bond discounts	(1,041,025)
Net unamortized debt issuance costs	<u>(1,776,122)</u>
	<u>\$ 204,536,983</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, 2019.

The fair values of the Series 2017 Bonds are based on quoted market prices. The fair value of the Series 2017 Bonds was approximately \$82,679,000 and \$79,581,000 at December 31, 2019 and 2018, 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 \$55,829,000 and \$54,419,000 at December 31, 2019 and 2018, 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 2011, Brooks entered into two interest swaps in order to mitigate the cash flow risk associated with the 2011 Private Issue Debt. For the years ended December 31, 2019 and 2018, a swap valuation loss of approximately \$616,000 and a swap valuation gain of approximately \$519,000, respectively, was included in other gains (losses) on the consolidated statements of operations.

In 2010, Brooks entered into an interest rate swap in order to mitigate the cash flow risk associated with the 2010 Private Issue Debt. For the years ended December 31, 2019 and 2018, a swap valuation loss of approximately \$628,000 and a swap valuation gain of approximately \$427,000, respectively, was included in other gains (losses) on the consolidated statements of operations.

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, 2019 and 2018, a swap valuation gain of approximately \$1,064,000 and a swap valuation loss of approximately \$98,000, respectively, was included in other gains (losses) on the consolidated statements of operations.

December 31, 2019				
<u>Notional Amount</u>	<u>Pay (1)</u>	<u>Receive</u>	<u>Maturity Date</u>	<u>Fair Value</u>
\$ 2,699,733	3.63%	65.0% USD-LIBOR-BBA+ 1.20%	Through 6/01/2026	\$ (205,893)
\$ 22,579,590	3.63%	65.0% USD-LIBOR-BBA+ 1.20%	Through 6/01/2026	\$(1,722,014)
\$ 26,746,019	3.24%	65.0% USD-LIBOR-BBA+ 1.20%	Through 8/01/2025	\$(1,304,996)
\$ 83,590,000	SIFMA	67.0% USD-LIBOR-BBA+ 0.51%	Through 11/01/2038	\$ 2,860,941

December 31, 2018				
<u>Notional Amount</u>	<u>Pay (1)</u>	<u>Receive</u>	<u>Maturity Date</u>	<u>Fair Value</u>
\$ 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

(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:

	<u>2019</u>		<u>2018</u>	
	<u>Consolidated Balance Sheet Location</u>	<u>Fair Value</u>	<u>Consolidated Balance Sheet Location</u>	<u>Fair Value</u>
Derivatives designated as effective hedging instruments under ASC 815	Other liabilities	\$ 3,232,903	Other liabilities	\$ 1,988,931
Derivatives not designated as effective hedging instruments under ASC 815	Other liabilities	\$ (2,860,941)	Other liabilities	\$ (1,796,773)

	<u>Amount of (Loss) Gain Recognized in Net Assets</u>	
	<u>2019</u>	<u>2018</u>
Derivatives designated as effective hedging instruments under ASC 815	\$ (1,243,972)	\$ 946,620

	<u>Amount of Gain (Loss) Recognized in Excess (Deficit) of Revenues Over Expenses</u>	
	<u>2019</u>	<u>2018</u>
Derivatives not designated as effective hedging instruments under ASC 815	\$ 1,064,169	\$ (98,341)

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 \$4,249,000 and \$3,783,000 for the years ended December 31, 2019 and 2018, 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 \$530,000 and \$173,000 for the years ended December 31, 2019 and 2018, 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, 2019 and 2018, management estimated that the net present value of the contingent estimated obligation for supplemental executive retirement benefits approximated \$3,158,000 and \$2,217,000, respectively, which was recorded in other liabilities on the consolidated balance sheets. Expenses related to the contingent supplemental executive retirement benefit plan were approximately \$941,000 and \$122,000 for the years ended December 31, 2019 and 2018, respectively. The contingent benefits expected to be paid in the future subject to a 10-year vesting period are estimated as follows:

2020	\$ 616,379
2021	729,074
2022	805,545
	<u>\$ 2,150,998</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, 2019 and 2018 as follows:

	Ownership		Investment	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
HBRS	50%	50%	\$ 4,150,161	\$ 4,469,132
Cyberdyne	33%	33%	<u>(15,713)</u>	<u>13,202</u>
			<u>\$ 4,134,448</u>	<u>\$ 4,482,334</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 \$8,317,000 and \$7,802,000 for the years ended December 31, 2019 and 2018, respectively.

Amounts payable to MHJ were approximately \$2,016,000 and \$698,000 at December 31, 2019 and 2018, 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.

In 2019, Brooks pledged to give \$2,500,000 over six years to certain acute care partners in Jacksonville, Florida. The purpose of the funding is to improve the healthcare delivery system, including a proposed innovation center. The innovation center would involve clinical and technological ideas from staff to help improve outcomes for patients.

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.

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

Future payments of the pledges, by year, consist of the following at December 31, 2019:

Years ending:	
2020	\$ 575,000
2021	545,000
2022	545,000
2023	545,000
2024	<u>500,000</u>
Total balance	\$ <u>2,710,000</u>

14. Leases

Certain outpatient centers are being rented by Brooks from unaffiliated third parties under noncancelable operating leases through 2030.

Supplemental balance sheet information related to leases at December 31, 2019 was as follows:

Operating lease right-of-use assets	\$ 7,858,050
Current portion of operating lease liabilities	\$ 2,338,899
Noncurrent operating lease liabilities	<u>5,756,058</u>
Total operating lease liabilities	<u>\$ 8,094,957</u>

Other information:

Weighted average remaining lease term – operating leases	6.2 years
Weighted average discount rate – operating leases	8.7%

Future minimum lease payments, by year, consist of the following at December 31, 2019:

Years ending:	
2020	\$ 2,928,402
2021	2,432,220
2022	1,377,699
2023	1,024,424
2024	718,304
Thereafter	<u>1,569,414</u>
Total	10,050,463
Less: Interest	<u>(1,955,506)</u>
Lease liability	\$ <u>8,094,957</u>

Leases and rental expenses for all operating leases were approximately \$3,738,000 and \$2,857,000 for the years ended December 31, 2019 and 2018, respectively. Operating cash flows for operating leases were approximately \$3,263,000 for the year ended December 31, 2019.

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

Components of lease expense for the year ended December 31, 2019 includes:

Operating lease cost	\$ 752,765
Amortization of right of use asset	2,289,252
Interest on lease liabilities	<u>696,290</u>
Total lease cost	<u>\$ 3,738,307</u>

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, 2019 and 2018 was as follows:

	<u>2019</u>	<u>2018</u>
Medicare	25%	28%
Medicaid	1	3
Blue Cross	12	14
HMO/PPO	16	18
Commercial and Other	36	34
Self-pay	<u>10</u>	<u>3</u>
	<u>100%</u>	<u>100%</u>

The Medicare component of accounts receivable for other affiliates as of December 31, 2019 and 2018 was as follows:

	<u>2019</u>	<u>2018</u>
BHD	44%	42%
BAHH	74%	74%
BSN	53%	60%

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 \$5,035,000 and \$5,018,000 for the years ended December 31, 2019 and 2018, 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.

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

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>2019</u>	<u>2018</u>
Financial assistance provided (net of government support)	\$ 5,034,912	\$ 5,018,145
Benefits for the broader community (unaudited):		
Community health services	3,287,803	3,215,892
Health professions education	1,191,825	1,236,118
Research	1,227,391	980,310
Contributions and other support	<u>430,853</u>	<u>496,769</u>
	<u>\$ 11,172,784</u>	<u>\$ 10,947,234</u>

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. The outcome of certain cases is unknown and the related liability cannot be estimated. 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 \$100,000 – Home Health. As of December 31, 2019 and 2018, respectively, Brooks has recorded approximately a \$1,506,000 and \$1,809,000 liability in other liabilities on the consolidated balance sheets for its estimated losses.

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

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 \$2,179,000 and \$2,057,000 in non-current other liabilities on the consolidated balance sheets for its estimated workers compensation losses at December 31, 2019 and 2018, 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, 2019 and 2018, were approximately \$13,671,000 and \$11,711,000, respectively. The estimated claims incurred, payments on claims, and the balance of the reserve for health insurance claims for the years ended December 31, 2019 and 2018 were as follows:

	<u>2019</u>	<u>2018</u>
Claims liabilities, January 1	\$ 1,310,659	\$ 1,307,866
Expense	13,671,276	11,710,825
Claim payments	<u>(13,514,399)</u>	<u>(11,708,032)</u>
Claims liabilities, December 31	<u>\$ 1,467,536</u>	<u>\$ 1,310,659</u>

It is the opinion of management that its insurance coverages and self-insurance liabilities at December 31, 2019 and 2018 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, 2019 and 2018 for general expenditures are as follows:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 23,810,357	\$ 13,512,622
Patient receivables, net	22,867,625	23,123,768
Other current assets	<u>4,839,981</u>	<u>7,265,183</u>
	<u>\$ 51,517,963</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 as of December 31, 2019 and 2018, respectively. Brooks has access to investments of approximately \$343,500,000 and \$278,700,000 as of December 31, 2019 and 2018, respectively, that may be liquidated, if necessary, to meet unexpected liquidity needs.

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.

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

The allocation of operating expenses by function for the years ended December 31, 2019 and 2018 were as follows:

	Year Ended December 31, 2019				
	Healthcare Services				
	Hospital Based Rehabilitation	Outpatient Based Rehabilitation	Skilled Nursing	Home Health	Total
Salaries, wages and benefits	\$ 62,491,027	\$ 27,543,514	\$ 22,323,136	\$ 24,653,637	\$137,011,314
Supplies	2,324,922	269,512	2,657,405	688,130	5,939,969
Depreciation and amortization	4,585,016	1,083,501	2,594,326	2,457,765	10,720,608
Leases and rentals	975,409	1,512,745	162,684	403,453	3,054,291
Interest	2,127,400	670,130	1,480,678	1,286,688	5,564,896
Professional fees	767,859	332,484	265,250	522,573	1,888,166
Insurance	1,258,007	129,403	340,309	108,274	1,835,993
Purchased services	13,307,661	953,108	5,170,386	1,036,915	20,468,070
Other	8,127,496	(3,001,012)	2,044,284	2,759,583	9,930,351
	<u>\$ 95,964,797</u>	<u>\$ 29,493,385</u>	<u>\$ 37,038,458</u>	<u>\$ 33,917,018</u>	<u>\$196,413,658</u>
	Support Services				
	Management, General and Administrative	Fundraising	Research	Total	
Salaries, wages and benefits	\$ 17,691,836	\$ 173,877	\$ 1,019,423	\$ 18,885,136	
Supplies	211,605	104,330	7,689	323,624	
Depreciation and amortization	1,982,978	1,275	61,397	2,045,650	
Leases and rentals	(34,494)	32,989	57,315	55,810	
Interest	3,475,713	-	-	3,475,713	
Professional fees	1,337,448	3,700	90,052	1,431,200	
Insurance	150,895	-	-	150,895	
Purchased services	2,202,807	42,368	162,040	2,407,215	
Other	5,380,798	95,548	241,838	5,718,184	
	<u>\$ 32,399,586</u>	<u>\$ 454,087</u>	<u>\$ 1,639,754</u>	<u>\$ 34,493,427</u>	
	Total Healthcare Services	Total Support Services	Total Expenses		
Salaries, wages and benefits	\$137,011,314	\$ 18,885,136	\$ 155,896,450		
Supplies	5,939,969	323,624	6,263,593		
Depreciation and amortization	10,720,608	2,045,650	12,766,258		
Leases and rentals	3,054,291	55,810	3,110,101		
Interest	5,564,896	3,475,713	9,040,609		
Professional fees	1,888,166	1,431,200	3,319,366		
Insurance	1,835,993	150,895	1,986,888		
Purchased services	20,468,070	2,407,215	22,875,285		
Other	9,930,351	5,718,184	15,648,535		
	<u>\$196,413,658</u>	<u>\$ 34,493,427</u>	<u>\$ 230,907,085</u>		

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

Year Ended December 31, 2018
Healthcare Services

	Hospital Based Rehabilitation	Outpatient Based Rehabilitation	Skilled Nursing	Home Health	Total
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

Subsequent to the consolidated balance sheet date, the World Health Organization declared the outbreak of COVID-19, a novel strain of Coronavirus, a pandemic. The coronavirus outbreak is disrupting supply chains and affecting production and sales across a range of industries. The extent of the impact of the outbreak on our operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, impact on our residents, employees and vendors, and governmental, regulatory and private sector responses. As of the consolidated balance sheet date, we have significant receivable balances outstanding. The full economic impact of this pandemic has not been determined, including the impact on the creditworthiness of our payors under these circumstances.

Brooks also has a significant amount of goodwill related to prior business combinations, which is subject to impairment analysis if events or circumstances occur that would more likely than not reduce the fair value of a reporting unit below the carrying amount. The amount of any future impairment to be recognized will depend on certain developments, including the duration and spread of the outbreak, impact on our customers, employees and vendors, as well as governmental, regulatory, and private sector responses.

Additionally, Brooks carries a significant balance of marketable equity securities. As of the date of the consolidated financial statements were issued, the economic uncertainty caused by the outbreak has resulted in a severe decline in the value of marketable securities, including many of those held by Brooks.

The consolidated financial statements do not reflect any adjustments as a result of the subsequent increase in economic uncertainty.

Brooks has evaluated subsequent events through April 22, 2020 the date the consolidated financial statements were issued.

Genesis Health, Inc. and Affiliates d/b/a Brooks Rehabilitation
Consolidating Balance Sheet Information
December 31, 2019

	Brooks Health System (Parent Company)	Brooks Rehabilitation Hospital	Brooks Health Development	Brooks Skilled Nursing	Brooks Home Health	Eliminations	Consolidated
ASSETS							
Current assets:							
Cash and cash equivalents	\$ 9,374,017	\$ 4,084,812	\$ 5,832,392	\$ 1,076,726	\$ 3,442,410	\$ -	\$ 23,810,357
Patient receivables, net	-	13,213,878	1,755,881	3,945,390	3,952,476	-	22,867,625
Due from affiliates	30,348,447	75,188,330	342,948	341,476	150,245	(106,371,446)	-
Other current assets	1,550,943	1,441,991	1,537,391	185,934	123,722	-	4,839,981
Total current assets	41,273,407	93,929,011	9,468,612	5,549,526	7,668,853	(106,371,446)	51,517,963
Investments, at fair value	343,480,770	-	-	-	-	-	343,480,770
Assets limited as to use	7,756,800	-	-	-	-	-	7,756,800
Property and equipment, net	44,909,539	37,026,558	3,726,841	48,330,171	1,435,578	-	135,428,687
Operating lease right-of-use asset	-	4,447,078	2,632,813	-	778,159	-	7,858,050
Land held for development	23,088,609	-	-	-	-	-	23,088,609
Investment in affiliates	72,412,292	-	-	-	-	(72,412,292)	-
Other investments	(15,713)	-	4,150,161	-	-	-	4,134,448
Other assets, net	52,938	-	58,209	-	-	-	111,147
Goodwill	-	-	1,638,544	-	17,642,730	-	19,281,274
Intangible assets, net	-	-	27,132	7,229,476	1,085,989	-	8,342,597
Total assets	<u>\$ 532,958,642</u>	<u>\$ 135,402,647</u>	<u>\$ 21,702,312</u>	<u>\$ 61,109,173</u>	<u>\$ 28,611,309</u>	<u>\$ (178,783,738)</u>	<u>\$ 601,000,345</u>

(Continued)

**Genesis Health, Inc. and Affiliates d/b/a Brooks Rehabilitation
Consolidating Balance Sheet Information
December 31, 2019**

(Continued)

	Brooks Health System (Parent Company)	Brooks Rehabilitation Hospital	Brooks Health Development	Brooks Skilled Nursing	Brooks Home Health	Eliminations	Consolidated
LIABILITIES AND NET ASSETS							
Current liabilities:							
Accounts payable and accrued expenses	\$ 8,638,520	\$ 12,361,935	\$ 3,755,032	\$ 3,286,695	\$ 1,520,703	\$ -	\$ 29,562,885
Lines of credit	38,645,742	150,000	-	409,009	-	-	39,204,751
Current portion of long-term debt	4,300,124	287,445	39,571	785,905	342,456	-	5,755,501
Due to affiliates	8,235,120	5,764,878	15,881,779	53,128,438	23,361,231	(106,371,446)	-
Estimated third-party payor settlements	229,268	651,443	-	(57,600)	85,651	-	908,762
Current portion of operating lease liabilities	-	1,132,093	1,042,222	-	164,584	-	2,338,899
Other current liabilities	575,000	-	-	-	-	-	575,000
Total current liabilities	60,623,774	20,347,794	20,718,604	57,552,447	25,474,625	(106,371,446)	78,345,798
Long-term debt, net of current portion	155,748,950	7,991,460	1,100,148	24,420,051	9,520,873	-	198,781,482
Operating lease liabilities	-	3,440,405	1,664,846	-	650,807	-	5,756,058
Other liabilities	8,648,135	(867,035)	(13,153)	1,927,907	483,370	-	10,179,224
Total liabilities	225,020,859	30,912,624	23,470,445	83,900,405	36,129,675	(106,371,446)	293,062,562
Net assets (deficit):							
Net assets (deficit) without donor restrictions	304,810,424	104,490,023	(2,521,616)	(22,791,232)	(7,518,366)	(71,658,809)	304,810,424
Net assets with donor restrictions	2,373,876	-	-	-	-	-	2,373,876
Total net assets (deficit) attributable to Brooks Rehabilitation	307,184,300	104,490,023	(2,521,616)	(22,791,232)	(7,518,366)	(71,658,809)	307,184,300
Noncontrolling interest	753,483	-	753,483	-	-	(753,483)	753,483
Total net assets (deficit)	307,937,783	104,490,023	(1,768,133)	(22,791,232)	(7,518,366)	(72,412,292)	307,937,783
Total liabilities and net assets (deficit)	\$ 532,958,642	\$ 135,402,647	\$ 21,702,312	\$ 61,109,173	\$ 28,611,309	\$ (178,783,738)	\$ 601,000,345

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, 2019

	Brooks Health System (Parent Company)	Brooks Rehabilitation Hospital	Brooks Health Development	Brooks Skilled Nursing	Brooks Home Health	Eliminations	Consolidated
Revenues, gains, and other support:							
Net patient service revenue	\$ -	\$ 123,021,776	\$ 16,070,512	\$ 35,525,854	\$ 32,644,863	\$ -	\$ 207,263,005
Contract service revenue	-	4,617,235	9,751,853	3,978	-	-	14,373,066
Investment income, net	16,254,270	3,308,266	1,738,156	100,000	35,743	-	21,436,435
Net assets released from restrictions for operations	116,994	-	-	-	-	-	116,994
Other	26,533,059	(597,298)	6,891,572	1,593,620	22,660	(26,092,552)	8,351,061
Total revenues, gains, and other support	<u>42,904,323</u>	<u>130,349,979</u>	<u>34,452,093</u>	<u>37,223,452</u>	<u>32,703,266</u>	<u>(26,092,552)</u>	<u>251,540,561</u>
Expenses:							
Salaries, wages and benefits	18,885,136	62,491,027	27,543,514	22,323,136	24,653,637	-	155,896,450
Supplies	323,624	2,324,922	269,512	2,657,405	688,130	-	6,263,593
Depreciation and amortization	2,045,650	4,585,016	1,083,501	2,594,326	2,457,765	-	12,766,258
Leases and rentals	57,661	1,597,665	1,512,185	1,667,018	400,935	(2,125,363)	3,110,101
Interest	3,475,713	2,127,400	670,130	1,480,678	1,286,688	-	9,040,609
Professional fees	1,431,200	767,859	332,484	265,250	522,573	-	3,319,366
Insurance	150,895	1,239,304	148,106	340,309	108,274	-	1,986,888
Purchased services	2,846,370	13,738,056	1,012,601	5,493,418	1,027,411	(1,242,571)	22,875,285
Other	5,948,316	24,646,376	(380,345)	3,167,218	4,991,588	(22,724,618)	15,648,535
Total expenses	<u>35,164,565</u>	<u>113,517,625</u>	<u>32,191,688</u>	<u>39,988,758</u>	<u>36,137,001</u>	<u>(26,092,552)</u>	<u>230,907,085</u>
Operating income (loss)	<u>7,739,758</u>	<u>16,832,354</u>	<u>2,260,405</u>	<u>(2,765,306)</u>	<u>(3,433,735)</u>	<u>-</u>	<u>20,633,476</u>
Other gains (losses) :							
Equity in income from other investments	12,133,802	-	-	-	-	(12,133,802)	-
Community programs and other support	(3,063,738)	-	-	-	-	-	(3,063,738)
Change in fair value of ineffective interest rate swaps	565,078	473,420	25,671	-	-	-	1,064,169
Net unrealized losses on investments	43,874,362	-	-	-	-	-	43,874,362
Other gains (losses)	18,765	(8,923)	(30,191)	-	-	-	(20,349)
Total other gains (losses)	<u>53,528,269</u>	<u>464,497</u>	<u>(4,520)</u>	<u>-</u>	<u>-</u>	<u>(12,133,802)</u>	<u>41,854,444</u>
Excess (deficit) of revenues over expenses	61,268,027	17,296,851	2,255,885	(2,765,306)	(3,433,735)	(12,133,802)	62,487,920
Net income attributable to noncontrolling interest	-	-	(171,289)	-	-	-	(171,289)
Excess (deficit) of revenues over expenses, attributable to Brooks Rehabilitation	<u>\$ 61,268,027</u>	<u>\$ 17,296,851</u>	<u>\$ 2,084,596</u>	<u>\$ (2,765,306)</u>	<u>\$ (3,433,735)</u>	<u>\$ (12,133,802)</u>	<u>\$ 62,316,631</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, 2019**

	Brooks Health System (Parent Company)	Brooks Rehabilitation Hospital	Brooks Health Development	Brooks Skilled Nursing	Brooks Home Health	Eliminations	Consolidated
Net assets without donor restrictions:							
Excess (deficit) of revenues over expenses, attributable to Brooks Rehabilitation	\$ 61,268,027	\$ 17,296,851	\$ 2,084,596	\$ (2,765,306)	\$ (3,433,735)	\$ (12,133,802)	\$ 62,316,631
Net assets released from restrictions for purchase of property and equipment	391,092	-	-	-	-	-	391,092
Change in fair value of effective interest rate swaps	(195,368)	(195,368)	(2,921)	(615,577)	(234,738)	-	(1,243,972)
Increase (decrease) in net assets without donor restrictions	<u>61,463,751</u>	<u>17,101,483</u>	<u>2,081,675</u>	<u>(3,380,883)</u>	<u>(3,668,473)</u>	<u>(12,133,802)</u>	<u>61,463,751</u>
Net assets with donor restrictions:							
Net assets released from restrictions	(508,086)	-	-	-	-	-	(508,086)
Contributions	497,885	-	-	-	-	-	497,885
Decrease in net assets with donor restrictions	<u>(10,201)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(10,201)</u>
Noncontrolling interest:							
Change in noncontrolling interest	171,289	-	171,289	-	-	(171,289)	171,289
Increase (decrease) in net assets	61,624,839	17,101,483	2,252,964	(3,380,883)	(3,668,473)	(12,305,091)	61,624,839
Net assets (deficit), beginning 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>
Net assets (deficit), end of year	<u>\$ 307,937,783</u>	<u>\$ 104,490,023</u>	<u>\$ (1,768,133)</u>	<u>\$ (22,791,232)</u>	<u>\$ (7,518,366)</u>	<u>\$ (72,412,292)</u>	<u>\$ 307,937,783</u>

See independent auditors' report.