
Genesis HealthCare System and Subsidiaries

**Consolidated Financial Report
with Additional Information
December 31, 2019**

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Independent Auditor's Report

To the Board of Directors
Genesis HealthCare System and Subsidiaries

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Genesis HealthCare System and Subsidiaries (the "System"), which comprise the consolidated balance sheet 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of Genesis HealthCare Foundation, a controlled subsidiary, whose statements reflect total assets constituting 8 percent and 9 percent of consolidated total assets at December 31, 2019 and 2018, respectively, and 27 percent of consolidated total excess of revenue over expense for the year ended December 31, 2019 and 32 percent of consolidated total excess of expense over revenue for the year ended December 31, 2018. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Genesis HealthCare Foundation, is based solely on the report of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. Genesis HealthCare Foundation was not audited under *Government Auditing Standards*.

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 auditor's 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 the entity's 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 the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the 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, based on our audits and the report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Genesis HealthCare System and Subsidiaries as of December 31, 2019 and 2018 and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

To the Board of Directors
Genesis HealthCare System and Subsidiaries

Emphasis of Matter

As described in Note 2 to the consolidated financial statements, on January 1, 2019, the System adopted Accounting Standards Codification (ASC) 842, *Leases*, using a modified retrospective approach to the beginning of the year of adoption. Our opinion is not modified with respect to this matter.

Other Matters

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements of Genesis HealthCare System and Subsidiaries. The consolidating balance sheet and consolidating statement of operations and changes in net assets are presented for the purpose of additional analysis and are not a required part of the consolidated financial statements.

The consolidating balance sheet and consolidating statement of operations and changes in net assets are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audits 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, based on our audits and the report of other auditors for the 2019 Genesis HealthCare Foundation financial statements, the consolidating balance sheet and consolidating statement of operations and changes in net assets are fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 30, 2020 on our consideration of Genesis HealthCare System and Subsidiaries' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Genesis HealthCare System and Subsidiaries' internal control over financial reporting and compliance.



April 30, 2020

Genesis HealthCare System and Subsidiaries

Consolidated Balance Sheet

December 31, 2019 and 2018

	2019	2018
Assets		
Current Assets		
Cash and cash equivalents	\$ 44,513,444	\$ 32,724,395
Accounts receivable (Note 4)	69,401,425	61,934,722
Estimated third-party payor settlements	-	4,795,234
Inventory	14,203,712	11,173,994
Other assets	14,741,987	11,409,184
Total current assets	142,860,568	122,037,529
Assets Limited as to Use (Note 7)	205,234,847	182,184,019
Property and Equipment - Net (Note 8)	307,127,557	306,236,381
Right-of-use Operating Lease Assets (Note 10)	28,814,115	-
Beneficial Interest in Perpetual Trusts	15,514,693	14,258,247
Other Assets		
Long-term investments	1,011,763	779,370
Other noncurrent assets	4,403,846	4,434,320
Total assets	\$ 704,967,389	\$ 629,929,866

Genesis HealthCare System and Subsidiaries

Consolidated Balance Sheet (Continued)

	December 31, 2019 and 2018	
	<u>2019</u>	<u>2018</u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 27,994,183	\$ 21,205,891
Current portion of long-term debt (Note 9)	4,155,000	4,328,569
Current portion of lease liabilities - Operating (Note 10)	5,388,297	-
Current portion of lease liabilities - Financing (Note 10)	771,565	-
Estimated third-party payor settlements	2,290,533	-
Accrued liabilities and other:		
Accrued compensation	29,577,100	26,747,616
Other accrued liabilities	5,533,045	7,706,587
	<u>75,709,723</u>	<u>59,988,663</u>
Long-term Debt - Net of current portion (Note 9)	281,067,882	284,536,006
Lease Liabilities - Operating (Note 10)	25,079,466	-
Lease Liabilities - Finance (Note 10)	3,244,504	-
Other Liabilities		
Pension and other postretirement obligations (Note 14)	27,785,938	35,018,739
Deferred revenue and other long-term liabilities	-	4,785,722
Accrued professional liability	11,901,127	7,994,200
	<u>424,788,640</u>	<u>392,323,330</u>
Net Assets		
Without donor restrictions:		
Net assets	257,990,612	216,967,818
Noncontrolling interest	1,066,927	878,100
With donor restrictions	21,121,210	19,760,618
	<u>280,178,749</u>	<u>237,606,536</u>
Total liabilities and net assets	<u>\$ 704,967,389</u>	<u>\$ 629,929,866</u>

Genesis HealthCare System and Subsidiaries

Consolidated Statement of Operations

Years Ended December 31, 2019 and 2018

	2019	2018
Unrestricted Revenue, Gains, and Other Support		
Patient service revenue (Note 5)	\$ 527,138,747	\$ 465,803,474
Pharmacy sales and other	90,363,979	81,246,614
Total unrestricted revenue, gains, and other support	617,502,726	547,050,088
Expenses		
Salaries and wages	242,478,840	215,779,350
Employee benefits and payroll taxes	55,956,969	54,397,567
Operating supplies and expenses	91,257,471	80,027,558
Professional services and consultant fees	24,075,010	17,739,102
Purchased services	50,224,315	44,534,681
Utilities	6,629,886	6,889,040
Repairs, rentals, insurance, and other	58,148,437	48,163,942
Pharmacy cost of goods sold	41,759,300	39,057,454
Depreciation	23,251,317	22,907,031
Interest expense	14,821,323	14,627,405
Total expenses	608,602,868	544,123,130
Operating Income	8,899,858	2,926,958
Other Income (Loss)		
Investment income (Note 7)	4,038,769	4,812,680
Unrealized gains (losses) on trading securities (Note 7)	20,677,320	(14,232,979)
Pension settlement costs	(8,427,348)	-
Pension expense	(3,153,804)	(1,927,891)
Other	396,049	1,366,778
Total other income (loss)	13,530,986	(9,981,412)
Excess of Revenue Over (Under) Expenses	22,430,844	(7,054,454)
Pension-related Changes Other Than Net Periodic Cost	14,006,797	(1,128,061)
Cumulative Effect of Change in Accounting Principle	3,850,052	-
Net Assets Released from Restriction for Capital Equipment	923,928	700,566
Increase (Decrease) in Net Assets without Donor Restrictions	\$ 41,211,621	\$ (7,481,949)

Genesis HealthCare System and Subsidiaries

Consolidated Statement of Changes in Net Assets

Years Ended December 31, 2019 and 2018

	2019	2018
Net Assets without Donor Restrictions		
Excess of revenue over (under) expenses	\$ 22,430,844	\$ (7,054,454)
Cumulative effect of change in accounting principle	3,850,052	-
Pension-related changes other than net periodic cost	14,006,797	(1,128,061)
Net assets released from restriction for capital equipment	923,928	700,566
	<u>41,211,621</u>	<u>(7,481,949)</u>
Net Assets with Donor Restrictions		
Restricted contributions	1,028,074	737,574
Net unrealized gain (loss) in fair value of perpetual trusts	1,256,446	(229,199)
Net assets released from restriction for capital equipment	(923,928)	(700,566)
	<u>1,360,592</u>	<u>(192,191)</u>
Increase (Decrease) in Net Assets	42,572,213	(7,674,140)
Net Assets - Beginning of year	237,606,536	245,280,676
Net Assets - End of year	<u><u>\$ 280,178,749</u></u>	<u><u>\$ 237,606,536</u></u>

Genesis HealthCare System and Subsidiaries

Consolidated Statement of Cash Flows

Years Ended December 31, 2019 and 2018

	2019	2018
Cash Flows from Operating Activities		
Increase (decrease) in net assets	\$ 42,572,213	\$ (7,674,140)
Adjustments to reconcile increase (decrease) in net assets to net cash and cash equivalents from operating activities:		
Depreciation and amortization	23,510,994	23,050,796
Unrealized (gain) loss on trading securities	(20,677,320)	14,232,979
Net realized gain on investments	(1,189,502)	(1,811,239)
Pension-related changes other than net periodic cost	(14,006,797)	1,128,061
Restricted contributions	(1,028,074)	(737,574)
Net unrealized (gain) loss in fair value of perpetual trusts	(1,256,446)	229,199
Cumulative effect of change in accounting principle	(3,850,052)	-
Changes in operating assets and liabilities that (used) provided cash and cash equivalents:		
Accounts receivable	(7,466,703)	4,499,933
Inventory and other assets	(6,352,120)	(3,231,571)
Estimated third-party payor settlements	7,085,767	(8,184,619)
Accounts payable	6,788,292	3,733,809
Accrued compensation and other	655,942	(202,568)
Deferred revenue	-	(845,961)
Accrued professional liability, pension, and other	11,206,919	178,097
Net cash and cash equivalents provided by operating activities	35,993,113	24,365,202
Cash Flows from Investing Activities		
Purchase of property and equipment	(18,730,124)	(21,159,048)
Proceeds from sale of property and equipment	162,000	355,330
Purchases of investments and assets limited as to use	(15,706,271)	(3,427,594)
Proceeds from sale of investments and assets limited as to use	14,289,872	2,694,609
Net cash and cash equivalents used in investing activities	(19,984,523)	(21,536,703)
Cash Flows from Financing Activities		
Principal payments on long-term debt	(14,381,905)	(3,755,000)
Proceeds from restricted contributions	1,028,074	737,574
Proceeds from (payments on) revolving credit loan	9,134,290	(6,000,000)
Proceeds from bond issuance	-	6,713,353
Net cash and cash equivalents used in financing activities	(4,219,541)	(2,304,073)
Net Increase in Cash and Cash Equivalents	11,789,049	524,426
Cash and Cash Equivalents - Beginning of year	32,724,395	32,199,969
Cash and Cash Equivalents - End of year	\$ 44,513,444	\$ 32,724,395
Supplemental Cash Flow Information		
Cash paid for interest - Net of capitalized interest	\$ 14,810,000	\$ 14,615,000
Right-of-use operating lease assets recorded as of January 1, 2019	33,371,617	-
Right-of-use finance lease assets obtained via finance lease obligations during the year	1,309,750	-
Right-of-use finance lease reclassified via ASC 842 implementation	4,264,618	-

Genesis HealthCare System and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

Note 1 - Nature of Business

Genesis HealthCare System (the "System") is a nonprofit corporation organized under the laws of the State of Ohio to provide and promote healthcare services.

Effective January 1, 1997, Bethesda Care System (Bethesda Care), an Ohio nonprofit corporation, signed an affiliation agreement (the "agreement") with Good Samaritan Medical Center of the Franciscan Sisters of Christian Charity (GSMC), an Ohio nonprofit corporation, and Franciscan Sisters of Christian Charity Sponsored Ministries, Inc., a Wisconsin nonstock nonprofit corporation (FSCCM), which is the sole corporate member of GSMC. The agreement provided for the creation of Genesis HealthCare System, of which Bethesda Care and FSCCM are 50 percent comembers. The agreement provides for the integration of GSMC and Bethesda Care operations under the System and shall be a community-based healthcare delivery system operating a Catholic community hospital and healthcare system.

The System is the sole corporate member of CareServe and its subsidiaries (CareServe) and Genesis HealthCare Foundation (the "Foundation"). In addition, the System owns 100 percent of the stock of CareLife, Inc. and its wholly owned subsidiaries. The System also has a 75 percent member interest in Community Ambulance Service (CAS).

All rights, titles, and interest of Bethesda Care and GSMC and their nonprofit and for-profit subsidiaries were transferred to the System on January 1, 1997, with the exception of legal title to certain real property comprising substantially all of Bethesda Hospital and GSMC's current campuses, and cash and investments totaling approximately \$5,710,000 for each member. Bethesda Care and GSMC have entered into a 70-year lease agreement to lease the nontransferred real property to the System for a nominal amount. Related debt of Bethesda Care and GSMC was transferred to the System effective January 1, 1997.

During 2004, the System established Southeast Ohio Medical Insurance Company, Ltd. (SOMIC), a wholly owned captive insurance company incorporated in the Cayman Islands. Effective August 1, 2004, SOMIC began providing professional liability and related general liability insurance to the System and certain employed health professionals. SOMIC also provides professional liability and related general liability coverage to participating staff physicians.

During 2010, the System entered into a joint venture with an Ohio limited liability company (Alternate Solutions Healthcare Central, LLC) to form Zanesville Homecare Ventures, LLC (Genesis Homecare). The System assigned 100 percent of its membership interest to CareLife, Inc. Each member owns 50 percent of Zanesville Homecare Ventures, LLC. The operations of Genesis Homecare are accounted for using the equity method on CareLife, Inc.

During 2013, the System established Ohio Integrated Care Providers, LLC (OICP). OICP was developed to create a clinically integrated system to develop improved patient care and lower healthcare costs. As of December 31, 2019, OICP does not have any risk-based contracts to provide these services.

During 2019, the System established Genesis Anesthesia Providers, LLC (GAP). The System assigned 100 percent of its membership interest to CareLife, Inc. GAP provides professional anesthesia services to support the operations of the System.

The System paid approximately \$1,932,000 and \$1,890,000 in 2019 and 2018, respectively, to FSCCM for management and support services.

December 31, 2019 and 2018

Note 2 - Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include all the accounts of the System, including all wholly owned subsidiaries and majority-owned entities. The noncontrolling interest in majority-owned entities on the December 31, 2019 and 2018 consolidated balance sheet represents a 25 percent outside membership interest in CAS. The System consolidated the balance sheet and statement of operations and changes in net assets of CAS. All material intercompany accounts and transactions have been eliminated in consolidation.

Cash and Cash Equivalents

Cash and cash equivalents include cash and highly liquid investments purchased with an original maturity of three months or less, excluding those amounts included in assets limited as to use.

Accounts Receivable

Accounts receivable for patients, insurance companies, and governmental agencies are based on gross charges, reduced for explicit price concessions provided to third-party payors, discounts provided to qualifying individuals as part of a financial assistance policy, and implicit price concessions provided primarily to self-pay patients. Estimates for explicit price concessions are based on provider contracts, payment terms for relevant prospective payment systems, and historical experience, adjusted for economic conditions and other trends affecting the System's ability to collect outstanding amounts.

For receivables associated with self-pay patients (which include both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the System records significant implicit price concessions in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible.

Inventories

Inventories, which consist of medical and office supplies and pharmaceutical products, are stated at the lower of cost or net realizable value, determined on a first-in, first-out basis.

Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the consolidated balance sheet. Investments in partnerships and limited liability companies are reported using the equity method of accounting. Investment income or loss (including realized and unrealized gains and losses on investments, interest, and dividends) is included in excess of revenue over expenses unless the income or loss is restricted by donor or law.

The System invests much of its funds in the FSCCM pooled investment management program. The pooled investment management program primarily invests in cash and cash equivalents, marketable equity securities, corporate and government bonds, mutual funds, common collective funds, fund of funds hedge funds, real estate funds, and private equity funds. Earnings in the pooled investment program are allocated to the participants based upon each participant's weighted-average percentage of the pooled investment fund.

Investment securities are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported on the consolidated balance sheet.

December 31, 2019 and 2018

Note 2 - Significant Accounting Policies (Continued)

Beneficial Interest in Perpetual Trust

The Foundation is the beneficiary of certain funds held in trust by others, which represent resources neither in the possession nor under the control of the Foundation, but held in perpetuity and administered by outside trustees, with the Foundation deriving income from a portion of the assets held in such trusts. The Foundation's interest in perpetual trusts is recorded at the fair market value of the Foundation's interest in the trust and is recorded as an investment held for long-term purposes. The contribution revenue from perpetual trusts is an increase in net assets with donor restrictions.

Cash distributions received by these perpetual trusts are reported as investment income in the accompanying consolidated statement of operations. The investment income is reported as increases in net assets with donor restrictions or net assets without donor restrictions based upon the existence or absence of donor-imposed restrictions.

Changes in the fair market value of the Foundation's portion of the funds held in perpetual trusts are reported in the accompanying consolidated statement of operations as a net unrealized gain or loss in net assets with donor restrictions.

Assets Limited as to Use

Assets limited as to use include assets designated by the board of directors for future capital improvement, assets held by trustees under indenture agreements, funds received by donors, and assets held for professional and other liability claims. The board retains control over assets held for future capital improvements and may, at its discretion, use them for other purposes.

Property and Equipment

Property and equipment purchases are recorded at cost or at fair value if acquired by gift. Depreciation is computed principally using the straight-line method over the estimated useful lives of the assets. Costs of maintenance and repairs are charged to expense when incurred. Interest was incurred on borrowed funds during construction of capital assets during 2019 and 2018, and the System has recorded capitalized interest.

Professional and Other Liability Insurance

The System accrues an estimate of the ultimate expense, including litigation and settlement expense, for incidents of potential improper professional service and other liability claims occurring during the year, as well as for those claims that have not been reported at year end.

Classification of Net Assets

Net assets of the System are classified based on the presence or absence of donor-imposed restrictions.

Earnings, gains, and losses on restricted net assets are classified as net assets without donor restrictions unless specifically restricted by the donor or by applicable state law. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are released to net assets without donor restrictions.

At December 31, 2019, net assets with donor restrictions of \$2,091,627 and \$19,029,583 are subject to the passage of time and subject to expenditure for specified purpose, respectively. At December 31, 2018, net assets with donor restrictions of \$2,004,968 and \$17,755,650 are subject to the passage of time and subject to expenditure for specified purpose, respectively.

December 31, 2019 and 2018

Note 2 - Significant Accounting Policies (Continued)

Revenue Recognition - Patient Service Revenue

Patient care service revenue is reported at the amount that reflects the consideration to which the System expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government programs), and others and include variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. The System bills the patients and third-party payors several days after the services are performed or the patient is discharged from the facility. Revenue is recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided by the System. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected (or actual) charges. The System believes that this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients in our hospital receiving inpatient acute care services or patients receiving services in our outpatient centers or other clinical settings. The System measures the performance obligation from admission into the hospital, or the commencement of an outpatient services or other visit, to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge or completion of the outpatient services or other visit.

Because all of its performance obligations relate to contracts with a duration of less than one year, the System has elected to apply the optional exemption provided in Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 606-10-50-14 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 acute care services at the end of the reporting period. The performance obligations for these contracts are completed when the patients are discharged, which occurs within days or weeks of the end of the reporting period.

The System determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payors, discounts provided to uninsured patients in accordance with the System's policy, and implicit price concessions provided to uninsured patients. The System determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies, and historical experience. The System determines its estimate of implicit price concessions based on its historical collection experience with this class of patients.

Charity Care

The System provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than established rates. Because the System does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as revenue.

December 31, 2019 and 2018

Note 2 - Significant Accounting Policies (Continued)

Charity care is determined based on established policies, using patient income and assets to determine payment ability. The amount reflects the cost of free or discounted health services, net of contributions and other revenue received, as direct assistance for the provision of charity care. The estimated cost of providing charity services is based on a calculation that applies a ratio of cost to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on the System's total operating expenses divided by gross patient service revenue. The System estimates that it provided approximately \$2,290,000 and \$2,064,000 of services to indigent patients during 2019 and 2018, respectively. The System recorded gross distributions from the Ohio Medicaid Hospital Care Assurance Program (HCAP) of \$9,596,693 as revenue and gross assessments to the Ohio Medicaid HCAP program of \$2,209,578 as operating expense. In 2018, the System recorded net distributions from the Ohio Medicaid HCAP program of \$8,916,000 as revenue. It is estimated that approximately \$1,041,000 and \$1,302,000 of the total net distributions from the Ohio HCAP program related to HCAP and charity patients during 2019 and 2018, respectively.

Pharmacy Sales and Other Revenue

Revenue is primarily composed of retail pharmacy sales, home infusion services, durable medical equipment sales, revenue from electronic health records incentive payments, and hospital cafeteria sales. Retail pharmacy sales, durable medical equipment sales, and hospital cafeteria sales are performance obligations that are satisfied at a point in time. The System recognizes revenue at a point in time when goods are provided to patients and customers in a retail setting and the System does not believe it is required to provide additional goods or services related to that sale. The System determines the transaction price based on standard charges for goods provided, which is collected at the time of the sale. Revenue recognized in other operating revenue for performance obligations satisfied at a point in time totaled \$83,549,848 and \$72,475,995 for December 31, 2019 and 2018, respectively. The remaining revenue recognized in other operating revenue relates to revenue from contracts with customers that is recognized over time and rentals and nonexchange revenue.

Contributions

The System reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statement of changes in net assets as net assets released from restrictions.

The System reports gifts of property and equipment as net assets without donor restrictions unless explicit donor stipulations specify how the donated assets must be used. Gifts of cash or other assets that must be used to acquire long-lived assets are reported as donor-restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the System reports the expiration of donor restrictions when the assets are placed in service.

Excess of Revenue Over (Under) Expenses

The consolidated statement of operations includes excess of revenue over expenses. Changes in net assets without donor restrictions, which are excluded from excess of revenue over expenses, consistent with industry practice, include net assets released from restrictions for the acquisition of long-lived assets, permanent transfers of assets to and from affiliates for other than goods and services, capital distributions to joint venture partners, and pension-related changes other than net periodic cost.

December 31, 2019 and 2018

Note 2 - Significant Accounting Policies (Continued)

Use of Estimates

The preparation of 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 and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Tax Status

The System and its subsidiaries are tax-exempt organizations, except for CareLife; accordingly, no tax provision is reflected in the consolidated financial statements.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the System and to recognize a tax liability if the System has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service or other applicable taxing authorities.

Subsequent Events

The consolidated financial statements and related disclosures include evaluation of events up through and including April 30, 2020, which is the date the consolidated financial statements were available to be issued.

Management has evaluated subsequent events through April 30, 2020, the date the financial statements were issued. The large-scale COVID-19 pandemic has had adverse effects on patient volumes beginning in mid-March 2020 due to government mandates on elective procedures and will likely have an adverse effect on the System's revenue, liquidity, and operating results. The System has taken steps to reduce expenses throughout the System and received funds from the Medicare accelerated payment program and amounts related to the stimulus program outlined in the Coronavirus Aid, Relief, and Economic Security Act.

New Accounting Pronouncement

In February 2016, the Financial Accounting Standards Board established Accounting Standards Codification 842, *Leases*, by issuing Accounting Standards Update No. 2016-02, which requires lessees to recognize leases with terms longer than 12 months on the balance sheet and disclose key information about leasing arrangements. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of operations. The classification criteria for distinguishing between operating and finance (previously capital) leases are substantially similar to the previous lease guidance, but with no explicit bright lines included within the classification criteria.

The System adopted the standard as of January 1, 2019, electing the transition method that allows it to apply the standard as of the adoption date and record a cumulative-effect adjustment in net assets, if applicable. The new standard provides practical expedients for an entity's ongoing accounting. The System has made an accounting policy to keep leases with an initial term of 12 months or less off of the consolidated balance sheet and recognize those lease payments in the consolidated statements of operations on a straight-line basis over the lease term. The adoption of this standard resulted in recognition of right-of-use assets and lease liabilities of \$33,371,617 on the consolidated balance sheet as of January 1, 2019. The System has prior sale-leaseback arrangements. Under the arrangements, the System sold property and leased it back. The leasebacks have been accounted for as operating leases. The gain on the transactions is deferred and recognized into income in proportion to rental expense over the term of the lease. Effective January 1, 2019, the remaining deferred revenue for sale-leaseback arrangements of \$3,850,052 was adjusted through a cumulative effect change in net assets with the adoption of Accounting Standards Codification 842, *Leases*.

Genesis HealthCare System and Subsidiaries

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Note 3 - Cash in Excess of Insured Limits

The System and its subsidiaries maintain cash and investment balances at several financial institutions located in the vicinity of Zanesville, Ohio. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 per institution. As of December 31, 2019 and 2018, the System holds funds at various institutions in excess of insured limits.

Note 4 - Patient Accounts Receivable

Patient accounts receivable are based on the estimated transaction price for completed contracts, which totals \$69,401,425 and \$61,934,722 at December 31, 2019 and 2018, respectively.

The System grants credit without collateral to patients, most of whom are local residents and are insured under third-party payor agreements. The composition of receivables from patients and third-party payors was as follows:

	2019	2018
Medicare and Medicare HMO	24 %	10 %
Medicaid and Medicaid HMO	7	7
Commercial insurance and other	47	60
Self-pay	22	23
Total	100 %	100 %

Note 5 - Patient Service Revenue

The System has agreements with third-party payors that provide for reimbursement at amounts different from established rates. A summary of the basis of reimbursement with these third-party payors is as follows:

Medicare

Inpatient, acute-care, and rehabilitation services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system based on clinical, diagnostic, and other factors. Outpatient and home care services related to Medicare beneficiaries are reimbursed based on a prospectively determined amount per episode of care.

Medicaid

Inpatient acute care hospital services are reimbursed on a prospective basis using the All Patient Refined Diagnosis Related Group (APR-DRG) system. Outpatient acute care services are reimbursed on a prospective basis using the Enhanced Ambulatory Patient Groups (EAPG) system.

The Medicaid payment system in Ohio is a prospective one, whereby rates for the following state fiscal year beginning July 1 are based upon filed cost reports for the preceding calendar year. The continuity of this system is subject to the uncertainty of the fiscal health of the State of Ohio, which can directly impact future rates and the methodology currently in place. Any significant changes in rates, or the payment system itself, could have a material impact on the future Medicaid funding to providers.

Other Third-party Payors

The System has also entered into agreements with certain commercial carriers, health maintenance organizations, and preferred provider organizations. The basis for reimbursement to the System under these agreements is discounts from established charges, prospectively determined rates per discharge, and prospectively determined daily rates.

Note 5 - Patient Service Revenue (Continued)

Health Maintenance Organizations (HMOs)

Services rendered to HMO beneficiaries are paid at predetermined rates or at a percentage of system charges.

Cost report settlements result from the adjustment of interim payments to final reimbursement under the Medicare and Medicaid programs that are subject to audit by fiscal intermediaries. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

Laws and regulations concerning government programs, including Medicare and Medicaid, are complex and subject to varying interpretation. As a result of investigations by governmental agencies, various healthcare entities have received requests for information and notices regarding alleged noncompliance with those laws and regulations, which, in some instances, have resulted in entities entering into significant settlement agreements. Compliance with such laws and regulations may also be subject to future government review and interpretation, as well as significant regulatory action, including fines, penalties, and potential exclusion from the related programs. There can be no assurance that regulatory authorities will not challenge the System's compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have upon the System. In addition, the contracts the System has with commercial payors also provide for retroactive audit and review of claims.

Settlements with third-party payors for retroactive adjustments due to audits, reviews, or investigations are treated as variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor, and the System's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available) or as years are settled or are no longer subject to such audits, reviews, and investigations.

Generally, patients who are covered by third-party payors are responsible for related deductibles and coinsurance, which vary in amount. The System also provides services to uninsured patients and offers those uninsured patients a discount, either by policy or law, from standard charges. The System estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. For the years ended December 31, 2019 and 2018, changes in its estimates of implicit price concessions, discounts, and contractual adjustments for performance obligations satisfied in prior years were not significant. 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 for the years ended December 31, 2019 and 2018 was not significant to the System.

Consistent with the System's mission, care is provided to patients regardless of their ability to pay. Therefore, the System has determined it has provided implicit price concessions to uninsured patients and patients with other uninsured balances (for example, copays and deductibles). The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amounts the System expects to collect based on its collection history with those patients.

Genesis HealthCare System and Subsidiaries

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Note 5 - Patient Service Revenue (Continued)

Patients who meet the System's criteria for charity care are provided care without charge or at amounts less than established rates. Such amounts determined to qualify as charity care are not reported as revenue.

The System has determined that the nature, amount, timing, and uncertainty of revenue and cash flows are affected primarily by payor. The composition of net patient service revenue by primary payor for the years ended December 31, 2019 and 2018 is as follows:

	2019	2018
Medicare and Medicare HMOs	\$ 201,831,451	\$ 180,565,529
Medicaid and Medicaid HMOs	64,128,708	61,012,262
Anthem	74,046,005	67,755,413
Commercial insurance and other	150,159,921	136,084,694
Self-pay	36,972,662	20,385,576
Total	<u>\$ 527,138,747</u>	<u>\$ 465,803,474</u>

Revenue from patient's deductibles and coinsurance are included in the categories presented above based on the primary payor.

The System recognizes patient service revenue over time, as patients simultaneously receive and consume benefits provided as care is administered. Total patient service revenue recognized over time was \$527,138,747 and \$465,803,474 for December 31, 2019 and 2018, respectively.

Financing Component

The System has elected the practical expedient allowed under FASB ASC 606-10-32-18 and does not adjust the promised amount of consideration from patients and third-party payors for the effects of a significant financing component due to the System's expectation that the period between the time the service is provided to a patient and the time that the patient or a third-party payor pays for that service will be one year or less. However, the System 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.

Note 6 - Community Benefit

In support of its mission, the System provides various health-related services, at a loss, to the indigent and other residents in its service area. The following is a summary of the System's community benefit expense:

	2019	2018
Community partnership programs (unaudited)	\$ 3,076,000	\$ 2,767,000
Donations/Contributions (unaudited)	398,000	401,000
Traditional charity care	2,290,000	2,064,000
Unpaid costs for government program patients (unaudited)	35,975,000	34,712,000
Total	<u>\$ 41,739,000</u>	<u>\$ 39,944,000</u>

Community Partnership Programs

Community partnership programs include programs provided to persons with inadequate healthcare resources or for other groups within the community that need special services and support. Examples include programs related to the poor, elderly, substance abuse, child abuse, and others with specific particular healthcare needs. They also include broader populations who benefit from health community initiatives, such as health promotion, education, and health screening.

Genesis HealthCare System and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

Note 6 - Community Benefit (Continued)

Donations/Contributions

Donations/Contributions include cash and in-kind donations that are made on behalf of the poor and needy to community agencies and to special funds for charitable activities, as well as resources contributed directly to programs, organizations, and foundations for efforts on behalf of the poor and disadvantaged.

Traditional Charity Care

Traditional charity care covers services provided to persons who cannot afford to pay. The amount reflects the cost of free or discounted health services, net of contributions and other revenue received, as direct assistance for the provision of charity care. Charity care is determined based on established policies, using patient income and assets to determine payment ability.

Unpaid Costs for Government Program Patients

The System is a licensed Medicare and Medicaid provider, with approximately 77 percent of its patient base qualifying for one of these two programs. At present, the reimbursement rates for both programs do not fully cover the cost of provider care to these patients. This represents the estimated shortfall created when a facility receives payments below the costs of treating Medicare and Medicaid beneficiaries.

Note 7 - Assets Limited as to Use

The detail of investments is summarized as follows:

	2019	2018
Assets limited as to use:		
By board of directors for future capital improvements	\$ 121,971,725	\$ 103,570,447
Funds held in trust for payment of debt service	28,217,261	27,765,198
Funds received from donors	41,522,891	36,882,454
Funds held for professional and other liability claims	13,522,970	13,965,920
	<u>\$ 205,234,847</u>	<u>\$ 182,184,019</u>

Investments consist of the following:

	2019	2018
Cash equivalents	\$ 28,288,026	\$ 28,078,105
Alternative investments	9,395,074	9,077,589
Marketable equity securities	8,697,907	6,567,999
Mutual funds	35,821,515	33,829,279
Real estate	1,060,600	1,060,600
Investment in FSCCM pooled investment management program	121,971,725	103,570,447
	<u>\$ 205,234,847</u>	<u>\$ 182,184,019</u>

Investment income and gains are composed of the following:

	2019	2018
Investment income	\$ 2,849,267	\$ 3,001,441
Net realized gains on sales of investments	1,189,502	1,811,239
Unrealized investment gains	20,677,320	(14,232,979)
	<u>\$ 24,716,089</u>	<u>\$ (9,420,299)</u>

Genesis HealthCare System and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

Note 8 - Property and Equipment

Cost of property and equipment and depreciable lives are summarized as follows:

	2019	2018	Depreciable Life - Years
Land and land improvements	\$ 23,724,981	\$ 23,668,214	10-15
Buildings and fixed equipment	261,879,823	258,451,466	7-50
Major movable and minor equipment	238,875,841	226,198,242	3-13
Construction in progress	8,549,559	1,621,441	-
Total cost	533,030,204	509,939,363	
Less accumulated depreciation	225,902,647	203,702,982	
Net property and equipment	<u>\$ 307,127,557</u>	<u>\$ 306,236,381</u>	

Note 9 - Long-term Debt

Long-term debt is as follows:

	2019	2018
Muskingum County, Ohio Hospital Facilities Revenue Bonds, Series 2013, dated May 9, 2013, due on February 15, 2048, maturing in various amounts through 2048, with interest due semiannually, interest rates ranging from 4.0 to 5.0 percent	\$ 280,320,000	\$ 284,270,000
Perry County, Ohio Hospital Facilities Revenue Bonds, Series 2017, dated September 1, 2017, due on September 1, 2037, maturing in various amounts through 2037, with interest due monthly, interest rates initially at 65.001 percent multiplied by the one-month London Interbank Offered Rate (LIBOR) plus 1.46 percent (2.99 percent at December 31, 2018)	-	9,085,660
Line of credit	9,134,290	-
Unamortized bond discount	(287,453)	(297,569)
Unamortized debt issuance costs	(3,943,955)	(4,193,516)
Long-term debt less unamortized bond discount and debt issuance costs	285,222,882	288,864,575
Less current portion	4,155,000	4,328,569
Long-term portion	<u>\$ 281,067,882</u>	<u>\$ 284,536,006</u>

In May 2013, the County of Muskingum, Ohio issued \$295,000,000 of tax-exempt bonds on behalf of the Obligated Group (see below). The bonds were issued to finance the construction of an addition and the related renovations of one of the System's hospital campuses (Bethesda) and refinance outstanding debt.

In September 2017, the County of Perry, Ohio issued \$10,000,000 of tax-exempt bonds on behalf of the Obligated Group. The bonds were issued to purchase and finance the construction and furnishing of the Genesis Perry County Medical Center. Interest-only payments are required monthly on the bonds through February 2019. The System paid off the bonds in full in December 2019.

Genesis HealthCare System and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

Note 9 - Long-term Debt (Continued)

In December 2019, the System opened a line of credit with a local bank for an outstanding amount of up to \$10,000,000. The System pays interest on the outstanding principal balance based on an independent index plus 1.50 percentage points. At December 31, 2019, the interest rate was 3.44 percent. Monthly payments of interest only are due until the line of credit expires on December 1, 2022. As of December 31, 2019, the outstanding balance was \$9,134,290.

In 2019, the System paid interest of \$14,810,000, of which \$0 was capitalized. In 2018, the System paid interest of \$14,690,000, of which \$75,000 was capitalized.

The System formed an obligated group to accomplish common financing plans. The obligated group is governed by a master agreement and is composed of Genesis HealthCare System; CareServe; CareLife; Inc. and Subsidiaries; Ohio Integrated Care Providers; and the Genesis HealthCare Foundation (collectively, the "Obligated Group"). Each member of the Obligated Group is jointly and severally obligated with respect to substantially all of the debt for the System.

The terms of the debt require the Obligated Group to, among other things, comply with certain financial ratios, restrict additional encumbrances, maintain rates sufficient to meet debt service requirements, and maintain specified net assets.

The affiliation agreement (described in Note 1) also established a credit enhancement and line of credit agreement. In addition, the credit enhancement and line of credit agreement provide that the System could loan or provide credit support to FSCCM up to certain specified limits. Such loans cannot exceed 25 percent of the debt capacity of the System, as defined in the affiliation agreement, and interest is payable based on the Dow Jones Bond Averages, 20 Bond Taxable Index. FSCCM does not anticipate exercising the line of credit in 2019. In lieu of borrowing amounts from the System, FSCCM has the option to seek credit enhancement from the System. The System shall have the option to become a member of FSCCM's obligated group with respect to the proposed borrowing, provide a contractual guarantee with respect to the proposed borrowing, or pay to FSCCM credit enhancement payments with respect to such proposed borrowing for the difference between the credit rating obtained with and without the System as a member of the FSCCM obligated group. No loans or credit support were provided to FSCCM by the System in 2019 or 2018.

Minimum principal payments on long-term debt to maturity as of December 31, 2019 are as follows:

2020	\$	4,155,000
2021		4,365,000
2022		13,724,290
2023		4,800,000
2024		5,020,000
Thereafter		257,390,000
Less unamortized bond discount		(287,453)
Less unamortized debt issuance costs		(3,943,955)
Total	\$	<u>285,222,882</u>

Note 10 - Leases

The System is obligated under operating leases primarily for equipment and buildings, expiring at various dates through 2080, with a weighted-average remaining term of 4.75 years. The right-of-use asset and related lease liability have been calculated using a weighted-average discount rate of 4.75 percent. The leases require the System to pay taxes, insurance, utilities, and maintenance costs.

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

Note 10 - Leases (Continued)

The System also leases equipment and buildings under long-term lease arrangements that are classified as finance leases. Under the terms of the lease agreements, payments are due monthly through 2037, with a weighted-average remaining term of 6.07 years. The right-of-use asset and related lease liability have been calculated using a weighted-average discount rate of 4.53 percent.

The System assesses whether it is reasonably certain to exercise an option to extend or terminate a lease at the lease commencement date. In this assessment, the System considers all relevant factors that create economic incentive to exercise such options, including asset, contract, market, and entity-based factors.

When readily determinable, the System utilizes the interest rate implicit in a lease to determine the present value of future lease payments. For leases where the implicit rate is not readily determinable, the System's incremental borrowing rate is used.

The System has made a policy election not to separate lease and nonlease components for equipment leases. Therefore, the full amount of the lease payment is included in the recorded right-of-use asset and lease liability.

Expenses recognized under these leases consist of the following:

Years Ended December 31	Operating Leases	Finance Leases		Total Expense
	Lease Expense	Amortization Expense	Interest Expense	
2019	\$ 7,761,887	\$ 2,770,019	\$ 212,055	\$ 10,743,961
2018	9,724,000	-	-	9,724,000

Supplemental consolidated balance sheet information related to leases was as follows:

Balance Sheet Classification	2019
Finance lease right-of-use assets reported within property and equipment	\$ 5,574,369
Finance lease accumulated amortization - Reported within property and equipment	(1,558,300)
Total	\$ 4,016,069
Cash Paid for Amounts Included in the Measurement of Lease Liabilities	2019
Operating cash flows for operating leases	\$ 7,761,887
Operating cash flows for finance leases	212,055
Financing cash flows for finance leases	2,770,019
Total	\$ 10,743,961

Genesis HealthCare System and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

Note 10 - Leases (Continued)

Future minimum rent on noncancelable leases as of December 31, 2019 for each of the next five years, and in the aggregate, is as follows:

Years Ending December 31	Operating Leases	Finance Leases	Total Payments
2020	\$ 6,748,482	\$ 1,715,013	\$ 8,463,495
2021	6,493,821	878,731	7,372,552
2022	6,070,738	316,549	6,387,287
2023	4,778,946	277,579	5,056,525
2024	4,092,589	155,420	4,248,009
Thereafter	7,072,016	1,434,010	8,506,026
Total	35,256,592	4,777,302	40,033,894
Less amount representing interest	4,788,829	761,233	5,550,062
Present value of net minimum lease payments	30,467,763	4,016,069	34,483,832
Less current obligations	5,388,297	771,565	6,159,862
Long-term obligations under capital leases	\$ 25,079,466	\$ 3,244,504	\$ 28,323,970

Note 11 - Professional Liability Insurance

Effective August 1, 2004, the System, through SOMIC, maintains a policy of self-insuring its professional liability risks for individual losses up to specified amounts per claim. In addition, the self-insurance plan has specified annual aggregate limits. The System carries commercial insurance coverage for incidents that would exceed coverages specified by the self-insurance program on a claims-made basis.

Because of the nature of its operations, the System is at all times subject to pending and threatened legal actions that arise in the normal course of its activities.

Malpractice and general patient liability claims for incidents that may give rise to litigation have been asserted against the System and attending physicians with insurance coverage provided by SOMIC by various claimants. The claims are in various stages of processing, and some may ultimately be brought to trial. There are also known incidents that have occurred through December 31, 2019 that may result in the assertion of additional claims. There may be other claims from unreported incidents arising from services provided to patients. The reserve for medical malpractice includes amounts for claims and related legal expenses for these unreported incidents. In 2019 and 2018, the reserve was actuarially determined by combining industry data and the System's historical experience. Accrued malpractice losses have been discounted at 2.00 percent and, in management's opinion, provide an adequate reserve for loss contingencies.

The System established a trust for the purpose of setting aside assets based on actuarial funding recommendations for claims incurred prior to August 1, 2004. Under the trust agreement, the trust assets can only be used for payment of malpractice losses, related expenses, and the cost of administering the trust.

Genesis HealthCare System and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

Note 12 - Functional Expenses

The System provides diversified healthcare services to residents in the southeastern Ohio area. Expenses related to providing these services during 2019 are as follows:

	Program Services	General and Administrative	Total
Salaries, benefits, and payroll taxes	\$ 217,331,753	\$ 81,104,056	\$ 298,435,809
Operating supplies and expenses	86,174,109	5,083,362	91,257,471
Professional services and consultant fees	23,650,915	424,095	24,075,010
Purchased services	31,449,163	18,775,152	50,224,315
Utilities	1,698,626	4,931,260	6,629,886
Repairs, rentals, insurance, and other	25,877,477	32,270,960	58,148,437
Pharmacy cost of goods sold	41,748,979	10,321	41,759,300
Depreciation	7,301,235	15,950,082	23,251,317
Interest expense	-	14,821,323	14,821,323
Pension expense	8,433,814	3,147,338	11,581,152
Total	<u>\$ 443,666,071</u>	<u>\$ 176,517,949</u>	<u>\$ 620,184,020</u>

Expenses related to providing these services during 2018 are as follows:

	Program Services	General and Administrative	Total
Salaries, benefits, and payroll taxes	\$ 167,484,160	\$ 102,692,758	\$ 270,176,918
Operating supplies and expenses	77,589,115	2,438,443	80,027,558
Professional services and consultant fees	16,543,008	1,196,094	17,739,102
Purchased services	32,815,682	11,718,999	44,534,681
Utilities	1,467,133	5,421,907	6,889,040
Repairs, rentals, insurance, and other	18,777,401	29,386,540	48,163,941
Pharmacy cost of goods sold	39,057,454	-	39,057,454
Depreciation	11,434,077	11,472,954	22,907,031
Interest expense	-	14,627,405	14,627,405
Pension expense	1,195,110	732,780	1,927,890
Total	<u>\$ 366,363,140</u>	<u>\$ 179,687,880</u>	<u>\$ 546,051,020</u>

The 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 are directly assigned and allocated between program and support based on the System's detailed general ledger account structure for 2019 and 2018.

Note 13 - Fair Value Measurements

Accounting standards require certain assets and liabilities be reported at fair value in the consolidated financial statements and provide a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the inputs and valuation techniques used to measure fair value.

Fair values determined by Level 1 inputs use quoted prices in active markets for identical assets that the System has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. The Level 2 inputs include quoted prices for similar assets in active markets and other inputs, such as interest rates and yield curves, that are observable at commonly quoted intervals.

Genesis HealthCare System and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

Note 13 - Fair Value Measurements (Continued)

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset. These Level 3 fair value measurements are based primarily on management's own estimates using pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset.

In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The System's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

The System's policy is to recognize transfers between levels of the fair value hierarchy as of the beginning of the reporting period. For the years ended December 31, 2019 and 2018, there were no transfers between levels.

The following tables present information about the System's assets, held directly by the System, excluding its investment in the pooled investment program, measured at fair value on a recurring basis at December 31, 2019 and 2018 and the valuation techniques used by the System to determine those fair values.

	Assets Measured at Fair Value on a Recurring Basis at December 31, 2019				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Valued at Net Asset Value	Balance at December 31, 2019
Assets					
Marketable equity securities:					
Growth equities	\$ 3,539,384	\$ -	\$ -	\$ -	\$ 3,539,384
Value equities	3,169,947	-	-	-	3,169,947
International equities	1,988,576	-	-	-	1,988,576
Mutual funds:					
Growth funds	2,235,791	-	-	-	2,235,791
Index funds	7,403,938	-	-	-	7,403,938
Global equity funds	3,434,734	-	-	-	3,434,734
International funds	6,101,024	-	-	-	6,101,024
Emerging markets	2,041,699	-	-	-	2,041,699
Master limited partnerships	752,932	-	-	-	752,932
Mortgages	2,031,362	-	-	-	2,031,362
Global infrastructure	484,191	-	-	-	484,191
TIPS	1,095,378	-	-	-	1,095,378
Fixed-income funds	10,240,466	-	-	-	10,240,466
Beneficial interest in perpetual trusts	-	-	15,514,693	-	15,514,693
Investments valued at net asset value	-	-	-	9,395,074	9,395,074
Total assets	\$ 44,519,422	\$ -	\$ 15,514,693	\$ 9,395,074	\$ 69,429,189

Genesis HealthCare System and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

Note 13 - Fair Value Measurements (Continued)

	Assets Measured at Fair Value on a Recurring Basis at December 31, 2018				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments Valued at Net Asset Value	Balance at December 31, 2018
Assets					
Marketable equity securities:					
Growth equities	\$ 4,811,775	\$ -	\$ -	\$ -	\$ 4,811,775
Value equities	1,756,224	-	-	-	1,756,224
Mutual funds:					
Index funds	5,830,626	-	-	-	5,830,626
Value funds	2,409,380	-	-	-	2,409,380
Global equity funds	2,823,252	-	-	-	2,823,252
International funds	5,051,768	-	-	-	5,051,768
Emerging markets	1,725,261	-	-	-	1,725,261
Master limited partnerships	610,381	-	-	-	610,381
Mortgages	1,665,682	-	-	-	1,665,682
Global infrastructure	374,753	-	-	-	374,753
TIPS	1,060,166	-	-	-	1,060,166
Fixed-income funds	12,278,010	-	-	-	12,278,010
Beneficial interest in perpetual trusts	-	-	14,258,247	-	14,258,247
Investments valued at net asset value	-	-	-	9,077,589	9,077,589
Total assets	\$ 40,397,278	\$ -	\$ 14,258,247	\$ 9,077,589	\$ 63,733,114

As described in Note 2, the System participates in FSCCM's pooled investment program. As of December 31, 2019 and 2018, the System has \$121,971,725 and \$103,570,447, respectively, of investments at market value in the pool. The fair value of the investments in the pooled investment program is determined based on Level 3 inputs, estimated based on the System's percentage share of ownership, based on original value of contributions. There are no restrictions on redemption from the pooled investment management program for the System.

The underlying investments in the pool program are composed of assets with valuation techniques that result in 69 percent as Level 1, 22 percent as Level 2, and the remaining amounts composed of assets valued at net asset value, which are excluded from the fair value reporting hierarchy as of December 31, 2019. At December 31, 2018, the investments in the pool program were composed of 60 percent Level 1, 32 percent Level 2, and the remaining amounts composed of assets valued at net asset value, which are excluded from the fair value hierarchy.

The details of the fair value and unfunded commitments are described at length in the financial statements of FSCCM. The System's pro rata share of unfunded commitments is approximately \$3,898,000 and \$4,764,000 at December 31, 2019 and 2018, respectively.

There were no withdrawals or deposits during both 2019 and 2018. The total allocation of pooled earnings (losses) was \$18,401,278 and \$(7,129,827) in 2019 and 2018, respectively.

Genesis HealthCare System and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

Note 13 - Fair Value Measurements (Continued)

The following table sets forth a summary of the changes in the fair value of the System's Level 3 assets at December 31, 2019 and 2018:

	Fair Value at January 1, 2019	Net Purchases and Issuances (Sales and Settlements)	Total Realized and Unrealized Gains	Net Transfers Into (Out of) Level 3	Fair Value at December 31, 2019
Level 3 Investments - Beneficial interest in perpetual trusts	\$ 14,258,247	\$ -	\$ 1,256,446	\$ -	\$ 15,514,693
	Fair Value at January 1, 2018	Net Purchases and Issuances (Sales and Settlements)	Total Realized and Unrealized Losses	Net Transfers Into (Out of) Level 3	Fair Value at December 31, 2018
Level 3 Investments - Beneficial interest in perpetual trusts	\$ 14,498,896	\$ -	\$ (240,649)	\$ -	\$ 14,258,247

Investments in Entities that Calculate Net Asset Value per Share

The System holds shares or interests in investment companies at year end whereby the fair value of the investment held is estimated based on net asset value per share (or its equivalent) of the investment companies as a practical expedient. At year end, the fair value, unfunded commitments, and redemption rules of those investments are as follows:

Investments Held at December 31, 2019

	Fair Value	Unfunded Commitments
Private equity (1)	\$ 490,588	\$ 475,819
Long and short equities hedge fund (3)	6,530,511	-
Private real estate (4)	168,500	-
Event-driven hedge fund (5)	2,205,475	-
Total	<u>\$ 9,395,074</u>	<u>\$ 475,819</u>

Investments Held at December 31, 2018

	Fair Value	Unfunded Commitments
Private equity (1)	\$ 804,429	\$ 1,107,884
Long and short equities hedge fund (3)	6,274,060	-
Private real estate (4)	256,425	555,750
Event-driven hedge fund (5)	1,742,675	-
Total	<u>\$ 9,077,589</u>	<u>\$ 1,663,634</u>

(1) Private equity funds broadly diversified across managers, investment stages, geography, industry sectors, and company size

(2) Multistrategy hedge funds with broadly diversified multiadvisor, multistrategy fund of hedge funds utilizing a proprietary portfolio construction methodology that combined a top-down strategy allocation process with comprehensive manager selection, due diligence, and risk management

Note 13 - Fair Value Measurements (Continued)

(3) Long and short equities hedge funds are fund of funds with long/short focus. The managers employed by the funds are fundamentally driven, bottoms-up, research-intensive stock pickers who use very little, if any, leverage.

(4) Private real estate funds that invest in private real estate broadly classified as core, value-added, and opportunistic

(5) Event-driven hedge funds are seeking stable returns and appreciation, independent of returns of the overall equity and debt markets, by using a variety of strategies but principally employing event-driven strategies.

Note 14 - Pension and Other Postretirement Benefit Plans

The System maintains a defined benefit pension plan covering substantially all its employees who have completed one year of continuous service, as defined by the plan. Benefits paid under the plan are based generally on employees' years of service and compensation levels during employment. The plan requires annual contributions that are sufficient to meet the minimum funding standards of the Employee Retirement Income Security Act of 1974 and the Internal Revenue Code of 1986.

Effective April 8, 2009, new employees are no longer eligible to participate in the defined benefit plan, but will be eligible to participate in a defined contribution plan in which substantially all employees are eligible. The contributions are based on an employer's matching contribution of an employee's contribution up to a maximum of 60 percent of an employee's 5 percent contribution to the employee plan, based on years of service. For the years ended December 31, 2019 and 2018, the amount of retirement expense for the defined contribution plan was approximately \$2,244,000 and \$2,490,000, respectively.

The defined benefit plan was amended in 2011. As a result of the amendment, contributions to the plan for participants who were 50 years old and older as of June 30, 2011 were reduced as follows based on years of service:

- Up to five years of service - Reduced from 2.25 to 2 percent
- Five to ten years of service - Reduced from 3 to 2 percent
- Ten years of service or greater - Reduced from 4 to 3 percent

For participants who were under the age of 50 as of June 30, 2011, benefits were frozen, but interest would continue to accrue on the frozen balance. In 2019, the System performed a partial termination of the plan through lump-sum distributions.

Genesis HealthCare System and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

Note 14 - Pension and Other Postretirement Benefit Plans (Continued)

Obligations and Funded Status

	Pension Benefits	
	2019	2018
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 99,347,569	\$ 105,621,214
Service cost	358,147	435,833
Interest cost	4,317,834	4,107,267
Actuarial gain (loss)	2,802,322	(5,372,288)
Benefits paid	(35,633,733)	(5,444,457)
Projected benefit obligation at end of year	71,192,139	99,347,569
Change in plan assets:		
Fair value of plan assets at beginning of year	65,301,937	71,980,442
Actual return on plan assets	11,155,059	(4,384,381)
Employer contributions	4,216,174	3,150,333
Benefits paid	(35,633,733)	(5,444,457)
Fair value of plan assets at end of year	45,039,437	65,301,937
Funded status at end of year	\$ (26,152,702)	\$ (34,045,632)

Included in unrestricted net assets at December 31, 2019 and 2018 are the following amounts that have not yet been recognized in net periodic pension cost:

	Pension Benefits	
	2019	2018
Net loss	\$ 15,886,986	\$ 29,984,082

The accumulated benefit obligation for all defined benefit pension plans was \$99,322,005 and \$105,591,146 at December 31, 2019 and 2018, respectively.

Components of Net Periodic Benefit Cost

	2019	2018
Service cost	\$ 358,147	\$ 435,833
Interest cost	4,317,834	4,107,267
Expected return on plan assets	(5,079,426)	(5,082,497)
Recognized prior service credit	-	(23,105)
Recognized actuarial loss	2,396,437	2,926,226
Recognized actuarial loss due to settlements	8,427,348	-
Net periodic benefit cost	\$ 10,420,340	\$ 2,363,724

The estimated net loss and prior service cost for the defined benefit pension plans that will be amortized into net periodic benefit cost over the next fiscal year is \$1,679,061.

Assumptions

Weighted-average Assumptions Used to Determine Benefit Obligations at December 31

	Pension Benefits	
	2019	2018
Discount rate	4.50 %	4.50 %
Rate of compensation increase	3.00	3.00

Genesis HealthCare System and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

Note 14 - Pension and Other Postretirement Benefit Plans (Continued)

Weighted-average Assumptions Used to Determine Net Periodic Benefit Cost for Years Ended December 31

	Pension Benefits	
	2019	2018
Discount rate	4.50 %	4.00 %
Increase in future compensation levels	3.00	3.00
Expected rate of return on plan assets	7.50	7.50

The overall expected rate of return on plan assets represents a weighted-average composite rate based on the historical rates of returns of the respective asset classes adjusted for anticipated market movements.

Pension Plan Assets

The goals of the pension plan investment program are to fully fund the obligation to pay retirement benefits in accordance with the plan documents and to provide returns that, along with appropriate funding from the System, maintain an asset/liability ratio that is in compliance with all applicable laws and regulations and assures timely payment of retirement benefits.

The System's overall investment strategy is to achieve a mix of approximately 55 percent equity, 25 percent of investments in fixed income, and 20 percent in alternative investments, with a wide diversification of asset types, fund strategies, and fund managers.

Equity securities primarily include investments in large-cap and mid-cap companies primarily located in the United States and international equities, along with mutual funds. Fixed-income securities include asset management investments that invest in corporate bonds of companies from diversified industries, mortgage-backed securities, and U.S. Treasuries. Alternative investments include investments in fund of funds hedge funds, real estate funds, and private equity funds that follow several different strategies.

Genesis HealthCare System and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

Note 14 - Pension and Other Postretirement Benefit Plans (Continued)

The fair values of the System's pension plan assets at December 31, 2019 and 2018 by major asset classes are as follows:

	Fair Value Measurements at December 31, 2019				Total
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments in Limited Partnerships Valued at Net Asset Value	
Mutual funds:					
Value funds	\$ 1,618,340	\$ -	\$ -	\$ -	\$ 1,618,340
Non-U.S. funds	6,289,081	-	-	-	6,289,081
Emerging market funds	3,237,854	-	-	-	3,237,854
S&P index funds	3,408,995	-	-	-	3,408,995
Money market funds	2,040,923	-	-	-	2,040,923
Bonds and notes:					
Federal Home Loan Mortgage bonds	-	2,123,682	-	-	2,123,682
Corporate bonds	-	4,374,041	-	-	4,374,041
Common stock	3,857,566	-	-	-	3,857,566
Commingled funds	-	11,890,507	-	-	11,890,507
Investments in limited partnerships valued at net asset value:					
Equity and credit market hedge fund (1)	-	-	-	5,739,753	5,739,753
Private equity funds (2)	-	-	-	166,808	166,808
Real estate funds (3)	-	-	-	291,887	291,887
Total	\$ 20,452,759	\$ 18,388,230	\$ -	\$ 6,198,448	\$ 45,039,437

Genesis HealthCare System and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

Note 14 - Pension and Other Postretirement Benefit Plans (Continued)

	Fair Value Measurements at December 31, 2018				Total
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Investments in Limited Partnerships Valued at Net Asset Value	
Mutual funds:					
Value funds	\$ 3,181,012	\$ -	\$ -	\$ -	\$ 3,181,012
Non-U.S. funds	8,678,994	-	-	-	8,678,994
Emerging market funds	2,919,961	-	-	-	2,919,961
S&P index funds	6,146,231	-	-	-	6,146,231
Fixed-income investments	4,525,513	-	-	-	4,525,513
Money market funds	1,846,437	-	-	-	1,846,437
Bonds and notes:					
Federal Home Loan Mortgage bonds	-	3,885,543	-	-	3,885,543
Corporate bonds	-	8,245,024	-	-	8,245,024
Common stock	6,161,732	-	-	-	6,161,732
Commingled funds	-	13,586,194	-	-	13,586,194
Investments in limited partnerships valued at net asset value:					
Equity and credit market hedge fund (1)	-	-	-	5,259,100	5,259,100
Private equity funds (2)	-	-	-	444,595	444,595
Real estate funds (3)	-	-	-	421,601	421,601
Total	\$ 33,459,880	\$ 25,716,761	\$ -	\$ 6,125,296	\$ 65,301,937

(1) Equity and credit market hedge fund - A fund of funds with a mix of directional and nondirectional strategies that include equity long/short, event-driven, relative-value, and global asset allocation. The managers seek equity-like returns that will capture opportunities in up markets while preserving capital in more difficult markets.

(2) Three private equity funds broadly diversified across managers, investment stages, geography, industry sectors, and company size

(3) Investment in private property funds broadly classified as core, value-added, and opportunistic

The tables above present information about the pension and postretirement benefit plan assets measured at fair value at December 31, 2019 and 2018 and the valuation techniques used by the System to determine those fair values.

In general, fair values determined by Level 1 inputs use quoted prices in active markets for identical assets that the System has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets in active markets and other inputs, such as interest rates and yield curves, that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset.

In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The System's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each plan asset.

Genesis HealthCare System and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

Note 14 - Pension and Other Postretirement Benefit Plans (Continued)

Cash Flow

Contributions

The System expects to contribute \$5,229,000 to its pension plan in 2020.

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

Years Ending December 31	Pension Benefits
2020	\$ 3,380,809
2021	3,762,132
2022	3,785,465
2023	4,167,877
2024	3,953,544
2025-2029	20,356,915

The System also has a life insurance plan with a projected benefit obligation of approximately \$924,000 and \$814,000 at December 31, 2019 and 2018, respectively.

Note 15 - Changes in Consolidated Unrestricted Net Assets Attributable to the System and the Noncontrolling Interest

The changes in consolidated unrestricted net assets attributable to the System and the noncontrolling interest were as follows:

	Controlling Interest	Noncontrolling Interest	Total
Balance at December 31, 2017	\$ 224,509,472	\$ 818,395	\$ 225,327,867
Excess of revenue (under) over expenses	(7,114,159)	59,705	(7,054,454)
Pension-related changes other than net periodic cost	(1,128,061)	-	(1,128,061)
Net assets released from restriction for capital equipment	700,566	-	700,566
Balance at December 31, 2018	216,967,818	878,100	217,845,918
Excess of revenue over expenses	22,242,017	188,827	22,430,844
Pension-related changes other than net periodic cost	14,006,797	-	14,006,797
Cumulative effect of change in accounting principle	3,850,052	-	3,850,052
Net assets released from restriction for capital equipment	923,928	-	923,928
Balance at December 31, 2019	<u>\$ 257,990,612</u>	<u>\$ 1,066,927</u>	<u>\$ 259,057,539</u>

Genesis HealthCare System and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

Note 16 - Liquidity

The System's financial assets available within one year of December 31 for general expenditure are as follows:

	2019	2018
Cash and cash equivalents	\$ 44,513,444	\$ 32,724,395
Accounts receivable	69,401,425	61,934,722
Estimated third-party payor settlements	-	4,795,234
Other receivables	3,678,370	3,791,613
Total	\$ 117,593,239	\$ 103,245,964

None of these financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the consolidated balance sheet date.

The System has a goal to maintain financial assets, which consist of cash and cash equivalents, on hand to meet 134 days of normal operating expenses, which are, on average, approximately \$1,667,000 and \$1,490,000 at December 31, 2019 and 2018, respectively. The System has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The System maintains certain assets limited as to use that could be liquidated if needed for operational use. The System also realizes there could be unanticipated liquidity needs.

Note 17 - Endowments

The System's endowments consist of funds established for a variety of purposes. Its endowments include both donor-restricted endowment funds and funds designated by the board of directors to function as endowments. Net assets associated with endowment funds, including funds designated by the board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. The System considers various factors in making a determination to appropriate or accumulate donor-restricted endowment funds. The System employs a diversified investment approach in order to minimize risk and maximize returns, utilizing both intermediate and long-term portfolios. The System's asset allocation objective for the long-term portfolio is to maximize total return while preserving capital values. The short-term portfolio is intended to preserve the principal of the fund and to meet current liquidity requirements.

The System can appropriate each year all available earnings in accordance with donor restrictions. The endowment corpus is to be maintained in perpetuity. Certain donor-restricted endowments require a portion of annual earnings to be maintained in perpetuity along with the corpus. Only amounts exceeding the amounts required to be maintained in perpetuity are expended.

Endowment net asset composition by type of fund as of December 31, 2019 and 2018 is as follows:

	Endowment Net Asset Composition by Type of Fund	
	2019	2018
Endowed net assets with donor restrictions	\$ 3,514,890	\$ 3,497,403
Beneficial interest in perpetual trusts	15,514,693	14,258,247
Total endowed net assets	\$ 19,029,583	\$ 17,755,650

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

Note 17 - Endowments (Continued)

In addition to endowed net assets shown above, the System also maintained \$2,091,626 and \$2,004,968 for 2019 and 2018, respectively, of net assets with donor restrictions that were not endowments.

Changes in endowment net assets for the fiscal years ended December 31, 2019 and 2018 are as follows:

	Changes in Endowment Net Assets	
	2019	2018
Endowment net assets - Beginning of year	\$ 17,755,650	\$ 17,984,849
Investment income (loss) on endowments	1,270,333	(240,649)
Gifts to endowments	3,600	11,450
	<u>\$ 19,029,583</u>	<u>\$ 17,755,650</u>

Return Objectives and Risk Parameters

The System has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the System must hold in perpetuity or for a donor-specified period. Under this policy, as approved by the board of directors, the endowment assets are invested in a manner that is intended to achieve a return of 4 percent net of inflation and investment expenses. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the System relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The System targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The board of directors determines spending annually. While no policy indicating specific percentages has been set, the governing board considers amounts of 3 to 5 percent of the fund's average fair value in the prior fiscal year for distribution. In establishing the amount of distribution, the governing board considers the long-term expected rate of return on its endowment. Accordingly, over the long term, the System expects the current spending policy to allow its endowment to grow an average of 1 percent annually. The System does not have a policy that permits spending from underwater endowment funds. The System had no underwater endowments funds during 2019 and 2018.

Additional Information

Genesis HealthCare System and Subsidiaries

Consolidating Balance Sheet

December 31, 2019

	Genesis HealthCare System	CareServe	CareLife, Inc. and Subsidiaries	Genesis HealthCare Foundation	Obligated Eliminating Entries	Total Obligated Group	Community Ambulance Service	Southeast Ohio Medical Insurance Company, Ltd.	Eliminating Entries	Total
Assets										
Current Assets										
Cash and cash equivalents	\$ 33,450,650	\$ -	\$ 9,678,132	\$ 136,759	\$ -	\$ 43,265,541	\$ 853,967	\$ 393,936	\$ -	\$ 44,513,444
Accounts receivable	53,040,857	-	15,119,586	-	-	68,160,443	1,240,982	1,614,184	(1,614,184)	69,401,425
Inventory	9,456,168	-	4,747,544	-	-	14,203,712	-	-	-	14,203,712
Other assets	36,980,936	60,262	8,572,871	2,204,848	(29,285,907)	18,533,010	1,728,806	48,490	(5,568,319)	14,741,987
Total current assets	132,928,611	60,262	38,118,133	2,341,607	(29,285,907)	144,162,706	3,823,755	2,056,610	(7,182,503)	142,860,568
Assets Limited as to Use	147,161,372	1,334,699	454,496	41,522,891	-	190,473,458	1,238,419	13,522,970	-	205,234,847
Property and Equipment - Net	296,679,215	-	9,349,608	157,836	-	306,186,659	940,898	-	-	307,127,557
Right-of-use Operating Lease Assets	22,145,980	-	6,639,202	-	-	28,785,182	28,933	-	-	28,814,115
Beneficial Interest in Perpetual Trusts	-	-	-	15,514,693	-	15,514,693	-	-	-	15,514,693
Other Assets										
Long-term investments	4,019,548	-	679,231	-	-	4,698,779	-	-	(3,687,016)	1,011,763
Other noncurrent assets	4,281,450	-	100,000	22,396	-	4,403,846	-	-	-	4,403,846
Total assets	<u>\$ 607,216,176</u>	<u>\$ 1,394,961</u>	<u>\$ 55,340,670</u>	<u>\$ 59,559,423</u>	<u>\$ (29,285,907)</u>	<u>\$ 694,225,323</u>	<u>\$ 6,032,005</u>	<u>\$ 15,579,580</u>	<u>\$ (10,869,519)</u>	<u>\$ 704,967,389</u>

Genesis HealthCare System and Subsidiaries

Consolidating Balance Sheet (Continued)

December 31, 2019

	Genesis HealthCare System	CareServe	CareLife, Inc. and Subsidiaries	Genesis HealthCare Foundation	Obligated Eliminating Entries	Total Obligated Group	Community Ambulance Service	Southeast Ohio Medical Insurance Company, Ltd.	Eliminating Entries	Total
Liabilities and Net Assets										
Current Liabilities										
Accounts payable	\$ 19,308,927	\$ -	\$ 8,456,510	\$ 4,378	\$ -	\$ 27,769,815	\$ 331,724	\$ 1,506,828	\$ (1,614,184)	\$ 27,994,183
Current portion of long-term debt	4,155,000	-	-	-	-	4,155,000	-	-	-	4,155,000
Current portion of lease liabilities - Operating	3,835,273	-	1,526,370	-	-	5,361,643	26,654	-	-	5,388,297
Current portion of lease liabilities - Financing	730,839	-	40,726	-	-	771,565	-	-	-	771,565
Estimated third-party payor settlements	2,290,533	-	-	-	-	2,290,533	-	-	-	2,290,533
Accrued liabilities and other:										
Accrued compensation	18,073,091	-	11,137,435	-	-	29,210,526	366,574	-	-	29,577,100
Other accrued liabilities	29,671,747	(200,218)	4,465,694	-	(29,285,907)	4,651,316	883,296	5,566,752	(5,568,319)	5,533,045
Total current liabilities	78,065,410	(200,218)	25,626,735	4,378	(29,285,907)	74,210,398	1,608,248	7,073,580	(7,182,503)	75,709,723
Long-term Debt - Net of current portion	281,067,882	-	-	-	-	281,067,882	-	-	-	281,067,882
Lease Liabilities - Operating	19,964,355	-	5,112,832	-	-	25,077,187	2,279	-	-	25,079,466
Lease Liabilities - Finance	1,996,553	-	1,247,951	-	-	3,244,504	-	-	-	3,244,504
Other Liabilities										
Pension and other postretirement obligations	27,785,938	-	-	-	-	27,785,938	-	-	-	27,785,938
Accrued professional liability	3,515,127	-	-	-	-	3,515,127	-	8,386,000	-	11,901,127
Total liabilities	412,395,265	(200,218)	31,987,518	4,378	(29,285,907)	414,901,036	1,610,527	15,459,580	(7,182,503)	424,788,640
Net Assets										
Without donor restrictions:										
Net assets	194,820,911	1,595,179	23,353,152	38,433,835	-	258,203,077	3,354,551	120,000	(3,687,016)	257,990,612
Noncontrolling interest	-	-	-	-	-	-	1,066,927	-	-	1,066,927
With donor restrictions	-	-	-	21,121,210	-	21,121,210	-	-	-	21,121,210
Total net assets	194,820,911	1,595,179	23,353,152	59,555,045	-	279,324,287	4,421,478	120,000	(3,687,016)	280,178,749
Total liabilities and net assets	<u>\$ 607,216,176</u>	<u>\$ 1,394,961</u>	<u>\$ 55,340,670</u>	<u>\$ 59,559,423</u>	<u>\$ (29,285,907)</u>	<u>\$ 694,225,323</u>	<u>\$ 6,032,005</u>	<u>\$ 15,579,580</u>	<u>\$ (10,869,519)</u>	<u>\$ 704,967,389</u>

Genesis HealthCare System and Subsidiaries

Consolidating Statement of Operations and Changes in Unrestricted Net Assets

Year Ended December 31, 2019

	Genesis HealthCare System	CareServe	CareLife, Inc. and Subsidiaries	Genesis HealthCare Foundation	Obligated Eliminating Entries	Total Obligated Group	Community Ambulance Service	Southeast Ohio Medical Insurance Company, Ltd.	Eliminating Entries	Total
Patient Service Revenue										
Patient service revenue	\$ 439,918,523	\$ -	\$ 81,842,251	\$ -	\$ -	\$ 521,760,774	\$ 5,377,973	\$ -	\$ -	\$ 527,138,747
Pharmacy sales and other	27,927,271	-	71,265,165	1,159,759	(16,085,281)	84,266,914	916,846	7,362,422	(2,182,203)	90,363,979
Total patient service revenue	467,845,794	-	153,107,416	1,159,759	(16,085,281)	606,027,688	6,294,819	7,362,422	(2,182,203)	617,502,726
Expenses										
Salaries and wages	137,767,562	-	101,760,576	339,871	-	239,868,009	2,610,831	-	-	242,478,840
Employee benefits and payroll taxes	44,008,098	-	10,863,385	-	-	54,871,483	1,085,486	-	-	55,956,969
Operating supplies and expenses	92,522,226	-	4,445,610	36,062	(6,094,547)	90,909,351	348,120	-	-	91,257,471
Professional services and consultant fees	9,111,226	-	16,086,743	-	(1,137,959)	24,060,010	15,000	-	-	24,075,010
Purchased services	42,103,629	-	10,234,925	178,657	(1,459,297)	51,057,914	603,101	179,023	(1,615,723)	50,224,315
Utilities	5,132,713	-	1,391,911	3,434	-	6,528,058	96,669	5,159	-	6,629,886
Repairs, rentals, insurance, and other	39,337,424	-	10,049,994	778,347	-	50,165,765	804,432	7,178,240	-	58,148,437
Pharmacy cost of goods sold	-	-	49,152,778	-	(7,393,478)	41,759,300	-	-	-	41,759,300
Depreciation	22,071,478	-	1,003,676	13,455	-	23,088,609	162,708	-	-	23,251,317
Interest expense	14,821,323	-	-	-	-	14,821,323	-	-	-	14,821,323
Total expenses	406,875,679	-	204,989,598	1,349,826	(16,085,281)	597,129,822	5,726,347	7,362,422	(1,615,723)	608,602,868
Operating Income (Loss)	60,970,115	-	(51,882,182)	(190,067)	-	8,897,866	568,472	-	(566,480)	8,899,858
Other Income (Loss)										
Investment income	2,505,021	28,444	3,837	1,470,728	-	4,008,030	30,739	-	-	4,038,769
Unrealized gains on trading securities	15,439,494	172,918	64,731	4,844,082	-	20,521,225	156,095	-	-	20,677,320
Pension settlement costs	(8,427,348)	-	-	-	-	(8,427,348)	-	-	-	(8,427,348)
Pension expense	(3,153,804)	-	-	-	-	(3,153,804)	-	-	-	(3,153,804)
Other	386,418	-	9,631	-	-	396,049	-	-	-	396,049
Total other income	6,749,781	201,362	78,199	6,314,810	-	13,344,152	186,834	-	-	13,530,986
Excess of Revenue Over (Under) Expenses	67,719,896	201,362	(51,803,983)	6,124,743	-	22,242,018	755,306	-	(566,480)	22,430,844
Transfer (to) from Affiliate	(57,916,439)	-	60,109,481	(2,193,042)	-	-	-	-	-	-
Pension-related Changes Other Than Net Periodic Cost	14,006,797	-	-	-	-	14,006,797	-	-	-	14,006,797
Cumulative Effect of Change in Accounting Principle	3,850,052	-	-	-	-	3,850,052	-	-	-	3,850,052
Net Assets Released from Restriction for Capital Equipment	-	-	-	923,928	-	923,928	-	-	-	923,928
Increase in Net Assets without Donor Restrictions	<u>\$ 27,660,306</u>	<u>\$ 201,362</u>	<u>\$ 8,305,498</u>	<u>\$ 4,855,629</u>	<u>\$ -</u>	<u>\$ 41,022,795</u>	<u>\$ 755,306</u>	<u>\$ -</u>	<u>\$ (566,480)</u>	<u>\$ 41,211,621</u>

Report on Internal Control Over Financial
Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements
Performed in Accordance with *Government
Auditing Standards*

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Independent Auditor's Report

To Management and the Board of Directors
Genesis HealthCare System and Subsidiaries

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Genesis HealthCare System and Subsidiaries (the "System"), which comprise the consolidated balance sheet as of December 31, 2019 and the related consolidated statements of operations, changes in net assets, and cash flows for the year then ended, and the related notes to the consolidated financial statements and have issued our report thereon dated April 30, 2020. Our report includes a reference to other auditors who audited the financial statements of Genesis HealthCare Foundation, as described in our report on Genesis HealthCare System and Subsidiaries' consolidated financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of Genesis HealthCare Foundation were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Genesis HealthCare System and Subsidiaries' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a certain deficiency in internal control that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the System's consolidated financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs as Finding 2019-01 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

To Management and the Board of Directors
Genesis HealthCare System and Subsidiaries

Genesis HealthCare System and Subsidiaries' Response to Finding

Genesis HealthCare System and Subsidiaries' response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Genesis HealthCare System and Subsidiaries' response was not subjected to the auditing procedures applied in the audit of the consolidated financial statements, and, accordingly, we express no opinion on it.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the System's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Plante & Moran, PLLC". The signature is written in a cursive, flowing style.

April 30, 2020

Schedule of Findings and Questioned Costs

Genesis HealthCare System and Subsidiaries

Schedule of Findings and Questioned Costs

Year Ended December 31, 2019

Section II - Financial Statement Audit Findings

Reference Number	Finding
2019-01	<p>Finding Type - Material weakness</p> <p>Criteria - All accounts should be reviewed, reconciled, and adjusted on a timely basis.</p> <p>Condition - During our audit procedures, We identified a number of accounts that were either unreconciled or unadjusted on a timely basis.</p> <p>Context - The accounts that were unreconciled or unadjusted on a timely basis resulted in adjustments to the financial records; there were a significant number of adjustments made during the year, after the end of the year, and during the audit process.</p> <p>Cause - Lack of appropriate skill and knowledge of accounting staff responsible for preparing reconciliations</p> <p>Effect - Certain balances were misstated. The System provided adjustments for differences that were identified.</p> <p>Recommendation - The System should implement a month-end review process and written policies and procedures to ensure all account balances are reconciled and adjusted on a timely basis at the end of each period.</p> <p>Views of Responsible Officials and Planned Corrective Actions - The System agrees with the recommendation and will review the current process in place to ensure all accounts are reconciled and adjusted on a timely basis.</p>