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

Consolidated Financial Statements

Years Ended December 31, 2016 and 2015

DIXON HUGHES GOODMAN LLP

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DIXON HUGHES GOODMAN LLP

Independent Auditors' Report

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

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Genesis Health, Inc. and Affiliates, d/b/a Brooks Rehabilitation ("Brooks"), which comprise the consolidated balance sheets as of December 31, 2016 and 2015, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

DIXON HUGHES GOODMAN LLP

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Genesis Health, Inc. and Affiliates, d/b/a Brooks Rehabilitation as of December 31, 2016 and 2015, and the results of operations, changes in net assets, and cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter – New Accounting Pronouncement

As discussed in Note 1 to the consolidated financial statements, during the year ended December 31, 2016, Brooks implemented the provisions of Financial Accounting Standards Board Accounting Standards Update No. 2015-03, *Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Cost*. As a result of adopting this new standard, Brooks restated amounts previously reported as of and for the year ended December 31, 2015. Our opinion is not modified with respect to this matter.

Supplemental Information

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

Dixon Hughes Goodman LLP

Greenville, South Carolina
April 18, 2017

Genesis Health, Inc. and Affiliates d/b/a Brooks Rehabilitation
Consolidated Balance Sheets
December 31, 2016 and 2015

	2016	2015 As Restated
ASSETS		
Current assets:		
Cash and cash equivalents	$ 4,691,510	$ 5,221,789
Patient receivables, net of allowance for doubtful accounts of approximately $1,156,000 in 2016 and $1,495,000 in 2015	20,700,549	18,993,640
Other current assets	6,477,910	5,831,461
Total current assets	31,869,969	30,046,890
Investments	275,961,044	273,397,382
Assets limited as to use	35,084,288	56,081,750
Property and equipment, net	130,442,054	121,065,960
Land held for development	22,146,258	22,042,178
Other investments	4,631,603	5,603,675
Other assets, net	73,537	126,834
Goodwill	20,247,160	25,514,862
Intangible assets, net	12,508,617	11,369,763
Total assets	$ 532,964,530	$ 545,249,294
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	$ 24,795,793	$ 25,924,632
Lines of credit	39,204,805	42,204,805
Current portion of long-term debt	4,936,396	4,741,953
Estimated third-party payor settlements	1,748,164	1,132,635
Other current liabilities	1,148,167	1,312,682
Total current liabilities	71,833,325	75,316,707
Long-term debt, net of current portion	216,409,172	224,045,236
Other liabilities	8,200,651	13,358,887
Total liabilities	296,443,148	312,720,830
Net assets:		
Unrestricted	234,351,535	230,967,399
Temporarily restricted	2,027,344	1,561,065
Total net assets attributable to Brooks Rehabilitation	236,378,879	232,528,464
Noncontrolling interest	142,503	-
Total net assets	236,521,382	232,528,464
Total liabilities and net assets	$ 532,964,530	$ 545,249,294

See accompanying notes.

Genesis Health, Inc. and Affiliates d/b/a Brooks Rehabilitation
Consolidated Statements of Operations
For the Years Ended December 31, 2016 and 2015

	2016	2015
Unrestricted revenues, gains, and other support:		
Net patient service revenue	**$ 158,251,032**	$ 141,891,952
Contract service revenue	**14,818,364**	14,457,100
Investment income, net	**15,270,368**	17,277,249
Other	**10,236,970**	7,511,337
Total unrestricted revenues, gains, and other support	**198,576,734**	181,137,638
Expenses:		
Salaries, wages and benefits	**128,493,193**	110,874,945
Supplies	**4,907,987**	4,087,419
Depreciation and amortization	**8,926,644**	7,708,595
Leases and rentals	**3,764,244**	3,649,782
Interest	**9,363,705**	7,721,331
Professional fees	**2,653,201**	2,432,888
Insurance	**1,175,608**	919,807
Purchased services	**19,655,335**	17,652,329
Bad debts, net of recoveries	**410,641**	1,195,740
Other	**14,457,328**	13,167,790
Total expenses	**193,807,886**	169,410,626
Operating income	**4,768,848**	11,727,012
Other (losses) gains:		
Community programs and other support	**(773,016)**	(3,143,262)
Change in fair value of ineffective interest rate swaps	**(2,186,580)**	1,114,138
Net unrealized losses on investments	**(1,952,953)**	(18,432,366)
Other gains	**2,387,034**	561,247
Total other losses, net	**(2,525,515)**	(19,900,243)
Excess (deficit) of revenues over expenses before noncontrolling interest	**2,243,333**	(8,173,231)
Deficit of revenues over expenses attributable to noncontrolling interest	**50,187**	-
Excess (deficit) of revenues over expenses	**$ 2,293,520**	$ (8,173,231)

See accompanying notes.

Genesis Health, Inc. and Affiliates d/b/a Brooks Rehabilitation
Consolidated Statements of Changes in Net Assets
For the Years Ended December 31, 2016 and 2015

	2016	2015
Unrestricted net assets:		
Excess (deficit) of revenues over expenses	**$ 2,293,520**	$ (8,173,231)
Net assets released from restrictions	**129,745**	252,059
Change in fair value of effective interest rate swaps	**960,871**	(128,875)
Increase (decrease) in unrestricted net assets	**3,384,136**	(8,050,047)
Temporarily restricted net assets:		
Net assets released from restrictions	**(129,745)**	(252,059)
Contributions	**596,024**	540,180
Increase in temporarily restricted net assets	**466,279**	288,121
Noncontrolling interest:		
Change in noncontrolling interest	**142,503**	-
Increase (decrease) in net assets	**3,992,918**	(7,761,926)
Net assets, beginning of year	**232,528,464**	240,290,390
Net assets, end of year	**$ 236,521,382**	$ 232,528,464

See accompanying notes.

Genesis Health, Inc. and Affiliates d/b/a Brooks Rehabilitation
Consolidated Statements of Cash Flows
For the Years Ended December 31, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Increase (decrease) in net assets	**$ 3,992,918**	$ (7,761,926)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Restricted contributions	**(596,024)**	(540,180)
Net unrealized losses on investments	**1,952,953**	18,432,366
Net realized gains on investments	**(10,049,736)**	(11,056,104)
Depreciation and amortization	**8,926,644**	7,708,595
Amortization of bond discounts and debt issuance costs	**300,332**	227,204
Gain on disposal of property and equipment	**(2,564,614)**	(375,434)
Bad debts	**410,641**	1,195,740
Change in fair value of effective interest rate swaps	**(960,871)**	128,875
Change in fair value of ineffective interest rate swaps	**2,186,580**	(1,114,138)
Changes in pledges payable	**(1,128,920)**	1,322,978
Changes in operating assets and liabilities:		
Patient receivables, net	**(2,117,550)**	(5,270,997)
Estimated third-party payor settlements	**615,529**	78,169
Other current assets	**(646,449)**	2,515,885
Other assets, net	**28,373**	(60,142)
Accounts payable and accrued expenses	**1,251,246**	(27,875)
Other current liabilities	**(95,875)**	615,559
Other liabilities	**(55,963)**	(574,734)
Net cash provided by operating activities	**1,449,214**	5,443,841
Cash flows from investing activities:		
Decrease (increase) in assets limited as to use	**20,997,462**	(23,023,104)
Purchase of AmeriCare, net of cash received	**-**	(14,968,814)
Additions to property and equipment	**(25,892,048)**	(18,771,574)
Purchase of land held for development	**-**	(5,224,936)
Additions to land held for development	**(104,080)**	-
Decrease (increase) of equity in Halifax	**972,072**	(384,516)
Proceeds from sale of property and equipment	**8,188,176**	473,990
Sales of investments	**117,932,966**	139,571,631
Purchases of investments	**(112,399,845)**	(141,884,666)
Purchases of intangible assets, net	**(1,528,267)**	-
Net cash provided (used) by investing activities	**$ 8,166,436**	$ (64,211,989)

(Continued)

	2016	2015
Cash flows from financing activities:		
Advances from lines of credit	**$ -**	$ 28,662,048
Repayment of lines of credit	**(3,000,000)**	(20,182,312)
Issuance of long-term debt, net of discount	**-**	53,802,341
Repayment of long-term debt	**(7,741,953)**	(4,119,585)
Payment of debt issuance costs	**-**	(949,951)
Restricted contributions	**596,024**	540,180
Net cash (used) provided by financing activities	**(10,145,929)**	57,752,721
Net decrease in cash and cash equivalents	**(530,279)**	(1,015,427)
Cash and cash equivalents beginning of the year	**5,221,789**	6,237,216
Cash and cash equivalents end of the year	**$ 4,691,510**	$ 5,221,789
Supplemental Cash Flow Information		
Cash paid for interest during the year	**$ 10,253,228**	$ 8,377,129
Accrued property and equipment	**$ 1,235,881**	$ 3,615,966

See accompanying notes.

Notes to Consolidated Financial Statements

1. Organization and Significant Accounting Policies

Organization and basis of presentation

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

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

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

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

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

Holdings, through its ownership of Penman Plaza Ltd, owns 100% in Penman Plaza Associates, LLLP ("PPA"), which is organized for the purpose of developing and managing a commercial real estate property in Jacksonville, Florida. The real estate property was sold in December 2016. Holdings accounts for its investment in PPA using the consolidation method.

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

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

These consolidated financial statements, which are presented on the accrual basis of accounting, have been prepared to show Brooks as a whole, and to present balances and transactions according to the existence or absence of donor-imposed restrictions. This has been accomplished by classification of fund balances and transactions into three classes of net assets - permanently restricted, temporarily restricted, or unrestricted as follows:

- *Permanently restricted net assets* - Net assets subject to donor-imposed stipulations that they be maintained permanently by Brooks. Generally, the donor of these assets permits Brooks to use all or part of the income earned on related investments for general or specific purposes. There were no permanently restricted net assets as of December 31, 2016 and 2015.
- *Temporarily restricted net assets* - Net assets subject to donor-imposed stipulations that may or will be met by actions of Brooks and/or the passage of time.
- *Unrestricted net assets* - Net assets which represent resources generated from operations, unrestricted donations, lapse of temporary restrictions, and are not subject to donor-imposed stipulations.

Use of estimates

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

Cash and cash equivalents

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

Investments

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

Assets limited as to use

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

Charitable gift annuity

During 1991, the Foundation entered into a gift annuity program known as a Section 170 plan. The Foundation charitable gift annuity program stopped receiving additional gifts during 2010. The gift annuity program is a general obligation of the Foundation. The annuities are not issued by an insurance company, are subject only to limited regulation by the State of Florida, and are not protected or otherwise guaranteed by any government agency. The Foundation is contractually obligated to make annuity payments to its gift annuitants regardless of investment performance or current market conditions. The liabilities are discounted using the expected rate of return of the related investments which amounted to approximately 6% for the years ending December 31, 2016 and 2015. The estimated liability for these gift annuities, which are reflected in other non-current liabilities, amounted to approximately $2,198,000 and $2,033,000 as of December 31, 2016 and 2015, respectively.

Contributions and pledges

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

Property and equipment

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

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

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

Capitalized interest

Interest costs incurred on borrowed funds during the period(s) of capital asset construction are capitalized as a component of the cost of acquisition and were approximately $633,000 and $635,000 for the years ended December 31, 2016 and 2015, respectively.

Debt issuance costs

Debt issuance costs are amortized over the term of the related debt using the effective interest method. Amortization of debt issuance costs is included in interest expense on the consolidated statements of operations for the years ended December 31, 2016 and 2015.

Unamortized debt issuance costs of approximately $1,910,000 and $2,071,000 are included as a reduction of the related debt on the consolidated balance sheets at December 31, 2016 and 2015, respectively.

Bond discounts

Bond discounts are amortized over the term of the related debt using the straight-line method, which approximates the effective interest method. Amortization of bond discounts is included in interest expense on the consolidated statements of operations for the years ended December 31, 2016 and 2015.

Unamortized bond discounts of approximately $3,060,000 and $3,200,000 are included as a reduction of the related debt on the consolidated balance sheets at December 31, 2016 and 2015, respectively.

Intangible assets

Intangible assets primarily represent the estimated fair value of the certificate of need licensures, non-compete agreements, and a trademark acquired directly or through Brooks' acquisitions. Brooks amortizes the cost of intangible assets with finite useful lives over their respective estimated useful lives. Brooks amortizes the certificate of need licenses that are in service over a period of approximately 40 years once placed in service. Non-compete agreements are amortized over the life of the agreement. The trademark is indefinite-lived and is not amortized. Intangible assets were approximately $12,509,000 and $11,370,000 at December 31, 2016 and 2015, respectively.

The fair value of the intangible assets is tested for impairment annually, or when a possible impairment is indicated. There is no impairment charge for the years ended December 31, 2016 and 2015.

Goodwill

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

There is no impairment charge for goodwill for the years ended December 31, 2016 and 2015.

Derivative financial instruments

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

For derivative instruments that are designed and qualify as a cash flow hedge (i.e., hedging the exposure of variability in expected future cash flows that is attributable to a particular risk), the effective portion of the gain or loss on the derivative instrument is reported as a component of unrestricted net assets. The ineffective component, if any, is recorded in excess (deficit) of revenues over expenses in the period in which the hedge transaction affects earnings. If the hedging relationship ceases to be highly effective or it becomes probable that an expected transaction will no longer occur, gains or losses on the derivative are recorded in excess (deficit) of revenues over expenses. For derivative instruments not designated as hedging instruments, the unrealized gain or loss is recognized in other gains (losses) during the period of change.

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

Income taxes

Brooks is comprised of not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code ("IRC") and is exempt from federal income taxes on related income pursuant to Section 501(a) of the IRC. Holdings is a for-profit holding corporation which is the parent company for Brooks' for-profit businesses. As Holdings has accumulated federal net operating loss carryforwards ("NOLs") of approximately $13,793,000 for federal income taxes and $26,598,000 for Florida state income taxes, no amounts have been reflected as tax liabilities on the accompanying consolidated balance sheets as of December 31, 2016. Due to uncertainties as to future utilization of these NOLs, no amounts have been recorded as a deferred tax asset. Brooks has determined that it does not have any material unrecognized tax benefits or obligations as of December 31, 2016. Fiscal years ending on or after December 31, 2013 remain subject to examination by federal and state tax authorities.

Estimated self-insurance liabilities

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

Compensated absences

Brooks accrues for compensated absences according to the authoritative bodies, which dictates a liability exists for an employee's compensation of future absences if all of the following conditions are met: a) an obligation exists for services rendered; b) the obligation relates to rights that vest or accumulate; c) payment is probable, and d) the amount can be reasonably estimated. For the years ended December 31, 2016 and 2015, Brooks has accrued approximately $3,052,000 and $3,128,000, respectively, related to compensated absences, which is classified as accrued expenses on the consolidated balance sheets.

Impairment of long-lived assets

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

In addition to consideration of impairment upon the events or changes in circumstances described above, management regularly evaluates the remaining estimated useful lives of its long-lived assets. If estimates are revised, the carrying value of affected assets is depreciated or amortized over the remaining estimated useful lives. There are no impairments for the years ended December 31, 2016 and 2015.

Other investments

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

Net patient service revenue and patient receivables, net

Brooks has agreements with third-party payors that provide for payments at amounts different than established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts due from patients, third-party payors and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are estimated and accrued in the period the related services are rendered and adjusted in future periods as final settlements are determined.

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

Contract service revenue

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

Charity care

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

Functional expense

Brooks does not present expense information by functional classification because their resources and activities are primarily related to providing healthcare services. Further, since Brooks receives substantially all of its resources from providing healthcare services in a manner similar to a business enterprise, other indicators contained in these consolidated financial statements are considered important in evaluating how well management has discharged its stewardship responsibilities.

Excess (deficit) of revenues over expenses

The consolidated statements of operations include excess (deficit) of revenues over expenses as Brooks' performance indicator. As is consistent with industry practice, changes in unrestricted net assets, including the fair value change of effective interest rate swaps, change in noncontrolling interest, and contributions of long-lived assets are excluded from excess (deficit) of revenues over expenses.

Concentrations of credit risk

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

Reclassifications

To allow for improved transparency in the nature of expenses, in 2016 Brooks moved several expense accounts from other expenses to purchased services. A portion of 2015 other expenses were reclassified to conform to the 2016 presentation. The reclassification resulted in approximately $10,203,000 shifting from other expenses to purchased services for the year ended of December 31, 2015. These reclassifications did not have any effect on Brooks' total expenses, operating income, or consolidated deficit of revenues over expenses for the year ended December 31, 2015.

New accounting standards

During the year ended December 31, 2016, Brooks implemented FASB Accounting Standards Update ("ASU") No. 2015-03, *Interest – Imputation of Interest, (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Cost*, which established standards for accounting and financial reporting issues related to the presentation of debt issuance costs. The standard requires debt issuance costs to be presented as a reduction of the related debt.

The effect of the retroactive application of ASU 2015-03 on previously reported consolidated financial statement amounts is summarized below:

	As Previously Reported	2015 Adjustment	2015 As Restated
Consolidated Balance Sheet:			
Other assets, net	$ 2,198,031	$ (2,071,197)	$ 126,834
Total assets	$ 547,320,491	$ (2,071,197)	$ 545,249,294
Long-term debt, net of current portion	$ 226,116,433	$ (2,071,197)	$ 224,045,236
Total liabilities	$ 314,792,027	$ (2,071,197)	$ 312,720,830
Total liabilities and net assets	$ 547,320,491	$ (2,071,197)	$ 545,249,294

In 2015, the FASB issued ASU 2015-07, Fair Value Measurement (Topic 820): *Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent)*. The ASU removes certain disclosures and the requirement to categorize within the fair value hierarchy investments for which fair value is measured using NAV as a practical expedient as provided by ASC 820, *Fair Value Measurement.* The ASU is effective for fiscal years beginning after December 15, 2016, with early adoption permitted. The ASU should be applied retrospectively to all periods presented. Brooks elected to early adopt the provisions of ASU 2015-07 effective January 1, 2016.

2. Acquisitions

In accordance with the authoritative bodies, Brooks recognizes assets acquired and liabilities assumed, including contingent liabilities, based on fair value estimates as of the date of acquisition and the probability of the contingent liabilities being paid. Any excess of purchase price over the fair value of the net assets acquired is recorded as goodwill.

In July of 2015, BAHH, formerly Brooks Home Care Advantage Inc. acquired the home health agency operations of AmeriCare Home Therapy, Inc. (“AmeriCare”). AmeriCare is a regionally focused home health care provider with eight service areas and serving 23 counties in North East and Central Florida. Brooks funded the cash purchase price utilizing an existing short term loan facility which was subsequently refinanced with the Series 2015 Bond issue (Note 9). With this acquisition, Brooks has expanded its ability to offer comprehensive, cost effective and high-quality services across new and existing service areas.

Brooks accounted for this transaction under the acquisition method of accounting and reported the results of operations of AmeriCare starting August 1, 2015. Assets acquired, liabilities assumed and calculated contingent payments were recorded at their estimated fair values as of the acquisition date. Estimated fair values calculated were based primarily on various valuation methodologies including an income approach utilizing primarily discounted future cash flows and various market approach utilizing market transactions method and guideline public companies method. As it related to intangibles, Brooks utilized the with-and-without method for non-competes and licenses, and the relief-from-royalty method for the tradename. The aforementioned income approach method utilizes management’s estimate of future operating results and cash flows, discounted using a weighted average cost of capital that reflects market participant assumptions. Property and equipment is recorded at the estimated fair value at the time of the acquisition along with the related debt assumed by Brooks. For all other assets and liabilities, the fair value was assumed to represent carrying value due to their short maturities and in accordance with the Asset Purchase Agreement. The excess of the fair value of the consideration conveyed over the fair value of the net assets acquired was recorded as goodwill.

The fair values recorded were based upon a preliminary valuation. Estimates and assumptions used in such valuation are subject to change, and could be significant, within the measurement period (up to one year from the acquisition date). During 2016, Management determined that the projected operating performance was unlikely to be achieved and related contingent liabilities were relieved. As a result, goodwill and other liabilities were reduced by approximately $5,268,000.

The preliminary fair values of the assets acquired and liabilities assumed at the acquisition date were as follows:

	July 31, 2015
Cash and cash equivalents	$ 1,596,614
Accounts receivable	1,239,752
Prepaid and deposits	139,500
Property and equipment	358,047
Identifiable intangible assets:	
Non-competes (useful lives 5 years)	485,000
Trade name (indefinite life)	2,977,000
Licenses (useful lives 15 years)	1,459,000
Goodwill	15,097,846
Total assets acquired	$ 23,352,759
Accounts payable	$ 151,395
Accrued payroll	190,844
Other accrued expenses	1,021,404
Capitalized leases	155,988
Deferred purchase price liability	2,660,800
Contingent payments	2,606,900
Total liabilities assumed	$ 6,787,331
Net assets acquired	$ 16,565,428

Information regarding the net cash paid for the acquisition of AmeriCare is as follows:

Fair value of assets acquired, net of $1,596,614 of cash acquired	$ 6,658,299
Goodwill	15,097,846
Fair value of liabilities assumed	(6,787,331)
Net cash paid for acquisitions	$ 14,968,814

The following table summarizes the unaudited results of operations of the above mentioned transactions from their respective dates of acquisition included in the consolidated results of operations and the unaudited pro forma results of operations of AmeriCare had the date of acquisition been January 1, 2015.

	Net operating revenues	Operating income attributable to Brooks
AmeriCare from acquisition date to December 31, 2015 (unaudited)	$ 9,451,912	$ 1,250,053
Combined entity: Supplemental pro forma from 1/1/15-12/31/15 (unaudited)	$ 194,348,780	$ 14,536,651

The information presented above is for illustrative purposes only and is not necessarily indicative of results that would have been achieved if the acquisitions had occurred as of the beginning of the 2015 reporting period. For the acquisition, the unaudited pro forma information above includes adjustments for acquisition costs, amortization of identifiable intangible assets and interest on debt incurred to fund the acquisition.

3. Fair Value Measurements

Brooks adopted the authoritative guidance for fair value measurements pertaining to financial assets and liabilities as of January 1, 2008, and for nonfinancial assets and liabilities as of January 1, 2009. The authoritative guidance establishes a framework for measuring fair value for financial and nonfinancial assets and liabilities and expands disclosures about fair value measurements. Fair value is defined as the “exit price”, the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability.

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

- Level 1 includes observable inputs which are inputs that market participants would use in valuing the asset or liability and are developed based on market data obtained from sources independent of Brooks, in an active market with sufficient volume and frequency of transactions.

- Level 2 includes financial instruments for which there are inputs other than quoted prices included within Level 1 that are observable for the instruments such as quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets with insufficient volume or infrequent transactions (less active markets) or model-driven valuations in which significant inputs are observable or can be derived principally from, or corroborated by, observable market data, including market interest rate curves, referenced credit spreads and pre-payment rates.

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

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

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

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

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

There were no changes during the years ended December 31, 2016 and 2015 to Brooks' valuation techniques used to measure asset and liability fair values on a recurring and nonrecurring basis.

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

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

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

		Fair Value Measurements at December 31, 2016 using:		
	Fair value at December 31, 2016	**Level 1 inputs**	**Level 2 inputs**	**Level 3 inputs**
Assets measured at fair value:				
Cash and cash equivalents	$ 4,691,510	$ 4,691,510	$ -	$ -
Investments and assets limited as to use	217,017,222	217,017,222	-	-
Total assets in the fair value hierarchy	$ 221,708,732	$ 221,708,732	$ -	$ -
Investments at NAV (a)	94,028,110			
Total investments at fair value	$ 315,736,842			
Liabilities measured at fair value:				
Interest rate swaps	$ 4,396,824	$ -	$ 4,396,824	$ -

	Fair value at December 31, 2015	Fair Value Measurements at December 31, 2015 using: Level 1 inputs	Level 2 inputs	Level 3 inputs
Assets measured at fair value:				
Cash and cash equivalents	$ 5,221,789	$ 5,221,789	$ -	$ -
Investments and assets limited as to use	236,261,403	236,261,403	-	-
Total assets in the fair value hierarchy	$ 241,483,192	$ 241,483,192	$ -	$ -
Investments at NAV (a)	93,217,729			
Total investments at fair value	$ 334,700,921			
Liabilities measured at fair value:				
Interest rate swaps	$ 3,171,149	$ -	$ 3,171,149	$ -

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

	Fair Value at 12/31/2016	Fair Value at 12/31/2015	Unfunded Commitments	Other Redemption Restrictions	Redemption Notice Period
Small Cap Equity Fund	$15,089,860	$14,966,072	None	Monthly	On or before the fifteenth day of the prior month
International Value Equity Fund	$36,079,864	$33,656,728	None	Monthly	Ten business days
International Small Cap Fund	$13,026,527	$14,177,191	None	Daily	Ten business days
Global Absolute Return Fund	$29,831,859	$30,417,738	None	Monthly	Ten business days

Brooks recognizes transfers between the levels as of the beginning of the reporting period. There were no gross transfers between the levels for the years ended December 31, 2016 and 2015.

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

4. Investments and Assets Limited as to Use

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

	2016	2015
Cash and cash equivalents	$ 6,176,571	$ 2,891,828
Marketable equity securities	35,271,741	37,908,571
Mutual funds – fixed income securities	22,510,702	22,510,797
Mutual funds – equity securities	117,973,920	116,868,457
Funds of funds	94,028,110	93,217,729
	$ 275,961,044	$ 273,397,382

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

	2016	2015
Interest and dividend income	$ 5,220,632	$ 6,221,145
Net realized gains	10,049,736	11,056,104
Investment income, net	$ 15,270,368	$ 17,277,249
Net unrealized losses on investments included as a component of excess (deficit) of revenues over expenses	$ (1,952,953)	$ (18,432,366)

The following table includes information related to Brooks' investments in those funds of funds that do not have a readily determinable fair value and calculate a NAV as of December 31:

		Fair Value Using Net Asset Values Per Share at:	
Investment Category	Investment Category Includes	2016	2015
Funds of Funds	Funds that invest in other funds, primarily emerging country markets	$ 94,028,110	$ 93,217,729

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

	2016	2015
Cash and cash equivalents	$ 33,145,344	$ 54,160,818
Mutual funds – fixed income securities	1,938,944	1,920,932
	$ 35,084,288	$ 56,081,750

Assets limited as to use consist of the following at December 31:

	2016	2015
Board designated for self-insurance funds	$ 2,002,999	$ 1,952,068
Assets held by Bond Trustee	33,081,289	54,129,682
	$ 35,084,288	$ 56,081,750

5. Net Patient Service Revenue

Brooks has agreements with third-party payors that provide for reimbursement at amounts different from its established rates. Brooks is reimbursed for inpatient services under the Medicare Prospective Payment System methodology based on diagnosis related case mix groups. Inpatient, outpatient, and skilled nursing services provided to Medicaid program beneficiaries by Brooks are reimbursed based upon a cost reimbursement methodology. Under the cost reimbursement methodology, Brooks is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by Brooks and audits by the Medicare and Medicaid fiscal intermediary. Outpatient services rendered to Medicare program beneficiaries, BHD Medicaid beneficiaries and physician services are reimbursed according to prospectively determined fee schedules. The Medicare and Medicaid combined utilization rates for years December 31, 2016 and 2015 were approximately 53% and 55%, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates associated with these programs will change by a material amount in the near term.

Brooks' Medicare cost reports for all years through 2015 have been filed. The Medicare cost reports for all years through 2013 have been examined and final settlements have been determined by the governmental agency intermediary. Brooks' Rehabilitation Medicaid cost reports for all years through 2015 have been filed. The cost reports for all years through 2006 have been examined and final settlements have been determined by the governmental agency intermediary. For Brooks Skilled Nursing, cost reports were filed, and a review of the 2013 cost report is being completed. Adjustments of approximately $125,000 and $136,000 were made in 2015 and 2016, respectively, to net patient revenue related to Brooks Skilled Nursing for the rates provided from the 18 month Medicaid cost report. There were no other adjustments recorded as a change in net patient service revenue related to third-party settlements for prior years in 2016 or 2015.

Brooks has also entered into reimbursement agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The bases for reimbursement under these agreements include prospectively determined rates-per-discharge, discounts from established charges, prospectively determined per-diem rates and fee schedules.

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

	2016	2015
Gross patient service charges	$ 315,058,139	$ 293,881,572
Contractual adjustments and other deductions	(156,807,107)	(151,989,620)
Net patient service revenue	$ 158,251,032	$ 141,891,952

6. Property and Equipment

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

	2016	2015
Land and land improvements	$ 38,684,558	$ 38,128,965
Buildings and building improvements	118,378,365	104,216,486
Equipment	54,395,106	47,133,046
	211,458,029	189,478,497
Less: Accumulated depreciation	(83,775,945)	(81,702,553)
	127,682,084	107,775,944
Construction in progress	2,759,970	13,290,016
Property and equipment, net	$ 130,442,054	$ 121,065,960

Depreciation expense for the years ended December 31, 2016 and 2015 was approximately $8,512,000 and $7,451,000, respectively.

In 2016, BHS began construction of a housing facility located adjacent to the main campus of BHS. The facility is expected to open in August of 2017. At December 31, 2016, approximately $5,510,000 remains committed on the construction contract of $5,696,000.

7. Land Held for Development

In November 2015, BHS purchased a parcel of land in Clay County, Florida for future use. The acquisition cost was approximately $5,225,000 and was financed through lines of credit (Note 9). During 2016, additional costs of approximately $104,000 were incurred related to this land parcel.

BHS also holds land for future development in Southern Duval County, Florida, which was purchased in 2005. The recorded value of the undeveloped land as of December 31, 2016 and 2015 is approximately $16,817,000.

During 2016, there were no triggering events that would require BHS to test these parcels of land for impairment.

The carrying value of land held for development as of December 31, 2016 and 2015 is approximately $22,146,000 and $22,042,000, respectively.

8. Intangible Assets

Intangible assets consist of the following at December 31:

	2016			
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Weighted Average Remaining Life (Years)
Trade Name - AmeriCare	$ 2,977,000	$ -	$ 2,977,000	N/A
Licenses - AmeriCare	1,459,000	(145,878)	1,313,122	13.6
Non-Compete – AmeriCare	485,000	(154,593)	330,407	3.6
License – University Crossing	4,186,802	(46,239)	4,140,563	39.7
License – Bartram	4,142,598	(574,249)	3,568,349	36.5
Service Agreement - Greenhouse	190,000	(30,875)	159,125	16.8
A+ Acquisition	171,872	(151,821)	20,051	0.6
	$ 13,612,272	$ (1,103,655)	$ 12,508,617	

	2015			
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Weighted Average Remaining Life (Years)
Trade Name - AmeriCare	$ 2,977,000	$ -	$ 2,977,000	N/A
Licenses - AmeriCare	1,459,000	(48,611)	1,410,389	14.6
Non-Compete – AmeriCare	485,000	(48,500)	436,500	4.6
License – Glenwood	2,658,535	-	2,658,535	40
License – Bartram	4,142,598	(478,310)	3,664,288	37.5
Service Agreement - Greenhouse	190,000	(21,375)	168,625	17.8
A+ Acquisition	171,872	(117,446)	54,426	1.6
	$ 12,084,005	$ (714,242)	$ 11,369,763	

In July 2015, BHS purchased the home care licenses and trade name of AmeriCare, Inc. (Note 2), and acquired non-compete agreements as part of the acquisition. The trade name has an indefinite life. The licenses and non-compete agreements are amortized over the useful lives of 15 years and 5 years, respectively.

In August 2011, Brooks purchased 119 licensed skilled nursing beds from Glenwood for approximately $3,578,000 with the intent to use 32 at Bartram Crossing Skilled Nursing Facility and the remainder to be held for future skilled nursing facilities. In July 2013, Brooks allocated 32 of the 119 licensed skilled nursing beds to Bartram Crossing, combining with the existing licenses from San Marco Terrace. The amortization period was reset to 40 years in July 2013. In September 2016, Brooks began operations at its second skilled nursing facility, University Crossings, adjacent to the campus of BRH. The remaining 87 licenses from Glenwood were transferred to University Crossings. Additionally, 24 licenses were purchased from a third party for University Crossings. The amortization period for the 111 licenses is 40 years.

9. Lines of Credit and Long Term Debt

In October 2012 Brooks issued a $12,500,000 revolving unsecured line of credit, which expired on October 28, 2013. This revolving line of credit was renewed in November 2013, structured as two loan accounts of $6,250,000 each, with both scheduled to expire on October 31, 2017.

In October 2012 BMD issued a revolving unsecured line of credit for $18,000,000, which expired on October 29, 2013. This revolving line of credit was renewed in November 2013, structured as two loan accounts of $9,000,000 each, with both scheduled to expire on November 7, 2017.

BSNFA entered into a $1,000,000 revolving unsecured line of credit on July 26, 2011. The line of credit expires on June 21, 2017.

BSNFAH entered into a revolving unsecured $800,000 line of credit dated May 28, 2010 which has been renewed annually. The line of credit expires on June 21, 2017.

BRH entered into a revolving unsecured $2,000,000 line of credit dated June 28, 2011 to fund short-term operating needs. The line of credit expires on June 21, 2017.

BHS entered into an unsecured revolving $10,000,000 line of credit dated July 7, 2014, to finance the purchase of land, land improvements, building, building improvements, equipment, and start-up costs for an outpatient clinic in Clay County, Florida. This line of credit expires on June 21, 2017.

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

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

	2016	2015
Brooks $6,250,000 line of credit, interest of one month LIBOR rate plus 0.97%. Interest rate on December 31, 2016 and 2015 was 1.59% and 1.40%, respectively.	$ 6,250,000	$ 6,250,000
Brooks $6,250,000 line of credit, interest of one month LIBOR rate plus 0.97%. Interest rate on December 31, 2016 and 2015 was 1.59% and 1.40%, respectively.	6,249,910	6,249,910
Brooks $9,000,000 line of credit, interest of one month LIBOR rate plus 0.97%. Interest rate on December 31, 2016 and 2015 was 1.59% and 1.40%, respectively.	8,666,150	8,666,150
Brooks $9,000,000 line of credit, interest of one month LIBOR rate plus 0.97%. Interest rate on December 31, 2016 and 2015 was 1.59% and 1.40%, respectively.	9,000,000	9,000,000
BSNFA $1,000,000 line of credit, interest of one month LIBOR rate plus 1.25%. Interest rate on December 31, 2016 and 2015 was1.87% and 1.68%, respectively.	23,383	773,383

(Continued)

(Continued)

BSNFAH $800,000 line of credit, interest of one month LIBOR rate plus 1.25%. Interest rate on December 31, 2016 and 2015 was 1.87% and 1.68%, respectively.	385,626	785,626
BRH $2,000,000 line of credit, interest of one month LIBOR plus 1.25%. Interest rate on December 31, 2016 and 2015 was 1.87% and 1.68%, respectively.	150,000	2,000,000
BHS $10,000,000 line of credit, interest of one month LIBOR rate plus 1.00%. Interest rate on December 31, 2016 and 2015 was 1.65% and 1.43%, respectively.	8,479,736	8,479,736
	$ 39,204,805	$ 42,204,805

Long-Term Debt

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

The Series 2015 Bonds consists of $7,430,000 of Serial Bonds and $47,665,000 of Term Bonds. The principal payments for the Serial Bonds are due in various amounts through November 2027, with interest rates that vary between 3% and 5%. The Term Bonds are payable in various amounts from November 2034 through November 2040 at an interest rate of 4%. The carrying value of the bonds is approximately $53,381,000 and $53,820,000 at December 31, 2016 and 2015, respectively, net of unamortized discount, which approximates the fair value. The Series 2015 bonds are collateralized through mortgaged property.

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

For the 2013 Private Issue Debt, payments of $183,089 are made monthly. The interest rate was 2.36% for both years ended December 31, 2016 and 2015. On December 28, 2016, Brooks made an additional $3,000,000 payment on this loan. The carrying value of the 2013 Private Issue Debt was approximately $27,015,000 and $31,473,000 at December 31, 2016 and 2015, respectively. The carrying value is based on the face value. The 2013 Private Issue Debt is collateralized through mortgaged property. The 2013 Private Issue Debt matures in June 2033.

For the 2011 Private Issue Debt, payments of $141,929 are made monthly. The interest rate was 3.63% for both years ended December 31, 2016 and 2015. The carrying value of the 2011 Private Issue Debt was approximately $27,469,000 and $28,144,000 at December 31, 2016 and 2015, respectively. The carrying value is based on the face value. The 2011 Private Issue Debt is collateralized through mortgaged property. The 2011 Private Issue Debt matures in June 2026.

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

For the 2010 Private Issue Debt, payments of $149,046 are made monthly. The interest rate was 3.24% for both years ended December 31, 2016 and 2015. The carrying value of the 2010 Private Issue Debt was approximately $29,342,000 and $30,151,000 at December 31, 2016 and 2015, respectively. The carrying value is based on the face value. The 2010 Private Issue Debt is collateralized through mortgaged property. The 2010 Private Issue Debt matures in August 2025.

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

For the Series 2007 Bonds, principal payments are to be made in various amounts through November 2038. Interest rates vary between 4.5% and 5.25% based on maturity. The effective interest rate was 5.19% and 5.18% for the years ended December 31, 2016 and 2015, respectively. The carrying value of the bonds is approximately $86,049,000 and $87,271,000 at December 31, 2016 and 2015, respectively. The carrying values are based on the net of the face value and unamortized original issue discount. The Series 2007 Bonds are collateralized through mortgaged property.

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

	2016	2015
Series 2015 Bonds	$ 54,605,000	$ 55,095,000
Series 2013 Private Issue Debt	27,015,009	31,472,879
Series 2011 Private Issue Debt	27,468,604	28,144,348
Series 2010 Private Issue Debt	29,342,391	30,150,731
Series 2007 Bonds	87,885,001	89,195,000
	226,316,005	234,057,958
Less: Net unamortized bond discounts	(3,060,071)	(3,199,572)
Less: Net unamortized debt issuance costs	(1,910,366)	(2,071,197)
Total debt	221,345,568	228,787,189
Less current portion	(4,936,396)	(4,741,953)
Long-term portion	$ 216,409,172	$ 224,045,236

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

2017	$ 4,936,396
2018	5,099,480
2019	5,302,307
2020	5,488,584
2021	5,694,683
Thereafter	199,794,555
	226,316,005
Net unamortized bond discounts	(3,060,071)
Net unamortized debt issuance costs	(1,910,366)
	$ 221,345,568

The Series 2007 Bonds, the 2010 Private Issue Debt, the 2011 Private Issue Debt, the 2013 Private Issue Debt and the Series 2015 Bonds agreements contain financial and non-financial covenants.

The fair values of the Series 2015 Bonds are based on their face value adjusted for issuance discounts. The fair value of the Series 2015 Bond was approximately $53,121,000 and $54,660,000 at December 31, 2016 and 2015, respectively.

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

The fair values of the Series 2007 Bonds were approximately $89,759,000 and $93,037,000 at December 31, 2016 and 2015, respectively.

10. Derivative Instruments

In September 2015, Brooks entered into a forward swap agreement in order to mitigate cash flow risk in anticipation of the refunding of the Series 2007 bonds in November 2017. The swap agreement will commence in November 2017. Brooks will pay a fixed rate interest of 2.38%, and will receive a variable interest rate of 85% USD-LIBOR-BBA on the notational amount of the debt. Brooks recorded valuation losses of $654,000 and $845,000 for the years ended December 31, 2016 and 2015, respectively, which are included in other losses (gains) on the consolidated statement of operations.

In 2011, Brooks entered into two interest swaps in order to mitigate the cash flow risk associated with the 2011 Private Issue Debt. Included in the consolidated statement of changes in unrestricted net assets are a swap valuation gain of $520,000 and a swap valuation loss of $32,000 for the years ended December 31, 2016 and 2015, respectively.

In 2010, Brooks entered into an interest rate swap in order to mitigate the cash flow risk associated with the 2010 Private Issue Debt. Included in the consolidated statement of changes in unrestricted net assets are a valuation gain of $441,000 and a valuation loss of $97,000 for the years ended December 31, 2016 and 2015, respectively.

In 2008, Brooks entered into an interest rate swap in order to mitigate cash flow risk associated with the interest payments on the Series 2007 Bonds. Due to the nature of the swap, it does not qualify for hedge accounting treatment according to the regulatory authority. For the years ended December 31, 2016 and 2015, the swap valuation loss of approximately $1,532,000 and a swap valuation gain of approximately $1,959,000, respectively, was included in other (losses) gains on the consolidated statements of operations.

Excluding the 2015 forward rate swap, the derivative financial instrument agreements that were outstanding as of December 31, 2016 and 2015 are set forth in the tables below:

December 31, 2016

Notional Amount	Pay(1)	Receive	Maturity Date	Fair Value
$ 2,933,540	3.63%	65.0% USD-LIBOR-BBA+ 1.20%	Through 6/01/2026	$ (238,374)
$ 24,535,064	3.63%	65.0% USD-LIBOR-BBA+ 1.20%	Through 6/01/2026	$ (1,993,670)
$ 29,342,391	3.24%	65.0% USD-LIBOR-BBA+ 1.20%	Through 8/01/2025	$ (1,453,183)
$ 87,885,000	SIFMA	67.0% USD-LIBOR-BBA+ 0.51%	Through 11/01/2038	$ 787,929

December 31, 2015

Notional Amount	Pay(1)	Receive	Maturity Date	Fair Value
$ 3,005,707	3.63%	65.0% USD-LIBOR-BBA+ 1.20%	Through 6/01/2026	$ (293,941)
$ 25,138,641	3.63%	65.0% USD-LIBOR-BBA+ 1.20%	Through 6/01/2026	$ (2,458,412)
$ 30,150,731	3.24%	65.0% USD-LIBOR-BBA+ 1.20%	Through 8/01/2025	$ (1,893,777)
$ 89,195,000	SIFMA	67.0% USD-LIBOR-BBA+ 0.51%	Through 11/01/2038	$ 2,320,235

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

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

	2016		2015	
	Consolidated Balance Sheet Location	Fair Value	Consolidated Balance Sheet Location	Fair Value
Derivatives designated as effective hedging instruments under ASC 815	Other liabilities	$ 3,685,227	Other liabilities	$ 4,646,130
Derivatives not designated as effective hedging instruments under ASC 815	Other liabilities	$ 711,597	Other liabilities	$ (1,474,981)

	Amount of Gain (Loss) Recognized in Net Assets	
	2016	2015
Derivatives designated as effective hedging instruments under ASC 815	$ 960,871	$ (128,875)

	Amount of Gain (Loss) Recognized in Excess (Deficit) of Revenues Over Expenses	
	2016	2015
Derivatives not designated as effective hedging instruments under ASC 815	$ (2,186,580)	$ 1,114,138

11. Benefit Plans

Brooks maintains a defined contribution plan (the “Plan”) for substantially all full-time employees. The annual contribution under the Plan is based on a fixed percentage of salary of 3%, with an additional matching contribution made by Brooks for a portion of the voluntary employee contributions, subject to limits which begins after one year of service. Upon completion of the one year waiting period, step vesting occurs at 20% per year. The contribution expense under the Plan amounted to approximately $3,387,000 and $2,902,000 for the years ended December 31, 2016 and 2015, respectively.

Forfeitures are taken to offset employer contributions; if there are not enough contributions in the applicable Plan, forfeitures are not taken. Forfeitures may also be used to offset and pay the cost of administration fees. Forfeitures amounted to approximately $211,000 and $112,000 for the years ended December 31, 2016 and 2015, respectively.

Supplemental Executive Retirement Plan

Brooks also maintains a nonqualified, unfunded deferred compensation plan for the benefit of certain management employees of the organization. At December 31, 2016 and 2015, management estimated that the net present value of the contingent estimated obligation for supplemental executive retirement benefits approximated $1,433,000 and $1,061,000, respectively, which was recorded in other liabilities on the consolidated balance sheet. Expenses related to the contingent supplemental executive retirement benefit plan were approximately $381,000 and $281,000 for the years ending December 31, 2016 and 2015, respectively. The contingent benefits expected to be paid in the future subject to a 10 year vesting period are estimated as follows:

2017	$ 485,181
2018	539,294
2019	598,432
2020	663,032
2021	733,569
	$ 3,019,508

12. Other Investments

Brooks has other investments as of December 31, 2016 and 2015 as follows:

	Ownership		Investment	
	2016	2015	2016	2015
HBRS	50%	50%	$ 4,511,603	$ 5,483,675
BMD Investment in D1	10%	10%	100,000	100,000
Other	<1%	<1%	20,000	20,000
			$ 4,631,603	$ 5,603,675

13. Purchased Services

Memorial Hospital Jacksonville (“MHJ”), which is owned by Hospital Corporation of America (“HCA”), is an acute care hospital located adjacent to BRH which provides certain administrative and ancillary services to BRH subject to a contract between the parties. In 2012, Brooks renegotiated the contract to a cost per charge for ancillary services and a cost per unit for facility and administrative services. The contract, which details the provision of services, is renewed annually. These costs, which are included in purchased services on the consolidated statements of operations, were approximately $14,789,000 and $13,381,000 for the years ended December 31, 2016 and 2015, respectively.

Amounts payable to MHJ were approximately $730,000 and $564,000 at December 31, 2016 and 2015, respectively, and are included in accounts payable and accrued expenses on the consolidated balance sheets.

14. Pledges Payable

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

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

In 2013, Brooks pledged to give $1,000,000 to Jacksonville University to sponsor a major new program with the College of Health Science – The Brooks Rehabilitation Speech-Language Pathology Program. This will be paid in equal installments over the next five years. This program was designed for students planning careers as speech-language pathologists with a primary goal to develop professionals who are knowledgeable and skilled in the assessment, diagnosis, and treatment of speech, voice, swallowing, language, and cognitive disorders with emphasis on the practice of medical speech-language pathology.

In 2012, Brooks pledged to give $2,500,000 to local healthcare organizations over a period of six years in order to fund programs that would improve healthcare and outcomes for the common patient population. These programs ultimately focus on reducing hospital readmissions, preserving independence and quality of life in the elderly, and maintaining excellence in orthopedic surgery and rehabilitation.

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

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

Pledges made in 2015 are recorded at a discount rate of 1.02% that is amortized over the period of the pledge. Pledges made during 2013 are recorded at a discount rate of 1.04% that is amortized over the period of the pledge. Pledges made during 2012 are recorded at a discount rate of .82% that is amortized over the period of the pledge.

Future payments of the pledges, by year, consist of the following at December 31, 2016:

Years ending:	
2017	$ 1,148,167
2018	565,000
2019	500,000
Total	2,213,167
Less: unamortized discount	(53,611)
Total balance	$ 2,159,556

15. Operating Leases

Certain outpatient centers are being rented by Brooks from unaffiliated third parties under noncancelable operating leases through 2022. Future minimum lease payments, by year, consist of the following at December 31, 2016:

Years ending:	
2017	$ 2,963,138
2018	2,427,868
2019	2,162,801
2020	2,045,770
2021	1,245,747
Thereafter	2,789
	$ 10,848,113

Leases and rental expenses for all operating leases were approximately $3,764,000 and $3,550,000 for the years ended December 31, 2016 and 2015, respectively.

16. Concentration of Credit Risk

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

The net mix of receivables from patients and third-party payors for BRH as of December 31, 2016 and 2015 was as follows:

	2016	2015
Medicare	26%	32%
Medicaid	2	3
Managed care	49	44
Other third-party payors	22	19
Self-pay	1	2
	100%	100%

The Medicare component of accounts receivable for other affiliates as of December 31, 2016 and 2015 was as follows:

	2016	2015
BHD	40%	39%
BAHH	56%	51%
BSN	74%	73%

17. Financial Assistance

Brooks maintains records to identify and monitor the level of charity care it provides. These recorded amounts include the amount of charges forgone for services and supplies furnished under its charity care policy. The estimated total cost of charity care provided was approximately $2,368,000 and $1,984,000 for the years ended December 31, 2016 and 2015, respectively. The total cost estimate is based on total direct and indirect costs per equivalent service statistic.

Unsponsored community benefit

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

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

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

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

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

	2016	2015
Financial assistance provided (net of government support)	$ 2,368,252	$ 1,984,246
Benefits for the broader community:		
Community health services	4,056,260	5,447,616
Health professions education	1,038,829	821,083
Research	609,120	628,881
Contributions and other support	158,155	252,170
	$ 8,230,616	$ 9,133,996

18. Contingencies

Professional liabilities

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

Coverage limits for the policies are $1,000,000 per occurrence and $3,000,000 in the aggregate. There is a self-insurance retention limit per claims of: $500,000 – Hospital, $100,000 – Skilled Nursing, and $50,000 – Home Health. As of December 31, 2016 and 2015, respectively, Brooks has recorded approximately a $1,343,000 and $979,000 liability in other liabilities on the consolidated balance sheets for its estimated losses.

Workers compensation insurance

The self-insurance fund is reported in assets limited as to use in the accompanying consolidated balance sheets and includes the estimate of self-insured claims for workers' compensation. Estimated losses for self-insurance claims for workers' compensation are recorded at their present value using a 4% discount rate at December 31, 2016 and 2015.

Brooks has recorded approximately $603,000 and $785,000 in non-current other liabilities on the consolidated balance sheets for its estimated workers compensation losses at December 31, 2016 and 2015, respectively.

Health Insurance

Beginning January 2011, Brooks became self-insured for health and medical coverage for its employees. Amounts contributed by Brooks and its employees to the plan are determined by the level of benefits coverage selected by each employee. Expenses related to the self-insured health and medical plan for the years ended December 31, 2016 and 2015, were approximately $9,360,000 and $6,662,000, respectively. The estimated claims incurred, payments on claims, and the balance of the reserve for health insurance claims for the years ended December 31, 2016 and 2015 were as follows:

	2016	2015
Claims liabilities, January 1	$ 829,426	$ 488,507
Expense	9,359,865	6,661,577
Claim payments	(9,148,164)	(6,320,658)
Claims liabilities, December 31	$ 1,041,127	$ 829,426

It is the opinion of management that its insurance coverages and self-insurance liabilities at December 31, 2016 and 2015 are adequate to provide for potential losses resulting from outstanding claims and pending or threatened litigation.

19. Subsequent Events

Brooks has evaluated subsequent events through April 18, 2017 the date the consolidated financial statements were issued.

Genesis Health, Inc. and Affiliates d/b/a Brooks Rehabilitation
Consolidating Balance Sheet
December 31, 2016

	Brooks Health System (Parent Company)	Brooks Rehabilitation Hospital	Brooks Health Development	Brooks Skilled Nursing	Brooks Home Health	Eliminations	Consolidated
ASSETS							
Current assets:							
Cash and cash equivalents	$ 2,834,795	$ 1,001,039	$ 277,743	$ 152,834	$ 425,099	$ -	$ 4,691,510
Patient accounts receivable, net of allowance for doubtful accounts of approximately $1,156,000	-	12,917,147	1,382,517	2,208,149	4,192,736	-	20,700,549
Due from affiliates	20,495,446	81,699,187	3,047	18,927,094	-	(121,124,774)	-
Other current assets	3,264,576	1,093,588	1,395,759	574,980	149,007	-	6,477,910
Total current assets	26,594,817	96,710,961	3,059,066	21,863,057	4,766,842	(121,124,774)	31,869,969
Investments	275,961,044	-	-	-	-	-	275,961,044
Assets limited as to use	31,111,127	3,769,271	203,890	-	-	-	35,084,288
Property and equipment, net	46,344,319	28,028,609	3,537,371	51,917,909	613,846	-	130,442,054
Land held for development	22,146,258	-	-	-	-	-	22,146,258
Investment in affiliates	48,591,757	-	-	-	-	(48,591,757)	-
Other investments	120,000	-	4,511,603	-	-	-	4,631,603
Other assets, net	41,203	-	32,334	-	-	-	73,537
Goodwill	-	-	644,127	-	19,603,033	-	20,247,160
Intangible assets, net	-	20,051	-	7,868,037	4,620,529	-	12,508,617
Total assets	$ 450,910,525	$ 128,528,892	$ 11,988,391	$ 81,649,003	$ 29,604,250	$ (169,716,531)	$ 532,964,530

(Continued)

Genesis Health, Inc. and Affiliates d/b/a Brooks Rehabilitation
Consolidating Balance Sheet
December 31, 2016 **(Continued)**

	Brooks Health System (Parent Company)	Brooks Rehabilitation Hospital	Brooks Health Development	Brooks Skilled Nursing	Brooks Home Health	Eliminations	Consolidated
LIABILITIES AND NET ASSETS							
Current liabilities:							
Accounts payable and accrued expenses	$ 9,241,092	$ 8,896,987	$ 2,833,145	$ 2,116,725	$ 1,707,844	$ -	$ 24,795,793
Lines of credit	38,645,796	150,000	-	409,009	-	-	39,204,805
Current portion of long-term debt	2,985,472	867,794	68,796	703,929	310,405	-	4,936,396
Due to affiliates	26,893,531	925,411	13,938,568	64,594,947	14,772,317	(121,124,774)	-
Estimated third-party payor settlements	378,217	846,500	-	325,479	197,968	-	1,748,164
Other current liabilities	1,148,167	-	-	-	-	-	1,148,167
Total current liabilities	79,292,275	11,686,692	16,840,509	68,150,089	16,988,534	(121,124,774)	71,833,325
Long-term debt, net of current portion	129,802,675	46,228,495	3,239,694	26,650,542	10,487,766	-	216,409,172
Other liabilities	5,294,193	92,962	43,195	2,232,044	538,257	-	8,200,651
Total liabilities	214,389,143	58,008,149	20,123,398	97,032,675	28,014,557	(121,124,774)	296,443,148
Net assets (deficit):							
Unrestricted	234,351,535	70,520,743	(8,277,510)	(15,383,672)	1,589,693	(48,449,254)	234,351,535
Temporarily restricted	2,027,344	-	-	-	-	-	2,027,344
Total net assets attributable to Brooks Rehabilitation	236,378,879	70,520,743	(8,277,510)	(15,383,672)	1,589,693	(48,449,254)	236,378,879
Noncontrolling interest	142,503	-	142,503	-	-	(142,503)	142,503
Total net assets (deficit)	236,521,382	70,520,743	(8,135,007)	(15,383,672)	1,589,693	(48,591,757)	236,521,382
Total liabilities and net assets	$ 450,910,525	$ 128,528,892	$ 11,988,391	$ 81,649,003	$ 29,604,250	$ (169,716,531)	$ 532,964,530

See independent auditors' report.

Genesis Health, Inc. and Affiliates d/b/a Brooks Rehabilitation
Consolidating Statement of Operations
For the Year Ended December 31, 2016

	Brooks Health System (Parent Company)	Brooks Rehabilitation Hospital	Brooks Health Development	Brooks Skilled Nursing	Brooks Home Health	Eliminations	Consolidated
Unrestricted revenues, gains, and other support:							
Net patient service revenue	$ -	$ 95,019,293	$ 8,949,347	$ 21,052,743	$ 33,229,649	$ -	$ 158,251,032
Contract service revenue	-	3,472,898	9,197,531	2,147,935	-	-	14,818,364
Investment income, net	9,878,709	3,251,579	2,021,360	70,491	48,229	-	15,270,368
Other	25,531,740	451,342	2,286,706	789,133	66,690	(18,888,641)	10,236,970
Total unrestricted revenues, gains, and other support	35,410,449	102,195,112	22,454,944	24,060,302	33,344,568	(18,888,641)	198,576,734
Expenses:							
Salaries, wages and benefits	14,418,044	53,706,850	18,528,485	15,991,783	25,848,031	-	128,493,193
Supplies	273,418	1,999,695	203,793	1,708,374	722,707	-	4,907,987
Depreciation and amortization	2,539,658	3,458,991	527,803	1,902,835	497,357	-	8,926,644
Leases and rentals	(10,173)	1,488,468	1,486,161	100,888	813,740	(114,840)	3,764,244
Interest	3,813,793	2,514,277	475,345	1,291,317	1,268,973	-	9,363,705
Professional fees	1,499,236	532,436	96,385	242,031	302,684	(19,571)	2,653,201
Insurance	98,789	752,100	37,127	123,651	163,941	-	1,175,608
Purchased services	1,980,414	13,971,841	756,227	3,415,851	586,615	(1,055,613)	19,655,335
Bad debts, net of recoveries	-	41,304	50,053	130,315	188,969	-	410,641
Other	5,257,182	19,322,251	(590,380)	2,673,834	5,493,058	(17,698,617)	14,457,328
Total expenses	29,870,361	97,788,213	21,570,999	27,580,879	35,886,075	(18,888,641)	193,807,886
Operating income (loss)	5,540,088	4,406,899	883,945	(3,520,577)	(2,541,507)	-	4,768,848
Other (losses) gains:							
Equity in income from other investments	(630,288)	-	-	-	-	630,288	-
Community programs and other support	(773,016)	-	-	-	-	-	(773,016)
Change in fair value of ineffective interest rate swaps	(1,467,934)	(681,682)	(36,964)	-	-	-	(2,186,580)
Net unrealized losses on investments	(1,952,953)	-	-	-	-	-	(1,952,953)
Other gains	2,559,427	-	118,801	-	-	(291,194)	2,387,034
Total other (losses) gains, net	(2,264,764)	(681,682)	81,837	-	-	339,094	(2,525,515)
Excess (deficit) of revenues over expenses before noncontrolling interest	3,275,324	3,725,217	965,782	(3,520,577)	(2,541,507)	339,094	2,243,333
Deficit of revenues over expenses attributable to noncontrolling interest	-	-	50,187	-	-	-	50,187
Excess (deficit) of revenues over expenses	$ 3,275,324	$ 3,725,217	$ 1,015,969	$ (3,520,577)	$ (2,541,507)	$ 339,094	$ 2,293,520

See independent auditors' report.

Genesis Health, Inc. and Affiliates d/b/a Brooks Rehabilitation
Consolidating Statement of Changes in Net Assets
For the Year Ended December 31, 2016

	Brooks Health System (Parent Company)	Brooks Rehabilitation Hospital	Brooks Health Development	Brooks Skilled Nursing	Brooks Home Health	Eliminations	Consolidated
Unrestricted net assets:							
Excess (deficit) of revenue over expenses	$ 3,275,324	$ 3,725,217	$ 1,015,969	$ (3,520,577)	$ (2,541,507)	$ 339,094	$ 2,293,520
Net assets released from restrictions	129,745	-	-	-	-	-	129,745
Change in fair value of effective interest rate swaps	121,570	136,980	18,855	520,269	163,197	-	960,871
Increase (decrease) in unrestricted net assets	3,526,639	3,862,197	1,034,824	(3,000,308)	(2,378,310)	339,094	3,384,136
Temporarily restricted net assets:							
Net assets released from restrictions	(129,745)	-	-	-	-	-	(129,745)
Contributions	596,024	-	-	-	-	-	596,024
Increase in temporarily restricted net assets	466,279	-	-	-	-	-	466,279
Noncontrolling interest:							
Change in noncontrolling interest	-	-	142,503	-	-	-	142,503
Increase (decrease) in net assets	3,992,918	3,862,197	1,177,327	(3,000,308)	(2,378,310)	339,094	3,992,918
Net assets (deficit), beginning of year	232,528,464	66,658,546	(9,312,334)	(12,383,364)	3,968,003	(48,930,851)	232,528,464
Net assets (deficit), end of year	$ 236,521,382	$ 70,520,743	$ (8,135,007)	$ (15,383,672)	$ 1,589,693	$ (48,591,757)	$ 236,521,382

See independent auditors' report.