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

Consolidated Financial Statements as of and for the Years Ended December 31, 2014 and 2013, and Independent Auditors' Report

DIXON HUGHES GOODMAN LLP

GENESIS HEALTH, INC. AND AFFILIATES
d/b/a Brooks Rehabilitation

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December 31, 2014 and 2013

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 balance sheets of Genesis Health, Inc. and Affiliates, d/b/a Brooks Rehabilitation ("Brooks") as of December 31, 2014 and 2013, 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.

Opinion
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Genesis Health, Inc. and Affiliates, d/b/a Brooks Rehabilitation as of December 31, 2014 and 2013, and the related consolidated statements 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.

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

Supplemental Information

Our audit was made for the purpose of forming an opinion on the basic 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 consolidating balance sheets, consolidating results of operations of the individual entities, and the consolidating changes in net assets and are not a required part of the basic 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 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 information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Dixon Hughes Goodman LLP

April 16, 2015
Greenville, South Carolina

GENESIS HEALTH, INC. AND AFFILIATES
d/b/a Brooks Rehabilitation
Consolidated Balance Sheets
December 31, 2014 and 2013

Assets	**2014**	**2013**
Current assets:		
Cash and cash equivalents	$ 6,237,216	$ 3,250,875
Patient receivables, net of allowance for doubtful accounts of approximately $792,000 in 2014 and $478,000 in 2013	13,678,631	11,176,825
Other current assets	8,207,846	3,978,712
Total current assets	28,123,693	18,406,412
Investments	278,469,258	277,185,052
Assets limited as to use	33,049,997	41,159,223
Property and equipment, net	105,870,118	100,947,522
Land held for development	16,817,242	16,817,242
Other investments	5,219,159	3,589,786
Other assets, net	1,330,502	1,419,823
Goodwill	10,417,016	10,417,016
Intangible assets, net	6,685,687	6,768,501
Total assets	$ 485,982,672	$ 476,710,577

Liabilities and Net Assets	**2014**	**2013**
Current liabilities:		
Accounts payable and accrued expenses	$ 20,816,910	$ 20,101,265
Lines of credit	33,725,069	31,253,069
Current portion of long-term debt	4,119,585	3,997,724
Estimated third-party payor settlements	1,054,466	1,107,966
Other current liabilities	697,123	672,675
Total current liabilities	60,413,153	57,132,699
Long-term debt, net of current portion	176,950,923	180,982,708
Other liabilities	8,328,206	9,622,813
Total liabilities	245,692,282	247,738,220
Net assets:		
Unrestricted net assets:		
Unrestricted	239,017,446	231,195,054
Minority interest	-	(3,339,593)
Total unrestricted net assets	239,017,446	227,855,461
Temporarily restricted	1,272,944	1,116,896
Total net assets	240,290,390	228,972,357
Total liabilities and net assets	$ 485,982,672	$ 476,710,577

The accompanying notes are an integral part of these consolidated financial statements.

GENESIS HEALTH, INC. AND AFFILIATES
d/b/a Brooks Rehabilitation
Consolidated Statements of Operations
For the Years Ended December 31, 2014 and 2013

	2014	2013
Unrestricted revenues, gains, and other support:		
Net patient service revenue	$ 121,997,635	$ 104,614,440
Contract service revenue	13,238,433	6,971,115
Investment income, net	25,346,283	24,415,081
Other	6,163,268	4,252,073
Total unrestricted revenues, gains, and other support	166,745,619	140,252,709
Expenses:		
Salaries, wages and benefits	94,668,655	78,767,129
Supplies	3,484,221	2,662,186
Depreciation and amortization	7,779,998	6,808,077
Leases and rentals	3,249,832	3,228,992
Interest	7,191,218	6,394,612
Professional fees	1,503,177	1,437,260
Insurance	764,025	987,332
Purchased services	7,392,877	7,038,314
Bad debts, net of recoveries	902,189	492,599
Other	20,389,164	17,344,658
Total expenses	147,325,356	125,161,159
Operating income	19,420,263	15,091,550
Other (losses) gains:		
Community programs and other support	(307,342)	(1,376,644)
Ineffective change in interest rate swap	3,227,924	(2,439,303)
Net unrealized (losses) gains on investments	(14,035,730)	9,383,064
Other gains (losses)	1,915,219	(14,999)
Total other (losses) gains	(9,199,929)	5,552,118
Excess of revenues over expenses	$ 10,220,334	$ 20,643,668

The accompanying notes are an integral part of these consolidated financial statements.

GENESIS HEALTH, INC. AND AFFILIATES
d/b/a Brooks Rehabilitation
Consolidated Statements of Changes in Net Assets
For the Years Ended December 31, 2014 and 2013

	2014	2013
Unrestricted net assets:		
Excess of revenues over expenses	$ 10,220,334	$ 20,643,668
Net assets released from restrictions	405,953	263,144
Effective change in fair value of interest rate swaps	(2,803,895)	4,465,689
Change in non-controlling interest	3,339,593	-
Increase in unrestricted net assets	11,161,985	25,372,501
Temporarily restricted net assets:		
Net assets released from restrictions	(405,953)	(263,144)
Contributions	562,001	480,876
Increase in temporarily restricted net assets	156,048	217,732
Increase in net assets	11,318,033	25,590,233
Net assets, beginning of year	228,972,357	203,382,124
Net assets, end of year	$ 240,290,390	$ 228,972,357

The accompanying notes are an integral part of these consolidated financial statements.

GENESIS HEALTH, INC. AND AFFILIATES
d/b/a Brooks Rehabilitation
Consolidated Statements of Cash Flows
For the Years Ended December 31, 2014 and 2013

	2014	2013
Cash flows from operating activities:		
Increase in net assets from operations	$ 11,318,033	$ 25,590,233
Adjustments to reconcile increase in net assets to net cash provided (used) by operating activities:		
Restricted contributions	(562,001)	(480,876)
Net unrealized losses (gains) on investments	14,035,730	(9,383,064)
Net realized gains on investments	(18,932,061)	(17,864,653)
Change in investment in Halifax	(2,137,136)	(628,133)
Depreciation and amortization	7,779,998	6,808,077
(Gain) loss on disposal of property and equipment	(642,759)	11,247
Bad debts	902,189	492,599
Effective change in fair value of interest rate swaps	2,803,895	(4,465,689)
Ineffective change in interest rate swaps	(3,227,924)	2,439,303
Changes in pledges payable	(640,667)	293,958
Changes in operating assets and liabilities:		
Patient receivables, net	(3,403,995)	(1,275,397)
Estimated third-party payor settlements	(53,502)	(67,435)
Other current assets	(2,091,993)	(494,998)
Other assets, net	17,843	(240,870)
Accounts payable and accrued expenses	1,857,623	(1,992,232)
Other current liabilities	-	(99,999)
Other liabilities	(205,467)	1,176,253
Net cash provided (used) by operating activities	6,817,806	(181,676)
Cash flows from investing activities:		
(Decrease) increase in assets limited as to use	322,769	(13,114,905)
Additions to property and equipment	(12,275,033)	(20,820,337)
Additions to land held for development	-	(5,675,147)
Equity in loss from Halifax	(3,193,639)	(1,716,319)
Cash received from sale of San Marco Terrace	-	521,117
Proceeds from sale of property and equipment	888,150	-
Sales of investments	114,780,219	119,701,262
Purchases of investments	(103,381,636)	(109,405,142)
Net cash used by investing activities	(2,859,170)	(30,509,471)

(continued)

GENESIS HEALTH, INC. AND AFFILIATES
d/b/a Brooks Rehabilitation
Consolidated Statements of Cash Flows (Continued)
For the Years Ended December 31, 2014 and 2013

	2014	2013
Cash flows from financing activities:		
Advances from lines of credit	$ 4,222,000	$ 4,255,702
Repayment of lines of credit	(1,750,000)	(7,750,960)
Issuance of long-term debt	-	35,000,000
Repayment of long-term debt	(3,997,722)	(3,212,849)
Payment of debt issuance costs	-	(221,608)
Extinguishment of bonds	(8,574)	(7,733)
Restricted contributions	562,001	480,876
Net cash (used) provided by financing activities	(972,295)	28,543,428
Net increase (decrease) in cash and cash equivalents	2,986,341	(2,147,719)
Cash and cash equivalents beginning of the year	3,250,875	5,398,594
Cash and cash equivalents end of the year	$ 6,237,216	$ 3,250,875

Supplemental Cash Flow Information

	2014	2013
Cash paid for interest during the year	$ 8,132,709	$ 7,745,205
Accrued property and equipment	$ 430,862	$ 931,087

The accompanying notes are an integral part of these consolidated financial statements.

1. Organization and Significant Accounting Policies

Organization and Basis of Presentation - 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 Care Advantage ("BHCA")
- 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, BHCA, 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, skilled nursing facility, assisted living facility, memory care, physician practice, and research center.

Brooks also includes the operations of GH Holdings, Inc. d/b/a BH Holdings, Inc. ("Holdings"), a taxable entity. Included in Holdings are the following 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, which maintains 50% equity, 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. Holdings accounts for its investment in PPA using the consolidation method.

HB Rehabilitative Services, Inc. ("HBRS") is organized for the purpose of managing and operating a 40-bed rehabilitation unit in an unrelated acute care hospital in Daytona Beach, Florida. Brooks accounts for its investment in HBRS using the equity 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, 2014 and 2013.

- *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.

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. Investment income or loss (including unrealized and realized gains and losses on investments, interest, and dividends) is included in the excess of revenues over expenses for trading securities unless the income or loss is restricted by donor or law.

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

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, 2014 and 2013. The estimated liability for these gift annuities, which are reflected in other non-current liabilities, amounted to approximately $1,929,000 and $1,902,000 as of December 31, 2014 and 2013, respectively.

Contributions and Pledges - Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received.

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. 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

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.

Other Assets - Other assets are comprised primarily of capitalized debt issuance costs. Debt issuance costs will be amortized to interest expense using the effective interest method over the debt term.

Bond Discounts - Bond discounts are being amortized over the term of the debt using the straight-line method, which approximates the effective interest method. Amortization of bond discounts is included in depreciation and amortization expense on the consolidated statements of operations for the years ended December 31, 2014 and 2013.

Unamortized bond discounts of approximately $2,012,000 and $2,100,000 are included with the related debt on the consolidated balance sheets at December 31, 2014 and 2013, respectively.

Intangible Assets - Intangible assets primarily represent the estimated fair market value of the certificate of need licensures acquired directly or through Brooks' acquisitions. Brooks amortizes the licenses that are in service over a period of approximately 40 years once placed in service. Intangible assets were approximately $6,686,000 and $6,769,000 at December 31, 2014 and 2013, 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, 2014 and 2013.

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 the years ended December 31, 2014 and 2013.

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 FASB ASC 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 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 of revenues over expenses. For derivative instruments not designated as hedging instruments, the unrealized gain or loss is recognized in other income (expense) 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 - BRH is a not-for-profit corporation 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 net operating loss carryforwards ("NOLs") of approximately $25,275,000 for tax purposes, no amounts have been reflected as tax liabilities on the accompanying consolidated balance sheets. 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, 2014. Fiscal years ending on or after December 31, 2011 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 by 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, 2014 and 2013, Brooks has accrued approximately $2,805,000 and $2,415,000, 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, 2014 and 2013.

Other Investments - Profits and losses on other investments have been recorded using the equity method 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 - 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. Management believes these final settlements, if any, will not materially impact the consolidated balance sheets, statements of operations, or cash flows.

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 of Revenues Over Expenses - The consolidated statements of operations include excess 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 non-controlling interest, and contributions of long-lived assets are excluded from excess 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.

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. There were no acquisition related costs in 2014.

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.

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.

Charitable gift annuities are valued at the present value of the future distributions expected to be made over the term of the agreement. The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while Brooks believes its valuation methods to determine the fair value of the beneficial trusts are appropriate and consistent; the use of different methodologies or assumptions to determine the fair value could result in a different estimate of fair value at the reporting date.

The following table presents disclosures about fair value measurements at December 31, 2014 and 2013 using significant unobservable inputs (Level 3). Reclassifications impacting Level 3 financial instruments are reported as transfers in (out) of the Level 3 category as of the beginning of the period in which the transfer occurs. Therefore, gains and losses in income only reflect activity for the period the instrument was classified in Level 3.

	Charitable Gift Annuity	Goodwill and Intangible Assets
Balance at December 31, 2012	$ (1,725,658)	$ 17,222,229
Additions	(212,530)	190,999
Amortization	-	(227,711)
Annual scheduled payments	35,725	-
Balance at December 31, 2013	$ (1,902,463)	$ 17,185,517
Additions	(62,707)	57,000
Amortization	-	(139,814)
Annual scheduled payments	35,725	-
Balance at December 31, 2014	$ (1,929,445)	$ 17,102,703

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

		Fair value measurements at December 31, 2014 using:		
	Fair value at December 31, 2014	**Quoted prices in active markets for identical assets and liabilities (Level 1 inputs)**	**Quoted prices for similar assets and liabilities (Level 2 inputs)**	**Significant unobservable inputs (Level 3 inputs)**
Assets measured at fair value:				
Cash and cash equivalents	$ 6,237,216	$ 6,237,216	$ -	$ -
Investments and assets limited as to use	$ 311,519,255	$ 223,695,727	$ 87,823,528	$ -
Goodwill and intangible assets	$ 17,102,703	$ -	$ -	$ 17,102,703
Liabilities measured at fair value:				
Interest rate swaps	$ 4,156,412	$ -	$ 4,156,412	$ -
Charitable gift annuity	$ 1,929,445	$ -	$ -	$ 1,929,445

		Fair value measurements at December 31, 2013 using:		
	Fair value at December 31, 2013	**Quoted prices in active markets for identical assets and liabilities (Level 1 inputs)**	**Quoted prices for similar assets and liabilities (Level 2 inputs)**	**Significant unobservable inputs (Level 3 inputs)**
Assets measured at fair value:				
Cash and cash equivalents	$ 3,250,875	$ 3,250,875	$ -	$ -
Investments and assets limited as to use	$ 318,344,275	$ 195,556,244	$ 122,788,031	$ -
Goodwill and intangible assets	$ 17,185,517	$ -	$ -	$ 17,185,517
Liabilities measured at fair value:				
Interest rate swaps	$ 4,580,441	$ -	$ 4,580,441	$ -
Charitable gift annuity	$ 1,902,463	$ -	$ -	$ 1,902,463

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:

	2014	2013
Cash and cash equivalents	$ 1,874,161	$ 4,187,865
Marketable equity securities	31,637,130	45,167,333
Mutual funds – fixed income securities	28,151,346	39,640,798
Mutual funds – equity securities	128,983,093	80,401,025
Funds of funds	87,823,528	107,788,031
	$ 278,469,258	$ 277,185,052

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

	2014	2013
Interest and dividend income	$ 6,414,222	$ 6,550,428
Net realized gains	18,932,061	17,864,653
Investment income, net	$ 25,346,283	$ 24,415,081
Net unrealized (losses) gains on investments included as a component of excess of revenues over expenses	$ (14,035,730)	$ 9,383,064

Investments and assets limited as to use in mutual funds are carried at fair value using net asset values per share. The following table includes information related to Brooks' investments in those mutual funds that calculate a net asset value per share.

Investment Category	Investment Category Includes	Fair Value Using Net Asset Values Per Share at: December 31, 2014	December 31, 2013
Fixed income	Investments in funds that invest in domestic and global bonds and debt instruments in both corporate and municipal vehicles	$ 30,107,913	$ 41,588,342
Equity	Investments in equity and commodity linked derivative instruments	$ 128,983,093	$ 80,401,025
Funds of funds	Funds that invest in other funds, primarily emerging country markets	$ 87,823,528	$ 107,788,031

Redemptions are available daily and there are no unfunded commitments.

The composition of assets limited as to use consists of the following as of December 31:

	2014	2013
Cash and cash equivalents	$ 31,093,430	$ 24,211,679
Fixed income securities	-	15,000,000
Mutual funds – fixed income securities	1,956,567	1,947,544
	$ 33,049,997	$ 41,159,223

Assets limited as to use consist of the following:

	2014	2013
Board designated for self-insurance funds	$ 1,943,419	$ 1,978,316
Assets held by Bond Trustee	31,106,578	39,180,907
	$ 33,049,997	$ 41,159,223

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, 2014 and 2013 were approximately 56% and 61%, 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 2013 have been filed. The Medicare cost reports for all years through 2012 have been examined and final settlements have been determined by the governmental agency intermediary. Brooks' Rehabilitation Medicaid cost reports for all years through 2013 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 have not been filed due to 18 month budgetary time period allowed by the Agency for Healthcare Administration on the new entity, expiring at the 2014 yearend. In 2013, adjustments recorded as an increase in net patient service revenue related to third-party settlements for prior years were approximately $149,000. There were no adjustments recorded as an increase in net patient service revenue related to third-party settlements for prior years in 2014.

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:

	2014	2013
Gross patient service charges	$ 262,144,108	$ 232,158,630
Contractual adjustments and other deductions	(140,146,473)	(127,544,190)
Net patient service revenue	$ 121,997,635	$ 104,614,440

6. **Property and Equipment**

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

	2014	2013
Land and land improvements	$ 33,674,057	$ 30,972,238
Buildings and building improvements	100,902,446	96,598,687
Equipment	42,185,389	38,323,592
	176,761,892	165,894,517
Less: Accumulated depreciation	(74,472,163)	(67,265,051)
	102,289,729	98,629,466
Construction in progress	3,580,389	2,318,056
Property and equipment, net	$ 105,870,118	$ 100,947,522

Depreciation expense for the years ended December 31, 2014 and 2013 was approximately $7,538,000 and $6,486,000, respectively.

7. Land Held for Development

Land held for development was purchased in 2005 and consists of a parcel of land in Southern Duval County, Florida. The land purchase was financed through a line of credit (Note 9). During 2014, there were no triggering events that would require Brooks to test the land for impairment. The carrying value as of December 31, 2012 was $24,543,507. During 2013, Brooks invested approximately $5,675,000 in clearing the land and building the necessary infrastructure to develop for operational purposes. All buildings and infrastructure were completed in 2013 and approximately $13,401,000 was transferred from land held for development to land. The carrying value of land held for development as of December 31, 2013 and 2014 is $16,817,242.

8. Intangible Assets

Intangible assets consist of the following at December 31:

	2014			
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Weighted Average Remaining Life (Years)
License – Glenwood	$ 2,658,535	$ -	$ 2,658,535	40
License – Bartram	4,142,598	(382,371)	3,760,227	38.5
Service Agreement - Greenhouse	190,000	(11,875)	178,125	12.8
A+ Acquisition	171,872	(83,072)	88,800	2.6
	$ 7,163,005	$ (477,318)	$ 6,685,687	

	2013			
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Weighted Average Remaining Life (Years)
License – Glenwood	$ 2,658,535	$ -	$ 2,658,535	40
License – Bartram	4,142,598	(286,432)	3,856,166	39.5
Service Agreement - Greenhouse	133,000	(2,375)	130,625	13.8
A+ Acquisition	171,872	(48,697)	123,175	3.6
	$ 7,106,005	$ (337,504)	$ 6,768,501	

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 out 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. The remaining 87 licenses are held as an unamortized intangible asset until placed into service.

9. <u>Lines of Credit and Long Term Debt</u>

Brooks had a line of credit with a financial institution, due on demand, related to its investment in PPA. In August 2012, the line of credit was increased to a total of $12,500,000. In October 2012, the original PPA line of credit was closed, paid off, and absorbed by Brooks by issuance of 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 in November 4, 2015.

During 2005, BMD entered into a $17,000,000 line of credit to finance the land, land improvements, building, building improvements, equipment, and start-up costs of the medically based fitness center. The line of credit was increased to $18,500,000 on January 31, 2007. In October 2012, the original BMD line of credit was closed, paid off, and absorbed by Brooks by issuance of 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 in November 11, 2015.

BSNFA entered into a $1,000,000 revolving unsecured line of credit on July 26, 2011, to finance working capital costs associated with the acquisition of San Marco Terrace. The line of credit expires on June 24, 2015.

BSNFAH entered into a revolving unsecured $800,000 line of credit dated May 28, 2010 to finance the purchase of San Marco Terrace assets from Senior Care Group and has been renewed annually. The line of credit expires on June 24, 2015.

BRH entered into a revolving unsecured $2,000,000 line of credit to fund short-term operating needs. The line of credit has no outstanding amounts at December 31, 2014, and expires on June 24, 2015.

BHS entered into a 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 24, 2015.

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:

	2014	2013
Brooks $6,250,000 line of credit, interest of one month LIBOR rate plus 0.97%. Interest rate on December 31, 2014 and 2013 was 1.14%.	$ 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, 2014 and 2013 was 1.14%.	6,249,910	5,777,910
Brooks $9,000,000 line of credit, interest of one month LIBOR rate plus 0.97%. Interest rate on December 31, 2014 and 2013 was 1.14%.	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, 2014 and 2013 was 1.14%.	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, 2014 and 2013 was 1.42%.	773,383	773,383
BSNFAH $800,000 line of credit, interest of one month LIBOR rate plus 1.25%. Interest rate on December 31, 2014 and 2013 was 1.42%.	785,626	785,626
BHS $10,000,000 line of credit, interest of one month LIBOR plus 1.00%. Interest rate on December 31, 2014 was 1.17%.	2,000,000	-
	$ 33,725,069	$ 31,253,069

Long-Term Debt

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 4.0% and 5.25% based on maturity. The effective interest rate was 5.16% and 5.14% for the years ended December 31, 2014 and 2013, respectively. The carrying value of the bonds is approximately $88,438,000 and $89,560,000 at December 31, 2014 and 2013, respectively, net of unamortized discount. 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 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, 2014 and 2013. The carrying value of the 2010 Private Issue Debt was approximately $30,936,000 and $31,698,000 at December 31, 2014 and 2013, 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.

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, 2014 and 2013. The carrying value of the 2011 Private Issue Debt was approximately $28,799,000 and $29,432,000 at December 31, 2014 and 2013, 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 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, 2014 and 2013. The carrying value of the 2013 Private Issue Debt was approximately $32,898,000 and $34,290,000 at December 31, 2014 and 2013, 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.

A summary of long-term debt at December 31:

	2014	**2013**
Series 2007 Bonds	$ 90,450,000	$ 91,660,000
Series 2010 Private Issue Debt	30,935,684	31,698,130
Series 2011 Private Issue Debt	28,798,510	29,431,987
Series 2013 Private Issue Debt	32,898,349	34,290,148
	183,082,543	187,080,265
Less: Net unamortized bond discount	(2,012,035)	(2,099,833)
Total long-term debt	181,070,508	184,980,432
Less current portion	(4,119,585)	(3,997,724)
Long-term portion	$ 176,950,923	$ 180,982,708

Scheduled maturities on long-term debt during the next five years and thereafter approximate the following:

2015	$ 4,119,585
2016	4,251,952
2017	4,402,177
2018	4,547,403
2019	4,726,135
Thereafter	161,035,291
	183,082,543
Net unamortized bond discount	(2,012,035)
	$ 181,070,508

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

The fair values of the Series 2007 Bonds are based on their face value. The fair values of the Series 2007 Bonds were approximately $95,596,000 and $91,830,000 at December 31, 2014 and 2013, respectively.

The fair value of the 2010 Private Issue Debt is based on face value. The fair value is approximately $30,936,000 and $31,698,000 as of December 31, 2014 and 2013, respectively.

The fair value of the 2011 Private Issue Debt is based on face value. The fair value is approximately $28,799,000 and $29,432,000 as of December 31, 2014 and 2013, respectively.

The fair value of the 2013 Private Issue debt is based on face value. The fair value is approximately $32,898,000 and $34,290,000 as of December 31, 2014 and 2013, respectively.

10. Derivative Instruments

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, 2014 and 2013, the swap valuation gain (loss) of approximately $3,228,000 and ($2,439,000), respectively, was included in other (expense) income on the consolidated statements of operations.

In 2010, Brooks entered into an interest rate swap in order to mitigate the cash flow risk associated with the 2010 Private Issue Debt. For the years ending December 31, 2014 and

2013, the swap valuation (loss) gain of approximately ($1,393,000) and $2,173,000, respectively, was included in changes in unrestricted net assets.

In 2011, Brooks entered into two interest swaps in order to mitigate the cash flow risk associated with the 2011 Private Issue Debt. For the years ending December 31, 2014 and 2013, the swaps valuation (loss) gain of approximately ($1,411,000) and $2,292,000, respectively, was included in changes in unrestricted net assets.

The derivative financial instrument agreements that were outstanding as of December 31, 2014 and 2013 are set forth in the tables below:

December 31, 2014

Notional Amount	Pay (1)	Receive	Maturity Date	Fair Value
$ 90,450,000	SIFMA	67.0% USD-LIBOR-BBA+ 0.51%	Through 11/01/2038	$ 360,843
$ 30,935,684	3.24%	65.0% USD-LIBOR-BBA+ 1.20%	Through 08/01/2025	$ (1,796,761)
$ 25,722,941	3.63%	65.0% USD-LIBOR-BBA+ 1.20%	Through 06/01/2026	$ (2,429,956)
$ 3,075,569	3.63%	65.0% USD-LIBOR-BBA+ 1.20%	Through 06/01/2026	$ (290,538)

December 31, 2013

Notional Amount	Pay (1)	Receive	Maturity Date	Fair Value
$ 91,660,000	SIFMA	67.0% USD-LIBOR-BBA+ 0.51%	Through 11/01/2038	$ (2,867,081)
$ 31,698,130	3.24%	65.0% USD-LIBOR-BBA+ 1.20%	Through 08/01/2025	$ (403,945)
$ 26,288,765	3.63%	65.0% USD-LIBOR-BBA+ 1.20%	Through 06/01/2026	$ (1,169,575)
$ 3,143,222	3.63%	65.0% USD-LIBOR-BBA+ 1.20%	Through 06/01/2026	$ (139,840)

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

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

	2014		2013	
	Consolidated Balance Sheet Location	**Fair Value**	**Consolidated Balance Sheet Location**	**Fair Value**
Derivatives designated as effective hedging instruments under ASC 815	Other liabilities	$ 4,517,255	Other liabilities	$ 1,713,360
Derivatives not designated as effective hedging instruments under ASC 815	Other liabilities	$ (360,843)	Other liabilities	$ 2,867,081

	Amount of (Loss) Gain Recognized in Net Assets	
	2014	**2013**
Derivatives designated as effective hedging instruments under ASC 815	$ (2,803,895)	$ 4,456,689

	Amount of Gain (Loss) Recognized in Excess of Revenues Over Expenses	
	2014	**2013**
Derivatives not designated as effective hedging instruments under ASC 815	$ 3,227,924	$ (2,439,303)

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 $2,084,000 and $2,303,000 for the years ended December 31, 2014 and 2013, 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 $571,000 and $83,000 for the years ended December 31, 2014 and 2013, 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, 2014, management estimated that the net present value of the contingent estimated obligation for supplemental executive retirement benefits approximated $786,000, which was recorded in other liabilities on the consolidated balance sheet. Expenses related to the contingent supplemental executive retirement benefit plan were approximately $180,000 and $194,000 for the years ending December 31, 2014 and 2013, respectively. The contingent benefits expected to be paid in the future subject to a 10 year vesting period are estimated as follows:

2015	$ 383,498
2016	427,862
2017	476,394
2018	529,457
2019	587,445
Thereafter	1,370,735
	$ 3,775,391

12. **Other Investments**

Brooks and its affiliates have other investments as of December 31, 2014 and 2013 as follows:

	Ownership		Investment	
	2014	2013	2014	2013
HBRS	50%	50%	$ 5,099,159	$ 3,469,786
BMD Investment in D1	10%	10%	100,000	100,000
Other	-	-	20,000	20,000
			$ 5,219,159	$ 3,589,786

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 $7,393,000 and $7,038,000 for the years ended December 31, 2014 and 2013, respectively.

Amounts payable to MHJ were approximately $601,000 and $1,143,000 at December 31, 2014 and 2013, 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 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.

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.

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 during 2013 are recorded at a discount rate of 1.04% that is amortized over the period of the pledge. No additional pledges were made during 2014.

Future payments of the pledges, by year, consist of the following at December 31, 2014:

Years ending:	
2015	$ 697,123
2016	681,667
2017	617,667
Total	1,996,457
Less: unamortized discount	(30,958)
Total balance	$ 1,965,499

15. Operating Leases

Certain outpatient centers are being rented by Brooks from unaffiliated third parties under noncancelable operating leases through 2021. Future minimum lease payments, by year, consist of the following at December 31, 2014:

Years ending:	
2015	$ 2,640,204
2016	2,278,738
2017	1,859,337
2018	1,338,682
2019	1,147,925
Thereafter	1,945,066
	$ 11,209,952

Leases and rental expenses for all operating leases were approximately $3,250,000 and $3,229,000 for the years ended December 31, 2014 and 2013, 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, 2014 and 2013 was as follows:

	2014	**2013**
Medicare	33%	34%
Medicaid	4	4
Managed care	39	35
Other third-party payors	22	24
Self-pay	2	3
	100%	100%

The patient receivables at BHD consist of billings for contract services and patient services. Medicare represents 35% and 40% of the balance at December 31, 2014 and 2013, respectively. The patient receivables at BHCA consist of billings for patient services. Medicare represents 57% and 71% of the balance at December 31, 2014 and 2013, respectively. The patient receivables at BSNFA consist of billings for patient services. Medicare represents 70% and 69% of the balance at December 31, 2014 and 2013, respectively.

17. **Charity Care**

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 $2,308,000 and $1,871,000 for the years ended December 31, 2014 and 2013, 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 related to the benefits for the broader community for the years ended December 31 are as follows:

	2014	2013
Financial assistance provided (net of government support)	$ 2,308,002	$ 1,870,973
Benefits for the broader community:		
Community health services	2,305,489	2,613,034
Health professions education	657,562	628,586
Research	662,923	766,330
Contributions and other support	405,951	263,144
	$ 6,339,927	$ 6,142,067

18. **Contingencies**

Professional Liabilities

Brooks is involved in litigation and unasserted 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, 2014 and 2013, respectively, Brooks has recorded approximately a $1,338,000 and $1,660,000 liability in other liabilities on the consolidated balance sheets for its estimated uninsured 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. Self-insurance claims for workers' compensation are recorded at their present value using a 4% discount rate at December 31, 2014 and 2013.

Brooks has recorded approximately a $881,000 and $1,054,000 liability in other non-current liabilities accounts payable and accrued expenses on the consolidated balance sheets for its estimated workers compensation losses at December 31, 2014 and 2013, 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, 2014 and 2013, were approximately $6,546,000 and $5,312,000, respectively. The estimated claims incurred, payments on claims, and the balance of the reserve for health insurance claims for the years ended December 31, 2014 and 2013 were as follows:

	2014	2013
Claims liabilities, January 1	$ 406,536	$ 463,873
Expense	6,545,661	5,311,688
Claim payments	(6,463,690)	(5,369,025)
Claims liabilities, December 31	$ 488,507	$ 406,536

It is the opinion of management that its insurance coverages and self-insurance liabilities at December 31, 2014 and 2013 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 16, 2015, the date the consolidated financial statements were available for distribution. No such events were noted.

GENESIS HEALTH, INC. AND AFFILIATES
d/b/a Brooks Rehabilitation
Consolidating Balance Sheet

December 31, 2014

Assets	Brooks Health System (Parent Company)	Brooks Rehabilitation Hospital	Brooks Health Development	Brooks Skilled Nursing	Brooks Home Health	Eliminations	Consolidated
Current assets:							
Cash and cash equivalents	$ 3,790,368	$ 1,592,856	$ 291,339	$ 377,525	$ 185,128	$ -	$ 6,237,216
Patient accounts receivable, net of allowance for doubtful accounts of approximately $792,000	-	10,293,812	816,984	1,524,714	1,043,121	-	13,678,631
Due from affiliates	11,041,142	79,220,828	-	-	6,231,798	(96,493,768)	-
Other current assets	3,392,465	930,556	3,165,551	674,761	44,513	-	8,207,846
Total current assets	18,223,975	92,038,052	4,273,874	2,577,000	7,504,560	(96,493,768)	28,123,693
Investments	278,469,258	-	-	-	-	-	278,469,258
Assets limited as to use	29,074,637	3,771,357	204,003	-	-	-	33,049,997
Property and equipment, net	50,092,208	21,851,162	1,433,350	31,907,166	586,232	-	105,870,118
Land held for development	16,817,242	-	-	-	-	-	16,817,242
Investment in affiliate	42,811,142	-	-	-	-	(42,811,142)	-
Other investments	120,000	-	5,099,159	-	-	-	5,219,159
Other assets, net	614,674	456,053	26,191	143,909	89,675	-	1,330,502
Goodwill	-	-	644,127	-	9,772,889	-	10,417,016
Intangible assets, net	56,941	-	31,859	6,596,887	-	-	6,685,687
Total assets	$ 436,280,077	$ 118,116,624	$ 11,712,563	$ 41,224,962	$ 17,953,356	$ (139,304,910)	$ 485,982,672

(continued)

GENESIS HEALTH, INC. AND AFFILIATES
d/b/a Brooks Rehabilitation
Consolidating Balance Sheet (Continued)
December 31, 2014

Liabilities and Net Assets	Brooks Health System (Parent Company)	Brooks Rehabilitation Hospital	Brooks Health Development	Brooks Skilled Nursing	Brooks Home Health	Eliminations	Consolidated
Current liabilities:							
Accounts payable and accrued expenses	$ 6,772,449	$ 9,976,815	$ 1,966,197	$ 1,395,261	$ 706,188	$ -	$ 20,816,910
Lines of credit	32,166,060	-	-	1,559,009	-	-	33,725,069
Current portion of long-term debt	2,308,448	802,357	63,870	654,162	290,748	-	4,119,585
Due to affiliates	63,198,858	-	15,956,138	17,338,774	-	(96,493,770)	-
Estimated third-party payor settlements	378,217	320,526	-	287,686	68,037	-	1,054,466
Other current liabilities	697,123	-	-	-	-	-	697,123
Total current liabilities	105,521,155	11,099,698	17,986,205	21,234,892	1,064,973	(96,493,770)	60,413,153
Long-term debt, net of current portion	86,085,917	48,160,733	3,392,094	28,144,348	11,167,831	-	176,950,923
Other liabilities	4,382,615	491,380	68,199	2,720,494	665,518	-	8,328,206
Total liabilities	195,989,687	59,751,811	21,446,498	52,099,734	12,898,322	(96,493,770)	245,692,282
Net assets (deficit):							
Unrestricted net assets (deficit)	239,017,446	58,364,813	(9,733,935)	(10,874,772)	5,055,034	(42,811,140)	239,017,446
Temporarily restricted	1,272,944	-	-	-	-	-	1,272,944
Total net assets (deficit)	240,290,390	58,364,813	(9,733,935)	(10,874,772)	5,055,034	(42,811,140)	240,290,390
Total liabilities and net assets	$ 436,280,077	$ 118,116,624	$ 11,712,563	$ 41,224,962	$ 17,953,356	$ (139,304,910)	$ 485,982,672

See Independent Auditors' Report.

GENESIS HEALTH, INC. AND AFFILIATES
d/b/a Brooks Rehabilitation
Consolidating Statement of Operations
For the Year Ended December 31, 2014

	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	$ -	$ 87,364,910	$ 7,754,673	$ 14,516,869	$ 12,361,183	$ -	$ 121,997,635
Contract service revenue	-	3,422,772	7,742,449	2,073,212	-	-	13,238,433
Investment income, net	21,859,731	2,164,125	1,156,691	53,290	112,446	-	25,346,283
Other	18,086,621	452,157	1,490,754	863,680	114	(14,730,058)	6,163,268
Total unrestricted revenues, gains, and other support	39,946,352	93,403,964	18,144,567	17,507,051	12,473,743	(14,730,058)	166,745,619
Expenses:							
Salaries, wages and benefits	10,879,264	46,370,806	15,786,801	11,847,707	9,784,077	-	94,668,655
Supplies	211,495	1,826,883	191,113	954,077	300,653	-	3,484,221
Depreciation and amortization	2,628,323	2,963,160	448,819	1,414,001	325,695	-	7,779,998
Leases and rentals	91,356	1,609,408	1,410,722	139,750	122,124	(123,528)	3,249,832
Interest	3,070,165	2,267,312	323,494	1,139,735	390,512	-	7,191,218
Professional fees	979,707	515,783	32,770	95,465	19,462	(140,010)	1,503,177
Insurance	158,901	380,608	92,609	75,828	56,079	-	764,025
Purchased services	-	7,392,877	-	-	-	-	7,392,877
Bad debts, net of recoveries	-	725,541	47,759	90,654	38,235	-	902,189
Other	7,120,624	21,177,240	239,799	4,469,965	1,848,056	(14,466,520)	20,389,164
Total expenses	25,139,835	85,229,618	18,573,886	20,227,182	12,884,893	(14,730,058)	147,325,356
Operating income (loss)	14,806,517	8,174,346	(429,319)	(2,720,131)	(411,150)	-	19,420,263
Other gains (losses):							
Equity in income from other investments	4,102,290	-	-	-	-	(4,102,290)	-
Community programs and other support	(307,342)	-	-	-	-	-	(307,342)
Ineffective change in interest rate swap	1,714,041	1,436,016	77,867	-	-	-	3,227,924
Net unrealized losses on investments	(14,035,730)	-	-	-	-	-	(14,035,730)
Other gains (losses)	1,520,944	(1,167)	(509)	-	-	395,951	1,915,219
Total other gains (losses)	(7,005,797)	1,434,849	77,358	-	-	(3,706,339)	(9,199,929)
Excess (deficiency) of revenues over expenses	$ 7,800,720	$ 9,609,195	$ (351,961)	$ (2,720,131)	$ (411,150)	$ (3,706,339)	$ 10,220,334

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, 2014

	Brooks Health System (Parent Company)	Brooks Rehabilitation Hospital	Brooks Health Development	Brooks Skilled Nursing	Brooks Home Health	Eliminations	Consolidated
Unrestricted net assets:							
Excess (deficiency) of revenue over expenses	$ 7,800,720	$ 9,609,195	$ (351,961)	$ (2,720,131)	$ (411,150)	$ (3,706,339)	$ 10,220,334
Net assets released from restrictions	405,953	102,971	1,017	-	-	(103,988)	405,953
Effective change in fair value of interest rate swaps	(384,285)	(433,022)	(59,612)	(1,411,079)	(515,897)	-	(2,803,895)
Change in non-controlling interest	3,339,593	-	-	-	-	-	3,339,593
Increase (decrease) in unrestricted net assets	11,161,981	9,279,144	(410,556)	(4,131,210)	(927,047)	(3,810,327)	11,161,985
Temporarily restricted net assets:							
Net assets released from restrictions	(405,953)	(101,804)	(509)	-	-	102,313	(405,953)
Contributions	562,001	-	-	-	-	-	562,001
Increase (decrease) in temporarily restricted net assets	156,048	(101,804)	(509)	-	-	102,313	156,048
Increase (decrease) in net assets	11,318,029	9,177,340	(411,065)	(4,131,210)	(927,047)	(3,708,014)	11,318,033
Net assets (deficit), beginning of year	228,972,361	49,187,473	(9,322,870)	(6,743,562)	5,982,081	(39,103,126)	228,972,357
Net assets (deficit), end of year	$ 240,290,390	$ 58,364,813	$ (9,733,935)	$ (10,874,772)	$ 5,055,034	$ (42,811,140)	$ 240,290,390

See Independent Auditors' Report.