

April 25, 2017

RE: Officers Certificate for Genesis Health, Inc. d/b/a Brooks Rehabilitation
Relating to the Annual Financial Filing Information

I hereby certify that the Historical Utilization, Selected Financial Information, Key Financial Ratios and Management Discussion and Analysis filed on April 25, 2017 constitute the annual financial information required by the Continuing Disclosure Agreement. I further certify that the information complies with the Continuing Disclosure Agreement and the Rule as required. DAC shall be entitled to rely on this certificate.

If you have further questions about this matter please do not hesitate to call.



Dan Curran
Chief Financial Officer

MANAGEMENT DISCUSSION AND ANALYSIS – 2016 ANNUAL REPORT

The following discussion and analysis should be read in conjunction with the Financial Statements and related Notes, and the disclosure of Selected Financial Information.

Results of Operations – Fiscal year 2016 versus fiscal year 2015. Net patient service revenue increased 12%. Brooks Rehabilitation acquired an additional Home Care agency in August 2015. The full year of operations in 2016 accounted for 7% of the net patient revenue increase. In September 2016, Brooks began operations at a newly constructed Nursing Home, University Crossings. Aging Services contributed 1.5% of the revenue increase. Hospital revenues grew approximately 2%. New and existing outpatient centers added to the increased patient revenues. Hospital patient days increased 1% with the average daily census increasing to 131.6 from 130.6. Outpatient visits of 292,000 were an increase of 6% from 2015. Home Care certified visits increased approximately 30,000, an increase of 18%. The Skilled Nursing Facility utilization statistics approximated the prior year. Utilization statistics for University Crossings is excluded as the facility was not fully operational in 2016.

Total expenses increased 14% in 2016 from 2015. Salaries and benefits increased 16% due to increased wage and benefit costs and additional full time equivalent employees as a result of the opening of University Crossings, the full year of operations for the acquired Home Care agency, new outpatient facilities, and expansion of Brooks' services. Interest costs were up 21% due to a full year of interest on the 2015 Bonds issued in September 2015. Depreciation expense increased 16% due capital expenditure increases and assets in construction placed into service.

Brooks Management and Board of Directors, measures operating income excluding elective community program expenses, interest expense, and investment portfolio results. Operating income on this basis decreased by approximately \$2.4 million to approximately \$7.8 million in 2016 from \$10.2 million in 2015, (see attached modified income statement). Non-operating Revenue/ (expenses), net of community benefit, increased by \$11.8 million primarily as a result of realized gains on investments. Elective net community benefit expenses decreased by approximately \$1.4 million in 2016 from 2015.

Balance Sheets – Fiscal year 2016 versus fiscal year 2015.

Net Unrestricted assets increased approximately \$3.4 million in 2016 from 2015. Debt payments approximated \$7.8 million in 2016. Funds held by the bond trustee decreased approximately \$21 million for use of bond related asset construction and acquisition. Current assets increased \$1.8 million primarily as a result of increased patient receivables.

Selected Financial Information

Combined Statement of Operations of Brooks Health System (000's)

	Year Ended DEC 31	
	2016	2015
Net patient service revenue	\$ 158,251	\$ 141,892
Contract service revenue	14,818	14,457
Investment income	15,270	17,277
Other	10,238	7,512
Total Operating Revenue	198,577	181,138
Salaries, wages, and benefits	128,493	110,875
Supplies	4,908	4,087
Depreciation and amortization	8,927	7,708
Leases and rentals	3,764	3,650
Interest	9,364	7,721
Professional fees	2,653	2,433
Bad debt	411	1,196
Insurance	1,176	920
Purchased services	19,655	17,652
Other	14,457	13,169
Total Operating Expenses	193,808	169,411
Operating Income	4,769	11,727
Community programs	(773)	(3,143)
Unrealized loss on investments	(1,953)	1,114
Change in fair value of bond swaps	(2,187)	(18,432)
Other income	2,387	561
Revenue is excess over expenses before noncontrolling interest	2,243	(8,173)
Noncontrolling interest	50	-
Revenue in excess of expenses	\$ 2,293	\$ (8,173)

Combined Balance Sheet of Brooks Health System (000's)

	<u>Year Ended DEC 31</u>	
	<u>2016</u>	<u>2015</u>
Assets		
Cash and cash equivalents	\$ 4,691	\$ 5,222
Patient Receivables	21,857	20,489
Less allowance for doubtful accounts	(1,156)	(1,495)
Net Patient Receivables	<u>20,701</u>	<u>18,994</u>
Other current assets	6,478	5,831
Total Current Assets	<u>31,870</u>	<u>30,047</u>
Investments	275,961	273,397
Assets limited as to use:		
Funds held by trustee	33,081	54,130
Board designated funds	2,003	1,952
Total assets limited as to use	<u>35,084</u>	<u>56,082</u>
Property and equipment, net	130,442	121,066
Land held for development	22,146	22,042
Other investments	4,632	5,604
Other assets, net	74	126
Goodwill	20,247	25,515
Other intangibles, net	<u>12,509</u>	<u>11,370</u>
Total Assets	<u><u>\$ 532,965</u></u>	<u><u>\$ 545,249</u></u>
Liabilities and Net Assets		
Lines of credit	\$ 39,205	\$ 42,205
Current portion long term debt	4,936	4,742
Accounts payable & accrued expenses	24,796	25,925
Third party settlements	1,748	1,133
Other current liabilities	1,148	1,312
Total current liabilities	<u>71,833</u>	<u>75,317</u>
Long-term debt, excluding current maturities	216,409	224,045
Other liabilities	8,201	13,359
Total Liabilities	<u>296,443</u>	<u>312,721</u>
Net assets:		
Unrestricted	234,352	230,967
Temporarily restricted	2,027	1,561
Net Assets attributable to Brooks Rehabilitation	<u>236,379</u>	<u>232,528</u>
Noncontrolling interest	143	-
Total Liabilities and Net Assets	<u><u>\$ 532,965</u></u>	<u><u>\$ 545,249</u></u>

HISTORICAL UTILIZATION

The table below sets forth certain inpatient (Hospital) and outpatient utilization statistics for the twelve months ended December 31, 2016 and 2015.

	Year Ended DEC 31	
	2016	2015
Inpatient		
Patient Days	48,176	47,655
Admissions	2,940	3,091
Percentage of Occupancy	82.3%	83.2%
Average Length of Stay	16.4	15.5
Average Daily Census	131.6	130.6
Outpatient		
Units of Service	1,000,522	941,957
Patient Visits	291,532	279,472
Units of Service Per Visit	3.43	3.37
Home Health		
Total Visits, Certified	198,235	168,443
New Admissions	6,662	4,661
Medicare Episodes	9,421	6,337
Final Case Mix Weight	1.07	1.1
Skilled Nursing		
Patient Days	32,805	33,069
Average Daily Census	89.90	90.60
Percentage of Occupancy (b)	90%	91%

Note: In September 2016, Brooks Rehabilitation opened an additional skilled nursing facility, University Crossings. Statistics are excluded from above as the facility was not fully operational in 2016.

KEY FINANCIAL RATIOS

DEBT SERVICE COVERAGE	Year Ended DEC 31	
	2016	2015
Revenue in excess of expenses	\$ 2,353,523	\$ (8,173,231)
Depreciation and amortization	8,926,644	7,708,595
Interest	9,363,705	7,721,331
Net Unrealized gain/loss on Investments	1,952,953	18,432,366
Bond Swap Valuation gain/loss	2,186,580	(1,114,138)
Income available for debt service	<u>\$ 24,783,405</u>	<u>\$ 24,574,923</u>
Historical Actual annual debt service	\$ 14,303,760	\$ 11,884,074
Historical Actual annual debt service coverage	1.73	2.07
Maximum annual debt service	\$ 14,857,088	\$ 14,857,088
Maximum annual debt service coverage	1.67	1.65

*includes interest and principal on long-term debt and notes payable.

**Maximum annual debt service of long term debt.

LIQUIDITY	Year Ended DEC 31	
	2016	2015
Unrestricted Cash, Cash equivalents, and Investments	\$ 282,655,553	\$ 280,571,239
Operating expense Per Day (excluding depreciation and amortization)	\$ 504,182	\$ 442,731
Days Cash on Hand	561	634

CAPITALIZATION	Year Ended DEC 31	
	2016	2015
Total Debt*	\$ 221,345,568	\$ 228,787,189
Unrestricted Net Assets	234,351,535	230,967,399
Total Capitalization	455,697,103	459,754,588
Debt to total capitalization	48.6%	49.8%

*Total debt for purposes of this table includes long-term debt, excluding notes payables. Total long-term debt excludes other long-term liabilities

Selected Financial Information

Combined Statement of Operations of Brooks Health System (000's) - Modified

	Year Ended DEC 31	
	2016	2015
Net patient service revenue	\$ 157,665	\$ 141,892
Other	27,066	22,578
Total Operating Revenue	184,731	164,470
Salaries, wages, and benefits	124,366	110,875
Supplies	4,757	4,087
Depreciation and amortization	8,439	7,814
Purchased services	16,539	15,021
Professional fees	2,557	2,364
Leases	3,632	3,466
Other	16,671	10,647
Total Operating Expenses	176,961	154,274
Operating Income	7,770	10,196
Community programs	(5,321)	(6,769)
Interest expense	(9,224)	(7,288)
Investment income	11,638	13,999
Unrealized loss on investments and bond valuation	(4,279)	(17,849)
Other income and expense	1,709	(462)
Revenue in excess of expenses	\$ 2,293	\$ (8,173)