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GoodShepherdRehab.org

January 28, 2019

Re: \$29,395,000 Lehigh County General Purpose Authority Hospital Revenue Bonds (Good Shepherd Group) Series B of 2007

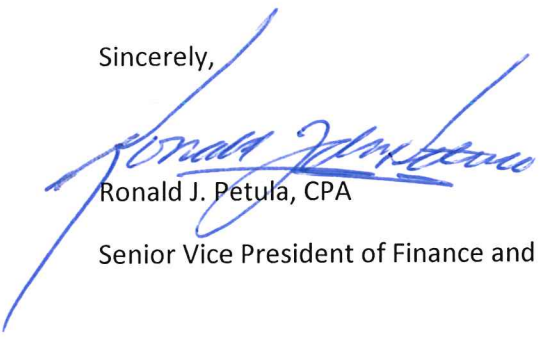
\$13,015,000 Lehigh County General Purpose Authority Hospital Revenue Bonds (Good Shepherd Group) Series A of 2008

\$31,730,000 Lehigh County General Purpose Authority Hospital Revenue Bonds (Good Shepherd Group) Series of 2012

\$43,425,000 Lehigh County General Purpose Authority Hospital Revenue Bonds (The Good Shepherd Group) Series of 2016

Attached are the audited obligated group Statement of Operations, Statement of Financial Position, Selected Financial Ratios, and Utilization of Services for the period July 1, 2018 through December 31, 2018.

Sincerely,



Ronald J. Petula, CPA

Senior Vice President of Finance and CFO

Good Shepherd Rehabilitation Network and Controlled Entities
Statement of Financial Position
As of December 31, 2018 and 2017

	<u>Obligated Group</u>	
	Unaudited as of 12/31/18	Unaudited as of 12/31/17
<u>Assets</u>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 361,472	\$ 3,290,378
Resident funds	193,510	192,893
Short-term investments	14,342	14,465
Assets whose use is limited	87,777	87,777
Accounts receivable, patients	17,056,787	16,335,569
Other receivables	740,484	442,051
Amount due from affiliates	2,798,535	1,195,856
Estimated third-party payor settlements	(179,961)	1,743,727
Inventories of drugs and supplies	541,468	525,892
Prepaid expenses and other current assets	2,285,304	1,448,953
Total current assets	23,899,718	25,277,561
ASSETS WHOSE USE IS LIMITED	512,202	834,899
ASSETS WHOSE USE IS LIMITED: Board Designated	1,575,000	1,725,000
INVESTMENTS		
Unrestricted	235,701,955	255,652,780
Temporarily Restricted	5,240,960	8,863,933
Permanently restricted	20,834,922	20,072,691
Total investments	261,777,837	284,589,404
INVESTMENTS IN AND OTHER ASSETS PERTAINING TO UNCONSOLIDATED SUBSIDIARY	43,347,520	42,419,401
PROPERTY AND EQUIPMENT, Net	70,861,444	70,172,158
BENEFICIAL INTEREST IN:		
Perpetual trusts	12,417,735	12,410,594
Charitable remainder trusts	7,113,445	7,063,033
PLEDGES RECEIVABLE, Net	4,630,552	429,713
DEFERRED FINANCING COSTS, Net	1,604,216	1,666,070
OTHER NON-CURRENT ASSETS	267,585	512,182
TOTAL	<u>\$ 428,007,254</u>	<u>\$ 447,100,015</u>

Good Shepherd Rehabilitation Network and Controlled Entities
Statement of Financial Position
As of December 31, 2018 and 2017

	Obligated Group	
	Unaudited as of 12/31/18	Unaudited as of 12/31/17
<u>Liabilities and Net Assets</u>		
CURRENT LIABILITIES		
Demand note payable	\$ 3,137,495	\$ -
Current portion of long-term debt	2,375,000	2,275,000
Accounts payable, trade	6,784,250	4,632,466
Estimated third-party payor settlements	907,801	1,158,821
Advance from third party payor	277,900	277,900
Accrued expenses	11,407,424	11,516,411
Resident funds	193,510	192,893
Amount due to affiliates	11,290,847	13,671,820
Total current liabilities	<u>36,374,227</u>	<u>33,725,311</u>
LONG-TERM DEBT:		
Revenue bonds	94,312,668	96,739,527
Mortgages payable		
Total long-term debt	<u>94,312,668</u>	<u>96,739,527</u>
DERIVATIVE FINANCIAL INSTRUMENTS	2,487,674	3,429,975
ACCRUED PENSION COST	427,739	3,759,024
OTHER LIABILITIES	<u>3,604,877</u>	<u>4,509,144</u>
Total liabilities	<u>137,207,185</u>	<u>142,162,981</u>
NET ASSETS		
Unrestricted	241,932,525	257,547,376
Temporarily restricted	15,566,142	14,851,890
Permanently restricted	<u>33,301,402</u>	<u>32,537,768</u>
Total net assets	<u>290,800,069</u>	<u>304,937,034</u>
TOTAL	<u><u>\$ 428,007,254</u></u>	<u><u>\$ 447,100,015</u></u>

Good Shepherd Rehabilitation Network and Controlled Entities
Statement of Operations
For the Six Month Periods Ended December 31, 2018 and 2017

	<u>Obligated Group</u>	
	<u>Unaudited Period Ending 12/31/18</u>	<u>Unaudited Period Ending 12/31/17</u>
UNRESTRICTED REVENUE, GAINS, AND OTHER SUPPORT:		
Net patient service revenues	\$ 51,121,289	\$ 52,845,690
Provision for doubtful collections	(1,041,368)	(429,971)
Net patient service revenue less provision for doubtful collections	50,079,921	52,415,719
Other operating revenues	778,113	812,617
Professional services revenue	3,703,399	2,606,516
Contributions	704,787	1,422,005
Equity in (loss) on investment in unconsolidated subsidiary	(1,781,348)	1,853,899
Gains (losses) on disposal of property and equipment	0	0
Net assets released from restrictions for operations	1,877,278	1,582,988
Total unrestricted revenues, gains, and other support	55,362,150	60,693,744
EXPENSES:		
Salaries and wages	37,020,685	34,059,692
Supplies and other expenses	14,452,209	12,848,931
Employee benefits	7,628,773	9,166,532
Depreciation and amortization	3,858,126	3,403,202
Interest	2,010,210	1,937,466
Bad Debt	156,793	0
Professional fees	1,161,737	840,784
Total	66,288,533	62,256,607
OPERATING INCOME	(10,926,383)	(1,562,863)
OTHER INCOME (EXPENSE):		
Debt Restructuring Costs	-	-
Investment (Loss) Income	10,843,416	10,045,119
Unrealized Gain / Loss Alternative Investment	(4,614,613)	(128,886)
Ineffectiveness of Derivative Financial Instrument	-	-
REVENUE IN EXCESS OF EXPENSES	(4,697,580)	8,353,370
CHANGE IN NET UNREALIZED GAINS AND LOSSES ON INVESTMENTS OTHER THAN TRADING SECURITIES	(15,755,201)	4,560,515
CHANGE IN FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS	(90,401)	282,189
PENSION LIABILITY ADJUSTMENT	-	-
PENSION LIABILITY ADJUSTMENT - UNCONSOLIDATED AFFIL	-	-
NET ASSETS RELEASED FROM RESTRICTIONS FOR PURCHASE OF PROPERTY AND EQUIPMENT	69,172	692,329
NET ASSETS RELEASED FROM RESTRICTION FOR PP&E - UNCONSOLIDATED AFFILIATE	-	-
OTHER CHANGES IN UNRESTRICTED NET ASSETS	-	-
INCREASE IN UNRESTRICTED NET ASSETS	\$ (20,474,010)	\$ 13,888,403

Good Shepherd Rehabilitation Network and Certain Controlled Entities
Combined Statements of Operations and Changes in Unrestricted Net Assets
Obligated Group
(\$ in Thousands)

	2014	2015	2016	2017	2018	Six months ended	
						12/31/18	12/31/17
Net Patient Service Revenues	\$ 95,363	\$ 100,555	\$ 97,721	\$ 103,897	\$ 103,463	\$ 51,121	\$ 52,846
Provision for Doubtful Accounts	(537)	(706)	(649)	(988)	(641)	(1,041)	(430)
Net Patient Service Revenues Less Provision for Doubtful Accounts	94,826	99,849	97,072	102,909	102,822	50,080	52,416
Other Operating Revenues	1,865	1,834	1,784	1,744	1,629	778	813
Contributions	4,212	3,071	1,689	2,445	2,094	705	1,422
Professional Services Revenue	10,576	9,886	10,493	7,108	6,232	3,704	2,606
Equity in Income (Losses) of Unconsolidated Affiliate ⁽¹⁾	6,666	8,145	5,984	2,821	5,140	(1,781)	1,854
Gains (Losses) on Disposal of Equipment	-	-	-	(95)	-	-	-
Net Assets Released from Restriction for Operations	1,901	1,910	2,223	3,012	4,372	1,877	1,583
Total Operating Revenue	120,046	124,695	119,245	119,944	122,289	55,363	60,694
Salaries and Benefits	75,985	79,164	82,799	82,006	84,778	44,650	43,227
Supplies and Other Expenses	22,060	23,480	24,051	23,482	27,298	14,452	12,849
Depreciation and Amortization	7,419	7,159	6,700	6,432	7,001	3,858	3,403
Interest	5,029	4,926	4,817	4,067	3,895	2,010	1,937
Bad Debt	-	-	-	-	-	157	-
Professional Fees	2,118	2,053	1,910	1,422	1,893	1,162	841
Total Operating Expenses	112,611	\$ 116,782	\$ 120,277	\$ 117,409	\$ 124,865	\$ 66,289	\$ 62,257
Operating Income (Loss)	7,435	7,913	(1,032)	2,535	(2,576)	(10,926)	(1,563)
Other Income (Expense)							
Loss on Extinguishment of Debt	-	-	-	-	-	-	-
Debt Restructuring Costs	-	-	(4,236)	-	-	-	-
Investment Income	8,174	8,974	9,699	13,499	16,410	10,843	10,045
Unrealized Gain (Loss) on Alternative Investment	2,137	1,469	146	5,675	(3,685)	(4,615)	(129)
Ineffectiveness of Derivative Financial Instrument	-	-	-	-	-	-	-
Revenues in Excess of Expenses	17,746	18,356	4,577	21,709	10,149	(4,698)	8,353
Change in Net Unrealized Gains and Losses on Investments Other Than Trading Securities	24,974	(10,831)	(14,384)	8,990	1,858	(15,755)	4,561
Change in Fair Value of Derivative Financial Instrument	(211)	39	(1,081)	1,969	1,314	(90)	282
Pension Liability Adjustment	(741)	(4,392)	(13,820)	8,807	4,641	-	-
Other Changes in Unrestricted Net Assets	39	-	-	-	-	-	-
Net Assets Released from Restriction for Purchase of Property and Equipment	195	1,033	125	79	785	69	692
Increase (Decrease) in Unrestricted Net Assets	\$ 42,002	\$ 4,205	\$ (24,583)	\$ 41,554	\$ 18,747	\$ (20,474)	\$ 13,888

(1) Reflects Good Shepherd's 70% portion of income from GSPP.

Good Shepherd Rehabilitation Network Obligated Group
Selected Financial Ratios

		For the Fiscal Year Ending					Six Months Ended	
		2014	2015	2016	2017	2018	12/31/18	12/31/17
Operating Cash Flow Margin	(1)	16.6%	16.0%	8.8%	10.9%	6.8%	-9.1%	6.2%
Long-Term Debt to Capitalization	(2)	32.7%	31.7%	33.7%	28.9%	26.9%	28.0%	27.3%
Debt Service Coverage	(3)	3.62	3.74	2.12	3.51	3.28	2.21	4.09
Operating Margin Ratio	(4)	6.2%	6.3%	-0.9%	2.1%	-2.1%	-19.7%	-2.6%
Return on Equity Ratio	(5)	8.0%	8.1%	2.3%	8.9%	3.9%	-3.9%	6.4%
Cushion Ratio	(6)	32.0	32.8	31.3	32.5	34.1	31.5	34.6
Days Cash on Hand	(7)	899	866	783	834	817	715	839
Days in Accounts Receivable	(8)	53	56	51	60	58	63	57
Obligated Group % of Total Assets	(9)	98.5%	98.2%	97.8%	97.4%	96.8%	96.8%	97.4%
Obligated Group % of NPSR	(10)	84.5%	85.0%	85.9%	87.5%	86.6%	85.9%	86.9%
Obligated Group % of Total Expenses	(11)	90.3%	89.8%	89.8%	89.2%	88.7%	88.9%	89.2%
Cash to Debt	(12)	2.29	2.41	2.29	2.48	2.66	2.52	2.69
Debt to Operating Cash Flow	(13)	5.46	5.27	9.82	7.60	11.62	(9.40)	12.90

(1) Defined as the sum of Operating Income (Loss) before Interest Expense and Depreciation and Amortization Expense divided by Total Operating Revenue.

(2) Defined as Non-Current Portion of Long-Term Debt divided by the sum of Non-Current Portion of Long-Term Debt and Unrestricted Net Assets.

(3) Defined as the sum of Revenue in Excess of (Less Than) Expenses, Interest Expense and Depreciation and Amortization Expense, Unrealized Gains (Losses) on Alternate Investments, Ineffectiveness of Derivative Financial Instruments, and Loss on Extinguishment of Debt divided by Maximum Annual Debt Service.

(4) Defined as Operating Income (Loss) divided by Total Operating Revenue.

(5) Defined as Revenues in Excess of (Less Than) Expenses divided by Unrestricted Net Assets. September 30, 2012 value reflects annualized Revenue in Excess of (Less Than) Expenses.

(6) Defined as the sum of Cash, Unrestricted Investments (Short and Long Term), and Board Designated Funds divided by Maximum Annual Debt Service.

(7) Defined as the sum of Cash, Unrestricted Investments (Short and Long Term), and Board Designated Funds less 50% of all outstanding Short-term Indebtedness divided by the quotient of the sum of Total Expenses less Depreciation, Amortization, and Interest Expense divided by 365 days.

(8) Defined as Total Net Patient Accounts Receivable multiplied by 365 days divided by Net Patient Service Revenues.

(9) Defined as Obligated Group's Total Assets divided by Total Consolidated Assets.

(10) Defined as Obligated Group's Net Patient Service Revenue ("NPSR") divided by Total Consolidated NPSR.

(11) Defined as Obligated Group's Total Expenses divided by Total Consolidated Expenses.

(12) Defined as the sum of Cash, Investments and Assets Whose Use is Limited-Board Restricted divided by Long Term Debt net of Current Portion.

(13) Defined as Long Term Debt net of Current portion divided by the sum of Operating Income (Loss) before Depreciation and Amortization Expense and Interest Expense.

Good Shepherd Rehabilitation Network and Controlled Entities
The Good Shepherd Rehabilitation Hospital - Utilization of Services

The following table sets forth historical inpatient utilization statistics for the

<u>Inpatient Utilization</u>	<u>Fiscal Year Ended June 30</u>					<u>Six Months Ended</u>	
	2014	2015	2016	2017	2018	12/31/18	12/31/17
Number of Licensed Beds	106	106	106	106	106	106	106
Average Beds in Service	106	106	106	106	106	106	106
Admissions	1,763	1,637	1,394	1,494	1,248	632	664
Patient Days	28,811	28,865	26,487	29,437	26,429	12,565	13,873
Percent Occupancy	74.5%	74.6%	68.3%	76.1%	68.3%	64.4%	71.1%
Average Length of Stay	16.3	17.6	19.0	19.7	21.2	19.9	20.9

The following table sets forth historical outpatient visit statistics for the Rehabilitation Hospitals and their satellites:

<u>Outpatient Visits</u>	<u>Fiscal Year Ended June 30</u>					<u>Six Months Ended</u>	
	2014	2015	2016	2017	2018	12/31/18	12/31/17
Hospital	91,937	97,101	101,262	87,507	93,508	46,490	46,274
Satellites	123,227	128,105	136,130	140,743	153,900	75,174	77,177
Contracted Services	10,936	11,220	10,151	4,023	-	-	-
Total	<u>226,100</u>	<u>236,426</u>	<u>247,543</u>	<u>232,273</u>	<u>247,408</u>	<u>121,664</u>	<u>123,451</u>

The following table delineates the payor mix based on gross revenues for the Rehabilitation Hospitals' business line:

<u>Payor Mix</u>	<u>Fiscal Year Ended June 30</u>					<u>Six Months Ended</u>	
	2014	2015	2016	2017	2018	12/31/18	12/31/17
Medicare	33.4%	33.3%	33.0%	34.2%	33.3%	35.2%	32.9%
Managed Care	27.6%	28.0%	24.5%	20.5%	18.5%	18.9%	17.2%
Medical Assistance	16.6%	16.3%	18.8%	20.3%	26.4%	26.4%	27.4%
Commercial/Auto	6.9%	6.8%	6.0%	7.6%	5.0%	5.1%	5.5%
Blue Cross	9.4%	8.4%	10.1%	10.0%	11.2%	8.5%	11.8%
Workers' Compensation	2.9%	3.3%	3.1%	3.2%	2.1%	1.9%	2.1%
Self Pay	0.7%	0.6%	0.8%	0.6%	0.5%	0.5%	0.4%
Other	2.6%	3.4%	3.6%	3.6%	3.0%	3.5%	2.7%

The Good Shepherd Home Long Term Care Facility, Inc. - Utilization of Services

	<u>Fiscal Year Ended June 30</u>					<u>Six Months Ended</u>	
	2014	2015	2016	2017	2018	12/31/18	12/31/17
Beds Available	159	159	159	159	159	159	159
Days Available	58,035	58,035	58,194 #	58,035	58,035	29,256	29,256
Percentage Occupancy	99.60%	99.47%	99.71%	99.75%	99.61%	99.56%	99.61%
Inpatient Days	57,801	57,727	58,023	57,889	57,809	29,127	29,141

Source: Hospital Records