<u>This Document is Dated as of November 1, 2012.</u>

SPECIAL NOTE CONCERNING FORWARD-LOOKING STATEMENTS:

Certain of the discussions included in the Management Discussion and Analysis section of the following document may include “forward-looking statements” which involve known and unknown risks and uncertainties inherent in the operation of healthcare facilities. Actual actions or results may differ materially from those discussed below. Specific factors that might cause such differences include competition from other healthcare facilities in the service areas of Good Shepherd’s facilities, federal and state regulation of healthcare providers, and reimbursement policies of the state and federal governments and managed care organizations. In particular, statements preceded by, followed by or that include the words “believes,” “estimates,” “expects,” “anticipates,” “plans,” “intends,” “scheduled,” or other similar expressions are or may constitute forward-looking statements.

Annual Report
For the Period Ending 6/30/12

Concerning

Good Shepherd Rehabilitation Network
And Controlled Entities

The information in this report
has been provided by

Good Shepherd Rehabilitation Network
and Controlled Entities

Good Shepherd Rehabilitation Network
And Controlled Entities
Reporting Package

As of and for the Twelve Month Period Ended
June 30, 2012

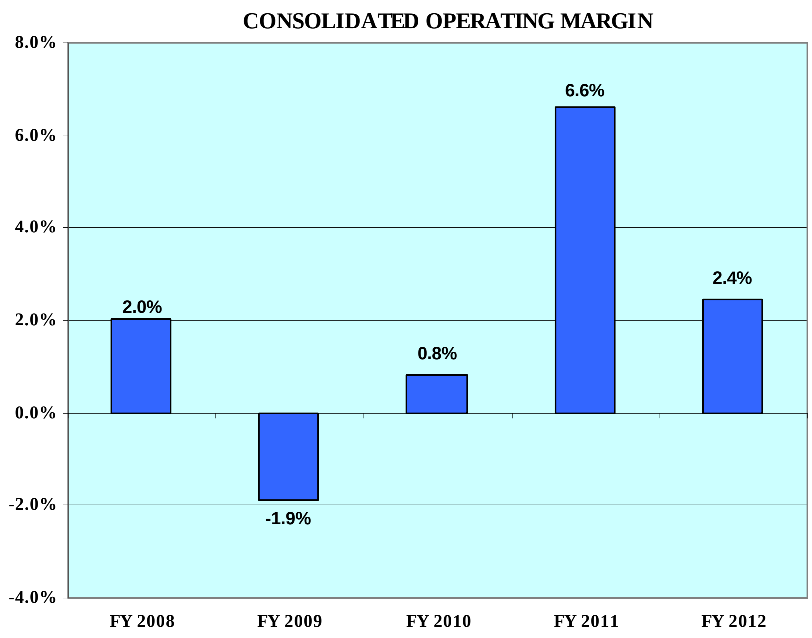
Good Shepherd Rehabilitation Network and Controlled Entities
Management Discussion and Analysis
As of and for the Twelve Month Period Ended June 30, 2012

Introduction

SPECIAL NOTE CONCERNING FORWARD-LOOKING STATEMENTS: Certain of the discussions included in this document may include "forward-looking statements" which involve known and unknown risks and uncertainties inherent in the operation of healthcare facilities. Actual actions or results may differ materially from those discussed below. Specific factors that might cause such differences include competition from other healthcare facilities in the service areas of Good Shepherd's facilities, federal and state regulation of healthcare providers, and reimbursement policies of the state and federal governments and managed care organizations. In particular, statements preceded by, followed by or that include the words "believes," "estimates," "expects," "anticipates," "plans," "intends," "scheduled" or other similar expressions are or may constitute forward-looking statements.

This Management Discussion and Analysis compares financial and volume data on an annual basis for Good Shepherd Rehabilitation Network and Controlled Entities (Good Shepherd). Certain matters are discussed and graphically presented in order to compare the current and prior year quarters.

The Consolidated operating results of Good Shepherd Rehabilitation Network (GSRN) had a positive Operating Margin for a third year in a row. The audit report results reflect an operating gain of $3.1 million, or a 2.4% margin, compared to a profit of $8.3 million, or a 6.6% margin in FY 11. This includes a $4.7 million equity share of the profits generated by Good Shepherd Penn Partners (GSPP).



There are several one-time events impacting the Consolidated Statement of Operations that are noteworthy.

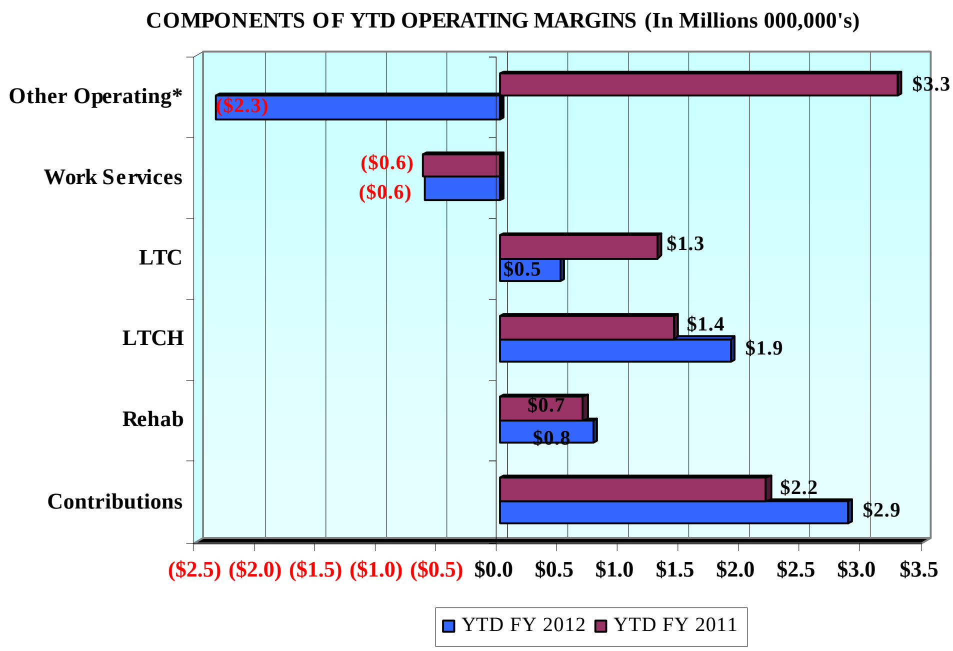
1. Bad Debts, historically reported as an expense, are now reclassified as an offset to Unrestricted Revenue. FY 11 was restated for comparative purposes.

2. Supplies and other expenses reflect an increase of $3.6 million in insurance related reserves.
3. Other Income includes an offset of $621,000 for Debt Restructuring Costs relating to the conversion of $23 million Series B 2007 bonds and $12 million Series A 2008 bonds through a direct purchase of the bonds by Wells Fargo Bank, NA in December 2011.
4. A $4.3 million investment impairment was recorded below the operating margin as an offset to Investment Income. This was necessary to write down the cost basis of the Prudential Real Estate fund to market. This investment took a significant hit back in 2008 and has never fully recovered.
5. The Pension Liability was increased by $17 million related to a 130 basis point drop in the discount rate used to value benefit obligations.
6. The net impact of the transition of the Work Services division to Goodwill – Keystone Area was recorded as a $1.1 million gain from Discontinued Operations. The gain was calculated based on the selling price minus the loss from operations.

Performance at GSRN (Lehigh Valley operations only, which excludes the Work Services division) had a significant reversal in the margin from prior year specifically related to a large increase in insurance reserves of $3.6 million. The Operating Income before discontinued operations was a loss of $629,000 compared to a profit of $2.5 million in the prior year.

Excluding the insurance reserves increase, the GSRN Lehigh Valley operations had a $2.9 million profit or a 2.4% operating margin before discontinued operations. This represents a 17% improvement in the margin compared to the prior year.

The components of Good Shepherd's operating margin, for the fiscal year ended June 30, 2012, are delineated within the following summary:



*Other Operating includes Corporate, Institutional Advancement, and the Profit from Unconsolidated Affiliate.

Patient Service Revenue increased 2.8%, or $3.0 million, during the year primarily related to the Rehab Hospital. GSPP generated a profit of $6.7 million in FY 12 which is a decrease of $3.0 million from prior year. The decrease relates to low inpatient utilization in the first half of FY 12. The amount of GSPP profit included at 70% in the GSRN Operating Revenue is $4.7 million. This is down $2.0 million from prior year.

The expense base increased 5% from prior year while total revenue grew 0.5%. The bulk of that increase is the one-time increase in insurance reserves. The real expense growth year over year without the one-time insurance reserves was 2%. Salaries increased at a rate of 3.1% which takes into account the additional staffing costs necessary for the utilization growth as well as the annual performance increase which averaged 3.0%.

Reviewing performance from a cash flow perspective; cash flow from operations (defined as operating margin earnings before interest, depreciation and amortization (EBIDA)) produced a 14% cash flow margin, or $18 million, compared to 14% last year, or $16 million. This EBIDA calculation removes the GSPP revenue and replaces it with the dividends of $4.1 million and $$1.1 million paid in FY 12 and FY 11, respectively.

The Balance Sheet remained very strong as Unrestricted Day's Cash on Hand ended the year at 561 days which is down 24 days from FY 11. The impairment of the Prudential Real Estate fund negatively impacted day's cash by 14 days. The Debt to Capitalization ratio increased slightly to 41% from 39% during the year. The increase was mainly a result of the decrease in Net Assets relating to the $17 million impact of the pension liability. Accrued expenses grew from prior year as it relates to the increase in insurance reserves. The defined benefit (DB) pension plan continues to be funded in excess of the ERISA and IRS requirements although the Balance Sheet recognizes a pension liability of $24 million which is a measurement of the difference between plan assets and actuarially determined benefit obligations. During the plan year, contributions of $2.2 million were made to the DB plan. In addition, during the year, contributions of $1.2 million were made to the defined contribution (DC) plan.

In October 2011 Fitch affirmed the GSRN rating as "A" with a stabile outlook. In November 2011, associated with the debt conversion, Standard and Poor's maintained the GSRN rating as an "A" rating and improved their outlook perspective from negative to a stabile outlook.

Divisional Review

Rehabilitation

The Rehab Hospital division includes all inpatient, outpatient, physician, and contracted rehab management services at all locations. Total admissions of 1,895 cases were relatively flat with last year. Neurorehab cases increased 3% from prior year primarily within the Stroke and Guillian Barre diagnosis. Ortho cases decreased 10% from prior year and Cardiac cases doubled from prior year.

In total, the division experienced an increase in profits from $688,000 in FY 11 to $774,000 in FY 12. The division received the third year of a settlement payment of $878,000 under Act 49 where the state and the hospital community developed a new MA payment system. However, inpatient Pediatrics had a ($533,000) or 9.2% operating margin loss in FY 12, which was approximately a $1.5 million swing from the previous year. This margin decline between years resulted from a change in payor mix to a higher base of Medicaid patients. The rehab division also includes the Physician group and the group's losses increased by $326,000 from prior year to $2.4 million.

The outpatient business produced an improved margin between years despite fee reductions instituted by Medicare for multiple procedures, and limitations on the number of approved therapy visits for Capital

Blue Cross subscribers. The margin in the satellites improved from 13% to 16% which was approximately a $673,000 swing in margin.

Specialty Hospital – Long Term Acute Care

The long term acute care hospital division experienced a $468,000 increase in performance from year to year. In FY 12 the Specialty Hospital reported a profit of $1.9 million, or 11.2%. This is an increase in profitability of 3% from prior year. Patient volume and revenue was relatively flat from year to year while expenses decreased by 4%.

Management continues to operate under the Medicare 25% Rule. FY 10 was the first fiscal year operating under the 25% Rule. This rule has a penalty for all cases that exceed 25% of admissions from a single hospital. Lehigh Valley Cedar Crest is the main referral source and management was not able to operate within the 25% limits in FY 12. One of the main issues for exceeding the limit, which impacted the denominator, was related to a drop-off in referrals from St. Luke's in the latter part of the year as they experienced census issues.

Long Term Care

The Long Term Care division continues to operate at almost 100% capacity at the two sites. There is a continued decline in the MA rates paid to Peer Group 13 (PG13) which impacted profitability in the LTC division in FY12; the margin dropped to 3.4% in FY 12 from 7.1% in FY 11 and 8.2% in FY 10. The margin would have been lower in FY 12 but was improved for several reasons including management initiating a cost reduction initiative, and the receipt of a $426,000 settlement from DPW for FY 06, 07 and 08. The settlement relates to the ongoing appeals taken against DPW for the weakening of our Special Rehab Peer Group pricing and case mixes from the entry of several other facilities. Management has spent considerable time negotiating with DPW on a rate agreement for the division that will continue PG13 and incorporate per diem payments that will not be diluted by the entry of new facilities to the PG13 on a go-forward basis. As a result, the fee schedule going forward is addressed but it will still put significant pressure on LTC margins.

Work Services

In April 2012, Good Shepherd entered into an asset purchase agreement related to sale of substantially all property and equipment of Work Services to an unrelated third party, and discontinued the operations of this entity during FY 12. The Board of Trustees approved the plan of sale in February 2012.

Concurrent with the sale, Work Services entered into a promissory note to allow the purchaser to borrow $1,600,000 from Work Services which will be repaid over a five year period with monthly payments of principal and interest in the amount of $16,439 beginning in August 2012. Interest on the promissory note is 4.25%. The promissory note is secured by a mortgage and security agreement.

The following amounts related to discontinued operations are included in gain (loss) from discontinued operations in the accompanying consolidated statement of operations:

	2012	**2011**
Total unrestricted revenues, gains and other support	$3,015,681	$2,641,208
Total expenses	(3,046,075)	(2,933,440)
Net gain on sale of substantially all property and equipment	1,137,278	-
Gain (loss) from discontinued operations	$1,106,884	$(292,232)

Balance Sheet
Balance Sheet strength remained stabile in FY 12. The Investments market value remained at the same level in response to a 1.6% performance return on the portfolio during the year. Fixed income, large cap, and real estate investments were up while small cap and emerging markets declined. The Investments line on the Balance Sheet is comprised of several categories as noted below:

	FY 12	FY 11	FY 10
Unrestricted Investments	$170,799,553	$169,733,758	$132,665,195
Temporarily Restricted	2,531,365	2,735,077	1,165,859
Permanently Restricted	15,391,554	14,547,213	14,226,923
Investments	**$188,722,472**	**$187,016,048**	**$148,057,977**

Other sources of unrestricted cash during the year included positive cash flows from operations and the receipt of GSPP’s second annual dividend of $4.1 million.

During the year several changes were made by the Investment Committee to better position the portfolio for capital market opportunities. Three new managers were added by rebalancing the portfolio. The three managers added were Capital International Emerging Markets Growth Fund (5% allocation), PIMCO Unconstrained Bond Fund (6% allocation), PIMCO Global Advantage Strategy Bond Fund (7% allocation), and Blackstone BP Offshore Absolute Return Fund (9% allocation).

The Investments also include the impact of recording a $4.6 million impairment on the Prudential Real Estate Fund (PRISA). The fund has been underwater since 2008 and although the returns have been positive over the last several years, management did not feel the market value would return to the cost basis for several years. Because of the accounting requirements on this investment, it was initially recorded at cost and has been written down to market.

Accounts receivable increased 5% while net patient service revenue increased 2.8% resulting in a slight increase in days in accounts receivable to 51 days from 50. The revenue cycle continues to function at an acceptable level given the higher dollar co-pays and deductibles that are presently in employer health plan benefits. Management successfully instituted a renewed emphasis on point of service collections and the collection of patient demographics during the registration process. Additionally, a great deal of emphasis was put into reducing the insurance denials.

A review of the capital position remains very favorable as the Debt-to-Capitalization ratio increased slightly to 41% from 39% last year. A lower ratio is desirable in terms of having the ability for future financing of the strategic plan. Long term debt decreased by $5 million, $2.9 million of which pertained to the principal payments on outstanding bonds and the remainder resulted from the December 1st debt restructuring. The more dramatic impact on the ratio came from the decrease of $21 million in Net Assets during the year. This was driven primarily by a $17 million increase in the accrued unfunded pension liability.

The Accrued Pension Liability increased during the fiscal year from $7 million to $24 million. The primary reason for the increased liability is from a 130 basis point decrease in the discount rate used to value projected benefit obligations from 5.6% to 4.3%. (The discount rate is based on the Citigroup Pension Liability Index which is an accepted industry index for actuarial reporting. Typically a 1% change in the discount rate is worth about a 15% to 20% change in the PBO. The pension plan assets increased to $50 million in FY 12 from $48 million last year. The pension plan is fully funded by ERISA and IRS standards.

Some of the more significant Balance Sheet ratios were impacted by operating performance and the change in market value of the investments and net assets. The table below notes the ratio changes.

Ratio’s	FY 12	FY 11	FY 10
UR Days Cash	561	585	482
UR Cash to Debt	155%	143%	117%
Debt to Capital	41%	39%	47%

All debt covenants associated with the Master Trust Indenture and the Wells Fargo Continuing Covenants Agreement have been comfortably achieved as noted below. The minimum required is based on the most restrictive of all the covenants.

Debt Covenants	Minimum Required	Actual Performance
Debt Service Coverage	Min 1.3 x	1.5 x
UR Days Cash	Min. 120 days	579 days
Debt to Capital	Max. 67%	43%

Bond Covenants

Good Shepherd Rehabilitation Network and Controlled Entities, through the Obligated Group, as defined, is required to meet certain financial covenants under their various Long-Term Debt Agreements. One of the covenants requires the Obligated Group to maintain a Debt Service Coverage ratio of 1.25. The calculation compares Maximum Annual Debt Service to Revenue in Excess of Expenses, adjusted for Depreciation, Amortization and Interest Expense. The calculation also provides that certain items, such as the Loss on Extinguishment of Debt and Unrealized Losses on Securities are excluded from the Debt Service Coverage calculation. Management interpreted two matters with respect to the Debt Service Coverage calculation. Management excluded the Equity in (Loss) on Investment in Unconsolidated Subsidiary from the calculation because GSPP is not a member of the Obligated Group. Also, unrealized gains and losses relating to an alternative investments (Walter Scott Global) are required to be included as part of Revenue in Excess of Expenses, per recent accounting guidance. Since Unrealized Losses on Securities represent a specific exclusion from the Debt Service Coverage calculation, they were excluded. All debt covenants associated with the Master Trust Indenture have been comfortably achieved.

Outlook

The overall consolidated performance of GSRN in FY 12 was clouded by the $3.6 million increased insurance reserves. Without the reserve increase, the consolidated operating margin for FY 12 was 5.3% or $6.7 million. The Lehigh Valley operation on its own generated a 2.4% profit margin without considering the insurance reserves. GSPP generated a positive 9.8% margin for the year. Management feels these margins could have been better but considering the Medicare cuts imposed in the Patient Protection and Affordable Care Act (PPACA) a positive margin at these levels is an accomplishment. The strategic diversification into the Philadelphia market through the joint venture with Penn Medicine accomplished the objective to diversify the revenue base for the organization and will prove to be a significant initiative.

The FY 13 budget anticipates a consolidated margin of 7.3%. The challenge will be to maintain increased inpatient utilization at both sites and provide the anticipated salary increases and market adjustments to the workforce while preparing for the scheduled Medicare cuts within the PPACA. The Medicare environment at both locations will add many challenges during the current year as well as in future years as the healthcare reform bill has scheduled cuts to inpatient Medicare rates through 2019. In addition, we will need to begin doing Quality Reporting on October 1, 2012 and management is positioned very favorably for reporting and compliance. The two inpatient services at both GSRN and GSPP are highly dependent on the level of occupancy at the referring hospitals. This referral base has also had its challenges with census volatility and that risk is still a concern. Management has undertaken many initiatives in the FY 13 budget to support the referral process including contracting one of our physicians for Chief of Physical Medicine and Rehab (PM&R) in the Department of Medicine at LVHN, contracting with LVHN for Hospitalist coverage in the Rehab Hospital, and adding PM&R consulting services at both LVHN sites.

The outpatient division has also experienced its share of payment challenges from Medicare and Capital Blue Cross. A new challenge will begin in October when the Medicare program will extend the current outpatient therapy caps to hospital-based practices. Management has prepared an electronic tool and much education to staff on the reimbursement issues and how to reduce the risk of lost revenue at all outpatient sites. Management has been working to minimize those impacts thru a more efficient operation and continued organic growth of outpatient PT sites.

Management is in the process of reviewing the feasibility of refinancing $29 million of Series A 2004 bonds. The financing strategy is to take advantage of the lower interest rate environment which will result in reduced debt service payments. The refinancing should take place before December 2012.

GSRN is in the final stages of preparing a strategic plan for the future of healthcare in the Lehigh Valley and at GSPP. Management is in the process of developing a recommendation to the Board of Trustees in November 2012. The plan will incorporate how changes in the healthcare industry will impact the delivery and financing of post-acute care services in the future and how Good Shepherd will identify and articulate the concept, vision, goals, and market strategy for the organization to be better positioned for those changes.

Good Shepherd Rehabilitation Network and Controlled Entities
Obligated Group and Consolidated Balance Sheet
As of June 30, 2012 and 2011

	Obligated Group		Consolidated	
	Audited as of 06/30/12	Audited as of 06/30/11	Audited as of 06/30/12	Audited as of 06/30/11
Assets				
CURRENT ASSETS:				
Cash and cash equivalents	1,932,440	1,954,527	4,321,095	2,238,160
Resident funds	143,870	151,327	143,870	151,327
Short Term Investments	805,172	1,904,994	805,172	1,904,994
Assets whose use is limited	(5,354)	(8,810)	2,691,318	2,661,909
Accounts receivable, patients	13,234,934	12,014,127	15,677,497	14,896,106
Other receivables	6,856,020	469,309	7,367,304	851,214
Amount due from affiliates	2,407,011	1,627,692	2,407,011	1,627,692
Estimated third-party payor settlements	636,823	714,122	636,823	714,122
Inventories of drugs and supplies	515,569	457,572	515,569	457,572
Prepaid expenses and other current assets	1,857,593	1,250,803	1,942,868	1,338,240
Total current assets	28,384,078	20,535,663	36,508,527	26,841,336
ASSETS WHOSE USE IS LIMITED	8,824,292	10,802,598	8,824,292	10,802,598
ASSETS WHOSE USE IS LIMITED: Board Designated	2,550,000	2,700,000	2,550,000	2,700,000
INVESTMENTS				
Unrestricted	174,424,553	171,358,758	170,799,553	169,733,758
Temporarily Restricted	2,531,365	2,735,077	2,531,365	2,735,077
Permanently restricted	15,391,554	14,547,213	15,391,554	14,547,213
Total investments	192,347,472	188,641,048	188,722,472	187,016,048
INVESTMENTS IN AND OTHER ASSETS PERTAINING TO UNCONSOLIDATED SUBSIDIARY	42,922,455	43,122,014	42,922,455	43,122,014
PROPERTY AND EQUIPMENT, Net	64,466,638	67,818,400	66,918,823	70,601,903
BENEFICIAL INTEREST IN:				
Perpetual trusts	10,171,747	10,657,064	10,171,747	10,657,064
Charitable remainder trusts	10,974,209	11,471,487	10,974,209	11,471,487
PLEDGES RECEIVABLE, Net	1,307,208	1,349,315	1,307,208	1,349,315
DEFERRED FINANCING COSTS, Net	2,593,223	3,035,307	2,593,223	3,035,307
OTHER NON-CURRENT ASSETS	2,142,883	892,846	2,275,672	916,127
TOTAL	366,684,205	361,025,742	373,768,628	368,513,199

Good Shepherd Rehabilitation Network and Controlled Entities
Obligated Group and Consolidated Balance Sheet
As of June 30, 2012 and 2011

	Obligated Group		Consolidated	
	Audited as of 06/30/12	**Audited as of 06/30/11**	**Audited as of 06/30/12**	**Audited as of 06/30/11**
Liabilities and Net Assets				
CURRENT LIABILITIES				
Demand note payable	3,558,916	972,000	3,558,916	972,000
Current portion of long-term debt	2,935,000	2,875,000	2,935,000	2,875,000
Accounts payable, trade	4,613,566	3,379,830	5,608,881	4,153,846
Estimated third-party payor settlements	736,659	890,563	1,530,633	1,550,258
Advance from third party payor	277,900	277,900	277,900	277,900
Accrued expenses	12,473,761	7,912,414	15,609,465	8,938,958
Resident funds	143,870	151,327	143,870	151,327
Amount due to affiliates	13,483,674	7,943,638	0	0
Total current liabilities	38,223,346	24,402,672	29,664,665	18,919,289
LONG-TERM DEBT:				
Revenue bonds	109,153,356	114,132,178	109,153,356	114,132,178
Mortgages payable			1,675,500	1,675,500
Total long-term debt	109,153,356	114,132,178	110,828,856	115,807,678
DERIVATIVE FINANCIAL INSTRUMENTS	6,757,641	3,972,277	6,757,641	3,972,277
ACCRUED PENSION COST	23,983,901	7,283,946	23,983,901	7,283,946
OTHER LIABILITIES	6,557,369	7,004,398	8,041,769	7,479,555
Total liabilities	184,675,613	156,795,471	179,276,832	153,462,745
NET ASSETS				
Unrestricted	145,759,186	167,786,005	158,242,390	178,606,188
Temporarily restricted	9,469,125	9,906,476	9,469,125	9,906,476
Permanently restricted	26,780,281	26,537,790	26,780,281	26,537,790
Total net assets	182,008,592	204,230,271	194,491,796	215,050,454
TOTAL	366,684,205	361,025,742	373,768,628	368,513,199

Good Shepherd Rehabilitation Network and Controlled Entities
Obligated Group and Consolidated Statement of Operations
For the Twelve Month Periods Ended June 30, 2012 and 2011

	Obligated Group		Consolidated	
	Audited Period Ending 06/30/12	Audited Period Ending 06/30/11	Audited Period Ending 06/30/12	Audited Period Ending 06/30/11
UNRESTRICTED REVENUE, GAINS, AND OTHER SUPPORT:				
Net patient service revenues	92,432,649	89,590,799	109,679,665	106,696,603
Provision for doubtbul collections	(646,696)	(582,706)	(869,127)	(479,760)
Net patient service revenue less provision for doubtful collections	91,785,953	89,008,093	108,810,538	106,216,843
Other operating revenues	4,746,814	4,926,092	2,451,451	2,544,721
Professional services revenue	10,284,482	11,140,889	5,390,944	5,850,587
Contributions	2,873,167	2,202,413	2,873,167	2,202,413
Equity in (loss) on investment in unconsolidated subsidiary	4,691,804	6,764,521	4,691,804	6,764,521
Gains (losses) on disposal of property and equipment	1,101,792	(362,953)	(35,486)	529
Net assets released from restrictions for operations	1,734,182	1,646,495	1,643,855	1,569,726
Total unrestricted revenues, gains, and other support	117,218,194	115,325,550	125,826,273	125,149,340
EXPENSES:				
Salaries and wages	57,653,378	55,627,701	61,064,076	59,231,597
Supplies and other expenses	26,318,247	22,031,699	30,355,284	26,153,567
Employee benefits	15,623,323	15,769,291	15,606,561	15,816,738
Depreciation and amortization	7,962,492	7,976,296	8,274,242	8,289,361
Interest	5,685,774	5,695,715	5,685,774	5,695,715
Professional fees	1,468,716	1,371,477	1,769,070	1,678,954
Total	114,711,930	108,472,179	122,755,007	116,865,932
OPERATING INCOME FROM CONTINUING OPERATIONS	2,506,264	6,853,371	3,071,266	8,283,408
OTHER INCOME (EXPENSE):				
Debt Restructuring Costs	(621,214)	-	(621,214)	-
Investment (Loss) Income	2,149,540	5,180,502	2,149,540	5,180,502
Unrealized Gain / Loss Alternative Investment	(1,017,427)	4,493,878	(1,017,427)	4,493,878
Ineffectiveness of Derivative Financial Instrument	245,314	616,905	245,314	616,905
REVENUE IN EXCESS OF EXPENSES FROM CONTINUING OPERATIONS	3,262,477	17,144,656	3,827,479	18,574,693
CHANGE IN NET UNREALIZED GAINS AND LOSSES ON INVESTMENTS OTHER THAN TRADING SECURITIES	(3,996,994)	20,388,385	(3,996,994)	20,388,385
CHANGE IN FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS	(3,030,678)	93,257	(3,030,678)	93,257
PENSION LIABILITY ADJUSTMENT	(17,320,005)	5,805,039	(17,320,005)	5,805,039
PENSION LIABILITY ADJUSTMENT - UNCONSOLIDATED SUBSIDIARY	(490,421)	369,660	(490,421)	369,660
OTHER CHANGES IN UNRESTRICTED NET ASSETS	(609,494)	541,782	(609,494)	541,782
NET ASSETS RELEASED FROM RESTRICTIONS FOR PURCHASE OF PROPERTY AND EQUIPMENT	158,296	439,164	149,431	439,164
(DECREASE) INCREASE IN UNRESTRICTED NET ASSETS FROM CONTINUING OPERATIONS	(22,026,819)	44,781,943	(21,470,682)	46,211,980
GAIN (LOSS) FROM DISCONTINUED OPERATIONS	-	-	1,106,884	(292,232)
(DECREASE) INCREASE IN UNRESTRICTED NET ASSETS	(22,026,819)	44,781,943	(20,363,798)	45,919,748

Good Shepherd Rehabilitation Network and Controlled Entities
Consolidated Statement of Cash Flows
For the Twelve Month Periods Ended June 30, 2012 and 2011

	Audited Period Ending 06/30/12	Audited Period Ending 06/30/11
CASH FLOWS FROM OPERATING ACTIVITIES:		
(Decrease) increase in net assets	$ (20,558,658)	$ 49,226,849
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation and amortization	8,274,242	8,289,361
Loss (gain) on disposal of property and equipment	35,486	(529)
(Gain) loss from discontinued operations	(994,564)	500,094
Provision for doubtful collections	869,127	479,760
Other changes in unrestricted net assets		
Net realized and unrealized (gains) losses on investments	6,771,508	(27,181,803)
Restricted contributions and investment income	(2,452,558)	(1,602,069)
Change in fair value of derivative financial instruments	2,785,364	(710,162)
Ineffectiveness of derivative financial instruments		
Valuation adjustments - permanently and temporarily restricted net assets	842,153	(2,406,470)
Income on investment in unconsolidated affiliate	(4,691,804)	(6,764,521)
Pension liability adjustment - The Good Shepherd Rehabilitation Hospital	17,320,005	(5,805,039)
Pension liability adjustment - unconsolidated subsidiary	490,421	(369,660)
Debt Restructuring Costs	327,760	-
Changes in assets and liabilities:		
Accounts receivable, patients	(1,650,518)	(1,992,638)
Other receivables	(6,516,090)	77,059
Estimated third-party payor settlements	57,674	(482,529)
Inventories of drugs and supplies	(57,997)	61,945
Prepaid expenses and other current assets	(1,790,714)	67,655
Accounts payable, trade	1,455,035	(88,540)
Accrued expenses and other liabilities	6,878,024	3,192,098
Net cash provided by operating activities	7,393,896	14,490,861
CASH FLOWS FROM INVESTING ACTIVITIES:		
Increase in investments	(4,678,585)	(12,202,554)
Increase in investment in and other assets pertaining to unconsolidated subsidiary	(438,377)	(138,192)
Cash dividends received from unconsolidated affiliate	4,060,000	1,147,437
Proceeds from sale of property and equipment	1,985,358	1,167,584
Purchase of property and equipment	(5,479,928)	(3,490,972)
Increase in other assets	(170,471)	(51,270)
Net cash used in investing activities	(4,722,003)	(13,567,967)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from demand note payable	2,586,916	324,000
Restricted contributions and investment income	1,793,286	2,086,634
Repayment of long-term debt	(4,945,000)	(2,775,000)
Increase (decrease) in annuities payable and trusts	(24,160)	(32,714)
Net cash (used in) provided by financing activities	(588,958)	(397,080)
DECREASE IN CASH AND CASH EQUIVALENTS	2,082,935	525,814
CASH AND CASH EQUIVALENTS, BEGINNING	2,238,160	1,712,346
CASH AND CASH EQUIVALENTS, ENDING	$ 4,321,095	$ 2,238,160
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION,		
Cash paid for interest (net of amounts capitalized)	$ 5,658,818	$ 5,706,004

Good Shepherd Rehabilitation Network Obligated Group
Selected Financial Ratios

		Fiscal Year Ended June 30				
		2008	2009	2010	2011	2012
Operating Cash Flow Margin	(1)	12.2%	10.9%	12.6%	17.8%	13.8%
Long-Term Debt to Capitalization	(2)	44.4%	50.5%	48.7%	40.5%	42.8%
Debt Service Coverage	(3)	3.93	2.02	1.75	2.41	1.45
Operating Margin Ratio	(4)	0.0%	-3.3%	-0.8%	5.9%	2.1%
Return on Equity Ratio	(5)	12.6%	-3.0%	4.0%	10.2%	2.2%
Cushion Ratio	(6)	17.3	16.0	17.6	22.6	21.3
Days Cash on Hand	(7)	720	549	563	678	639
Days in Accounts Receivable	(8)	53	46	45	47	51
Obligated Group % of Total Assets	(9)	97.6%	97.5%	97.5%	98.0%	98.1%
Obligated Group % of NPSR	(10)	80.1%	81.6%	82.7%	83.8%	84.4%
Obligated Group % of Total Expenses	(11)	88.9%	90.0%	90.7%	90.5%	91.2%
Cash to Debt	(12)	1.26	1.06	1.20	1.56	1.65
Debt to Operating Cash Flow	(13)	11.39	11.82	9.06	5.56	6.76

(1) Defined as the sum of Operating Income (Loss) before Abandonment of Capital Project and Extinguishment of Debt, 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 Expenses and Interest Expense and Depreciation and Amortization Expense divided by Maximum Annual Debt Service.

(4) Defined as Operating Income (Loss) before Abandonment of Capital Project and Extinguishment of Debt divided by Total Operating Revenue.

(5) Defined as Revenue in Excess of Expenses (Annualized) divided by Unrestricted Net Assets.

(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 and Work Services Accounts Receivable multiplied by 365 days divided by Net Patient Service Revenues and Work Services revenue.

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

(10) Defined as Obligated Group's 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, Unrestricted Investments (Short and Long Term) 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 Abandonment of Capital Project and Extinguishment of Debt, 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 Rehabilitation Hospitals:

	Fiscal Year Ended June 30				
Inpatient Utilization	**2008**	**2009**	**2010**	**2011***	**2012**
Number of Licensed Beds	82	82	98	102	102
Average Beds in Service	82	82	98	102	102
Admissions	1,571	1,738	1,796	1,908	1,895
Patient Days	20,905	22,386	24,834	27,473	29,033
Percent Occupancy	69.66%	74.79%	69.43%	76.01%	77.77%
Average Length of Stay	13.3	12.9	13.7	14.4	15.4

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

	Fiscal Year Ended June 30				
Outpatient Visits	**2008**	**2009**	**2010**	**2011**	**2012**
Hospital	70,594	78,139	81,221	81,479	87,699
Satellites	91,305	105,311	111,854	122,070	122,458
Contracted Services	22,194	21,145	22,835	20,242	11,659
Total	184,093	204,595	215,910	223,791	221,816

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

	Fiscal Year Ended June 30				
Payor Mix	**2008**	**2009**	**2010**	**2011**	**2012**
Medicare	37.9%	39.0%	34.9%	32.4%	33.5%
Medical Assistance	12.0%	11.1%	13.6%	14.6%	16.1%
Blue Cross	13.6%	10.4%	10.0%	10.5%	11.8%
Commercial/Auto	7.7%	7.3%	7.4%	7.7%	6.0%
Managed Care	18.4%	23.0%	25.9%	26.8%	24.9%
Workers' Compensation	4.3%	3.9%	3.5%	3.6%	3.6%
Self Pay	0.6%	0.6%	0.5%	0.5%	0.7%
Other	5.4%	4.7%	4.2%	3.9%	3.5%

* Fiscal Year 2011 included the addition of 4 licensed beds at the Allentown Rehab Hospital. The beds were licensed and placed in service March 29, 2011.

Good Shepherd Rehabilitation Network and Controlled Entities
The Good Shepherd Home Long Term Care Facility, Inc. - Utilization

	Fiscal Year Ended June 30				
	2008	**2009**	**2010**	**2011**	**2012**
Beds Available	159	159	159	159	159
Days Available	58,194	58,035	58,035	58,035	58,194
Percentage Occupancy	99.55%	99.59%	99.48%	99.65%	99.62%
Inpatient Days	57,934	57,795	57,733	57,829	57,972