

This Document is dated as of October 18, 2017

Annual Report
For the Fiscal Year Ending 6/30/17

Concerning

Good Shepherd Rehabilitation Network
Obligated Group

Fiscal Year Ended June 30, 2017

	% of Obligated Group	
	Assets	Revenue
Parent Corporation	76.2%	9.0%
Hospital	13.4%	69.6%
Long-Term Care Division	10.3%	21.4%
Work Services	0.0%	0.0%
Total Obligated Group	100.0%	100.0%
LTACH Services	-	-
Housing Development Corp	-	-
GS Group	-	-
GS Development LLC	-	-
Risk Retention Group	-	-
Total Good Shepherd Rehabilitation Network & Controlled Entities	-	-

	Obligated Group	
	Assets	Revenue
Parent Corporation	\$ 329,846,710	\$ 10,814,949
Hospital	57,964,080	83,481,148
Long-Term Care Division	44,486,095	25,648,256
Work Services	-	-
Total Obligated Group	432,296,885	119,944,353
LTACH Services		
Housing Development Corp		
GS Group		
GS Development LLC		
Risk Retention Group		
Total Good Shepherd Rehabilitation Network & Controlled Entities		

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

	2012	2013	2014	2015	2016	2017
Net Patient Service Revenues	\$ 92,433	\$ 92,895	\$ 95,363	\$ 100,555	\$ 97,721	\$ 103,897
Provision for Doubtful Accounts	<u>(647)</u>	<u>(503)</u>	<u>(537)</u>	<u>(706)</u>	<u>(649)</u>	<u>(988)</u>
Net Patient Service Revenues Less Provision for Doubtful Accounts	\$ 91,786	\$ 92,392	\$ 94,826	\$ 99,849	\$ 97,072	\$ 102,909
Other Operating Revenues	\$ 4,747	\$ 1,789	\$ 1,865	\$ 1,834	\$ 1,784	\$ 1,744
Contributions	2,873	2,694	4,212	3,071	1,689	2,445
Professional Services Revenue	10,284	10,477	10,576	9,886	10,493	7,108
Equity in Income (Losses) of Unconsolidated Affiliate ⁽¹⁾	4,692	6,927	6,666	8,145	5,984	2,821
Gains (Losses) on Disposal of Equipment	1,102	(7)	-	-	-	(95)
Net Assets Released from Restriction for Operations	<u>1,734</u>	<u>1,748</u>	<u>1,901</u>	<u>1,910</u>	<u>2,223</u>	<u>3,012</u>
Total Operating Revenue	\$ 117,218	\$ 116,020	\$ 120,046	\$ 124,695	\$ 119,245	\$ 119,944
Salaries and Benefits	\$ 73,276	\$ 75,341	\$ 75,985	\$ 79,164	\$ 82,799	\$ 82,006
Supplies and Other Expenses	26,320	21,333	22,060	23,480	24,051	23,482
Depreciation and Amortization	7,962	7,672	7,419	7,159	6,700	6,432
Interest	5,686	5,362	5,029	4,926	4,817	4,067
Professional Fees	<u>1,469</u>	<u>1,504</u>	<u>2,118</u>	<u>2,053</u>	<u>1,910</u>	<u>1,422</u>
Total Operating Expenses	\$ 114,713	\$ 111,212	\$ 112,611	\$ 116,782	\$ 120,277	\$ 117,409
Operating Income (Loss)	\$ 2,505	\$ 4,808	\$ 7,435	\$ 7,913	\$ (1,032)	\$ 2,535
Other Income (Expense)						
Loss on Extinguishment of Debt	\$ -	\$ (3,685)	\$ -	\$ -	-	-
Debt Restructuring Costs	(621)	-	-	-	(4,236)	-
Investment Income	2,150	7,794	8,174	8,974	9,699	13,499
Unrealized Gain (Loss) on Alternative Investment	(1,017)	1,005	2,137	1,469	146	5,675
Ineffectiveness of Derivative Financial Instrument	<u>245</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Revenues in Excess of (Less Than) Expenses	\$ 3,262	\$ 9,922	\$ 17,746	\$ 18,356	\$ 4,577	\$ 21,709
Change in Net Unrealized Gains and Losses on Investments Other Than Trading Securities	\$ (3,997)	\$ 12,532	\$ 24,974	\$ (10,831)	\$ (14,384)	\$ 8,990
Change in Fair Value of Derivative Financial Instrument	(3,031)	2,330	(211)	39	(1,081)	1,969
Pension Liability Adjustment	(17,810)	10,177	(741)	(4,392)	(13,820)	8,807
Other Changes in Unrestricted Net Assets	(609)	275	39	-	-	-
Net Assets Released from Restriction for Purchase of Property and Equipment	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>158</u>	<u>86</u>	<u>195</u>	<u>1,033</u>	<u>125</u>	<u>79</u>
Increase (Decrease) in Unrestricted Net Assets Before Effect of Adoption of New Accounting Standard	\$ (22,027)	\$ 35,322	\$ 42,002	\$ 4,205	\$ (24,583)	\$ 41,554
Effect of Adoption of New Accounting Standard	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Increase (Decrease) in Unrestricted Net Assets	<u>\$ (22,027)</u>	<u>\$ 35,322</u>	<u>\$ 42,002</u>	<u>\$ 4,205</u>	<u>\$ (24,583)</u>	<u>\$ 41,554</u>

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

Goul Shepherd Rehabilitation Network and Controlled Entities
The Obligated Group - Selected Financial Ratios

		Fiscal Year Ended					
		2012	2013	2014	2015	2016	2017
Operating Cash Flow Margin	(1)	13.8%	15.4%	16.0%	16.0%	8.8%	10.9%
Long-Term Debt to Capitalization	(2)	42.8%	38.1%	32.7%	31.7%	33.7%	28.9%
Debt Service Coverage	(3)	1.45	3.31	3.62	3.74	2.12	3.51
Operating Margin Ratio	(4)	2.1%	4.1%	6.2%	6.3%	-0.9%	2.1%
Return on Equity Ratio	(5)	2.2%	5.5%	8.0%	8.1%	2.3%	8.9%
Cushion Ratio	(6)	21.3	26.7	32.0	32.8	31.3	32.5
Days Cash on Hand	(7)	639	760	899	866	783	834
Days in Accounts Receivable	(8)	51	56	53	56	51	60
Obligated Group % of Total Assets	(9)	98.1%	98.8%	98.5%	98.2%	97.8%	97.4%
Obligated Group % of NPSR	(10)	84.4%	85.0%	84.5%	85.0%	85.9%	87.5%
Obligated Group % of Total Expenses	(11)	91.2%	91.0%	90.3%	89.8%	89.8%	89.2%
Cash to Debt	(12)	1.65	1.86	2.29	2.41	2.29	2.48
Debt to Operating Cash Flow	(13)	6.76	6.24	5.46	5.27	9.82	7.60

(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 Revenues in Excess of (Less Than) Expenses, Interest Expense and Depreciation and Amortization Expense 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 and Unrestricted Investments divided by Maximum Annual Debt Service.

(7) Defined as the sum of Cash and Unrestricted Investments divided by the quotient of the sum of Total Expenses less Provision for Doubtful Accounts and Depreciation and Amortization 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 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 Unrestricted Cash, Investments and Assets Whose Use is Limited-Board Designated 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.

Unrestricted / Restricted Investment Portfolio
As of June 30, 2017

<u>Asset Class</u>	<u>\$000s</u>	<u>%</u>
Fixed-Income	57,135	27.8%
Absolute Return	92,996	45.3%
Large Cap Equity	24,554	12.0%
Mid Cap Equity	24,339	11.9%
Small Cap Equity	6,183	3.0%
Short-Term Bond	14	0.0%
Total	\$ 205,221	100.0%

Good Shepherd Rehabilitation Hospital
 Inpatient Admissions by Acute Care Referral Hospital

	Fiscal Year Ended June 30,			
	2017		2016	
	Total	Percent	Total	Percent
<u>Lehigh Valley Hospitals</u>				
LVH - Allentown	483	32.3%	502	33.6%
LVH - Pocono	57	3.8%		
LVH - Bethlehem	168	11.2%	112	7.5%
Lehigh Valley Hospitals	708	47.4%	614	41.1%
<u>St. Luke's Hospitals</u>				
St. Luke's - Allentown	125	8.4%	129	8.6%
St. Luke's - Bethlehem	126		103	
St. Luke's - Anderson	20	1.3%	7	0.5%
St. Luke's - Other	66	4.4%	7	0.5%
St. Luke's Hospitals	337	14.1%	246	9.6%
Pocono Medical Center, East Stroudsburg	107	7.2%	208	14.9%
<u>Coordinated Health Hospitals</u>				
Coordinated Health Hospital - Allentown	7	0.5%	15	1.0%
Coordinated Health Hospital - Bethlehem	10	0.7%	8	0.5%
Coordinated Health Hospitals	17	7.4%	23	7.4%
Good Shepherd Specialty Hospital, Bethlehem	92	6.2%	82	5.5%
Sacred Heart Hospital, Allentown	3	0.2%	2	0.1%
Thomas Jefferson University Hospital, Philadelphia	16	1.1%	17	1.1%
University of Pennsylvania Health System	22	1.5%	33	2.2%
Children Hospital of Philadelphia	10	0.7%	12	0.8%
Home	63	4.2%	56	3.7%
All Others	119	8.0%	101	6.8%
Total Admissions	1,494	100.0%	1,394	100.0%

The Good Shepherd Rehabilitation Hospital
Utilization of Services

	Fiscal Year Ended June 30,					
	2012	2013	2014	2015	2016	2017
Inpatient Utilization						
Number of Licensed Beds	102	106	106	106	106	106
Average Beds in Service	102	106	106	106	106	106
Admissions	1,895	1,940	1,763	1,637	1,394	1,494
Patient Days	29,033	29,017	28,811	28,865	26,487	29,437
Percent Occupancy	77.8%	75.0%	74.5%	74.6%	68.3%	76.1%
Average Length of Stay	15.4	15.0	16.3	17.6	19.0	19.7

	Fiscal Year Ended June 30,					
	2012	2013	2014	2015	2016	2017
Outpatient Visits						
Hospital	87,699	91,280	91,937	97,101	101,262	87,507
Satellites	122,458	117,852	123,227	128,105	136,130	140,743
Contracted Services	11,659	9,286	10,936	11,220	10,151	4,023
Total	221,816	218,418	226,100	236,426	247,543	232,273

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

	Fiscal Year Ended June 30,					
	2012	2013	2014	2015	2016	2017
Beds Available	159	159	159	159	159	159
Days Available	58,194	58,194	58,035	58,035	58,194	58,035
Percentage Occupancy	99.6%	99.2%	99.6%	99.5%	99.71%	99.75%
Inpatient Days	57,972	57,711	57,801	57,727	58,023	57,889

Outstanding Long-Term Indebtedness
Obligated Group
As of June 30, 2017
(\$000s)

Issue	Actual
Series B of 2007	\$ 17,020
Series A of 2008	\$ 10,090
Series 2012	\$ 30,320
Series 2016	\$ 43,425
Subtotal	\$ 100,855
Less current maturities	\$ (2,180)
Plus bond premiums	\$ 2,147
Less bond discounts	\$ (173)
less unamortized deferred financing costs, net	\$ (1,606)
Total	\$ 99,043