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October 31, 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 June 30, 2019.

Sincerely,


Gary Schmidt

Interim President & CEO

This Document is dated as of October 31, 2019

Annual Report
For the Fiscal Year Ending 6/30/19

Concerning

Good Shepherd Rehabilitation Network
Obligated Group

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	2019
Net Patient Service Revenues	\$ 95,363	\$ 100,555	\$ 97,721	\$ 103,897	\$ 103,463	\$ 103,320
Provision for Doubtful Accounts	(537)	(706)	(649)	(988)	(641)	(2,622)
Net Patient Service Revenues Less Provision for Doubtful Accounts	\$ 94,826	\$ 99,849	\$ 97,072	\$ 102,909	\$ 102,822	\$ 100,698
Other Operating Revenues	\$ 1,865	\$ 1,834	\$ 1,784	\$ 1,744	\$ 1,629	1,581
Contributions	4,212	3,071	1,689	2,445	2,094	1,467
Professional Services Revenue	10,576	9,886	10,493	7,108	6,232	7,743
Equity in Income (Losses) of Unconsolidated Affiliate ⁽¹⁾	6,666	8,145	5,984	2,821	5,140	(1,337)
Gains (Losses) on Disposal of Equipment	-	-	-	(95)	-	-
Net Assets Released from Restriction for Operations	1,901	1,910	2,223	3,012	4,372	3,416
Total Operating Revenue	\$ 120,046	\$ 124,695	\$ 119,245	\$ 119,944	\$ 122,289	\$ 113,568
Salaries and Benefits	\$ 75,985	\$ 79,164	\$ 82,799	\$ 82,006	\$ 84,778	\$ 90,684
Supplies and Other Expenses	22,060	23,480	24,051	23,482	27,298	27,128
Depreciation and Amortization	7,419	7,159	6,700	6,432	7,001	7,790
Interest	5,029	4,926	4,817	4,067	3,895	4,103
Professional Fees	2,118	2,053	1,910	1,422	1,893	2,609
Total Operating Expenses	\$ 112,611	\$ 116,782	\$ 120,277	\$ 117,409	\$ 124,865	\$ 132,314
Operating Income (Loss)	\$ 7,435	\$ 7,913	\$ (1,032)	\$ 2,535	\$ (2,576)	\$ (18,746)
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	21,833
Unrealized Gain (Loss) on Alternative Investment	2,137	1,469	146	5,675	(3,685)	2,950
Ineffectiveness of Derivative Financial Instrument	-	-	-	-	-	-
Revenues in Excess of Expenses	\$ 17,746	\$ 18,356	\$ 4,577	\$ 21,709	\$ 10,149	\$ 6,037
Change in Net Unrealized Gains and Losses on Investments Other Than Trading Securities	\$ 24,974	\$ (10,831)	\$ (14,384)	\$ 8,990	\$ 1,858	\$ (11,873)
Change in Fair Value of Derivative Financial Instrument	(211)	39	(1,081)	1,969	1,314	(701)
Pension Liability Adjustment	(741)	(4,392)	(13,820)	8,807	4,641	(8,221)
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
Increase (Decrease) in Unrestricted Net Assets Before Effect of Adoption of New Accounting Standard	\$ 42,002	\$ 4,205	\$ (24,583)	\$ 41,554	\$ 18,747	\$ (14,689)
Effect of Adoption of New Accounting Standard	-	-	-	-	-	-
Increase (Decrease) in Unrestricted Net Assets	\$ 42,002	\$ 4,205	\$ (24,583)	\$ 41,554	\$ 18,747	\$ (14,689)

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

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

		Fiscal Year Ended					
		June 30,					
		2014	2015	2016	2017	2018	2019
Operating Cash Flow Margin	(1)	16.6%	16.0%	8.8%	10.9%	6.8%	-6.0%
Long-Term Debt to Capitalization	(2)	32.7%	31.7%	33.7%	28.9%	26.9%	27.6%
Debt Service Coverage	(3)	3.62	3.74	2.12	3.51	3.28	1.99
Operating Margin Ratio	(4)	6.2%	6.3%	-0.9%	2.1%	-2.1%	-16.5%
Return on Equity Ratio	(5)	8.0%	8.1%	2.3%	8.9%	3.9%	3.3%
Cushion Ratio	(6)	32.0	32.8	31.3	32.5	34.1	34.1
Days Cash on Hand	(7)	899	866	783	834	817	763
Days in Accounts Receivable	(8)	53	56	51	60	58	50
Obligated Group % of Total Assets	(9)	98.5%	98.2%	97.8%	97.4%	96.8%	97.2%
Obligated Group % of NPSR	(10)	84.5%	85.0%	85.9%	87.5%	86.6%	85.8%
Obligated Group % of Total Expenses	(11)	90.3%	89.8%	89.8%	89.2%	88.7%	88.8%
Cash to Debt	(12)	2.29	2.41	2.29	2.48	2.66	2.73
Debt to Operating Cash Flow	(13)	5.46	5.27	9.82	7.60	11.62	-13.76

- (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. June 30, 2018 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 the sum of 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.

Good Shepherd Rehabilitation Network
Unrestricted / Restricted Investment Portfolio
at Market Value
As of June 30, 2019

<u>Asset Class</u>	<u>\$ 000' s</u>	<u>%</u>
Large Cap Equity	8,684	3.4%
Small Cap Equity	24,575	9.7%
International Equity	81,915	32.4%
Fixed Income	61,352	24.2%
Real Estate	23,749	9.4%
Private equity	7,914	3.1%
Cash and Cash Equivalents	3,306	1.3%
Exchange Traded Funds	41,505	16.4%
Total	\$ 253,000	100.0%

Good Shepherd Rehabilitation Hospital
Inpatient Admissions by Acute Care Referral Hospital

	<u>Fiscal Year Ended June 30,</u>			
	<u>2019</u>		<u>2018</u>	
	<u>Total</u>	<u>Percent</u>	<u>Total</u>	<u>Percent</u>
<u>Lehigh Valley Hospitals</u>				
LVH - Allentown	330	24.7%	393	31.8%
LVH - Pocono	18	1.3%	47	3.8%
LVH - Bethlehem	77	5.8%	73	5.9%
Lehigh Valley Hospitals	425	31.8%	513	41.5%
<u>St. Luke's Hospitals</u>				
St. Luke's - Allentown	120	9.0%	114	9.2%
St. Luke's - Bethlehem	210	15.7%	139	11.3%
St. Luke's - Anderson	45	3.4%	18	1.5%
St. Luke's - Other	134	10.0%	155	12.6%
St. Luke's Hospitals	509	38.0%	426	34.5%
Geisinger (Various locations)	22	1.6%	-	-
<u>Coordinated Health Hospitals</u>				
Coordinated Health Hospital - Allentown	11	0.8%	6	0.5%
Coordinated Health Hospital - Bethlehem	10	0.7%	6	0.5%
Coordinated Health Hospitals	21	1.6%	12	1.0%
Good Shepherd Specialty Hospital, Bethlehem	90	6.7%	70	5.7%
Sacred Heart Hospital, Allentown	2	0.1%	5	0.4%
Thomas Jefferson University Hospital, Philadelphia	9	0.7%	15	1.2%
University of Pennsylvania Health System	28	2.1%	30	2.4%
Children Hospital of Philadelphia	18	1.3%	6	0.5%
Home	-	-	30	2.4%
All Others	214	16.0%	128	10.4%
Total Admissions	1,338	100.0%	1,235	100.0%

**The Good Shepherd Rehabilitation Hospital
Utilization of Services**

	Fiscal Year Ended June 30,					
Inpatient Utilization	2014	2015	2016	2017	2018	2019
Number of Licensed Beds	106	106	106	106	106	106
Average Beds in Service	106	106	106	106	106	106
Admissions	1,763	1,637	1,394	1,494	1,248	1,337
Patient Days	28,811	28,865	26,487	29,437	26,429	25,571
Percent Occupancy	74.5%	74.6%	68.3%	76.1%	68.3%	66.1%
Average Length of Stay	16.3	17.6	19.0	19.7	21.2	19.1

	Fiscal Year Ended June 30,					
Outpatient Visits	2014	2015	2016	2017	2018	2019
Hospital	91,937	97,101	101,262	87,507	93,508	93,853
Satellites	123,227	128,105	136,130	140,743	153,900	155,281
Contracted Services	10,936	11,220	10,151	4,023	-	-
Total	226,100	236,426	247,543	232,273	247,408	249,134

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

	Fiscal Year Ended June 30,					
	2014	2015	2016	2017	2018	2019
Beds Available	159	159	159	159	159	159
Days Available	58,035	58,035	58,194	58,035	58,035	58,035
Percentage Occupancy	99.6%	99.5%	99.71%	99.75%	99.61%	99.46%
Inpatient Days	57,801	57,727	58,023	57,889	57,809	57,723

Outstanding Long-Term Indebtedness
Obligated Group
As of June 30, 2019
(\$000s)

<u>Issue</u>	<u>Actual</u>
Series B of 2007	14,295
Series A of 2008	9,340
Series 2012	29,340
Series 2016	43,425
Subtotal	<u>96,400</u>
Less current maturities	(2,375)
Plus bond premiums	1,865
Less bond discounts	(156)
Less unamortized deferred financing costs, net	(1,444)
Total	<u>94,290</u>