

This Document is Dated as of October 28, 2010.

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 6/30/10**

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 Fiscal Year Ended
June 30, 2010 and 2009**

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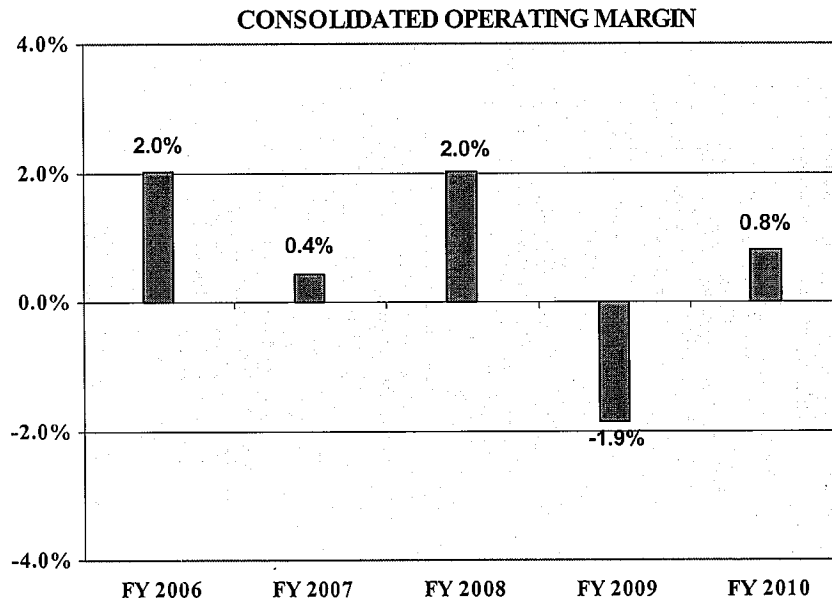
Good Shepherd Rehabilitation Network and Controlled Entities
Management Discussion and Analysis
As of and for the Fiscal Years Ended June 30, 2010 and 2009

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 years.

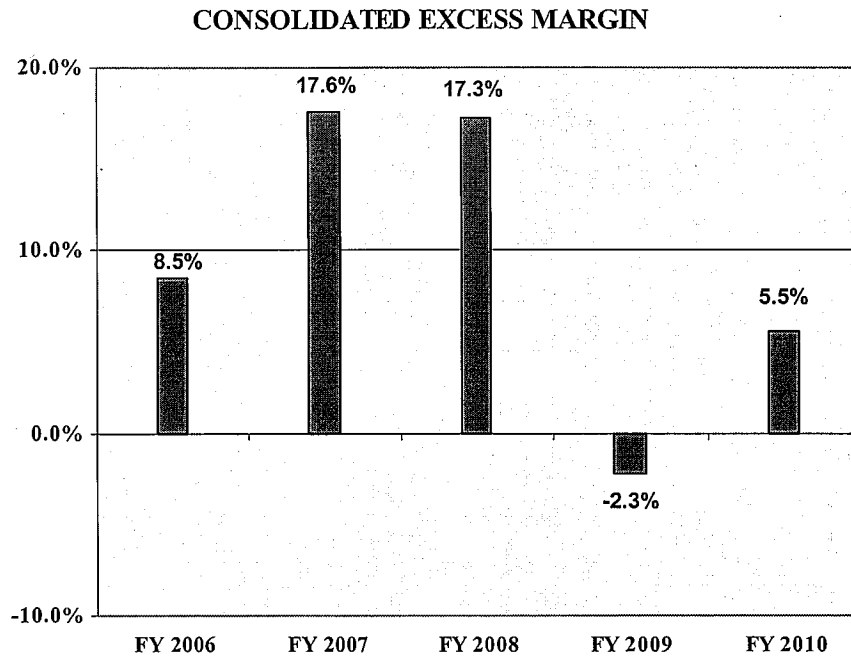
For the fiscal year ended June 30, 2010, Good Shepherd’s operating income was \$935,000, or a 0.8% margin, compared to a loss of \$1.9 million, or a 1.9% loss in fiscal year ended June 30, 2009. This includes a \$2.7 million equity share of the operating income generated by GSPP.



The Statement of Operations has some notable changes from last year in both revenue and expenses. Revenue increased 10.5%, or \$11 million, during the year primarily related to inpatient rehab, the satellites, management contracts, and GSPP. GSPP generated a operating income of \$3.9 million in fiscal year 2010 compared to a loss of \$1.5 million in fiscal year 2009, which is a bottom line swing of \$5.4 million. GSPP’s profit is included at 70% in the GSRN Operating Revenue. Patient Service Revenue increased 8% in fiscal year 2010 as growth in revenue occurred in the Allentown Rehab Hospital, the new

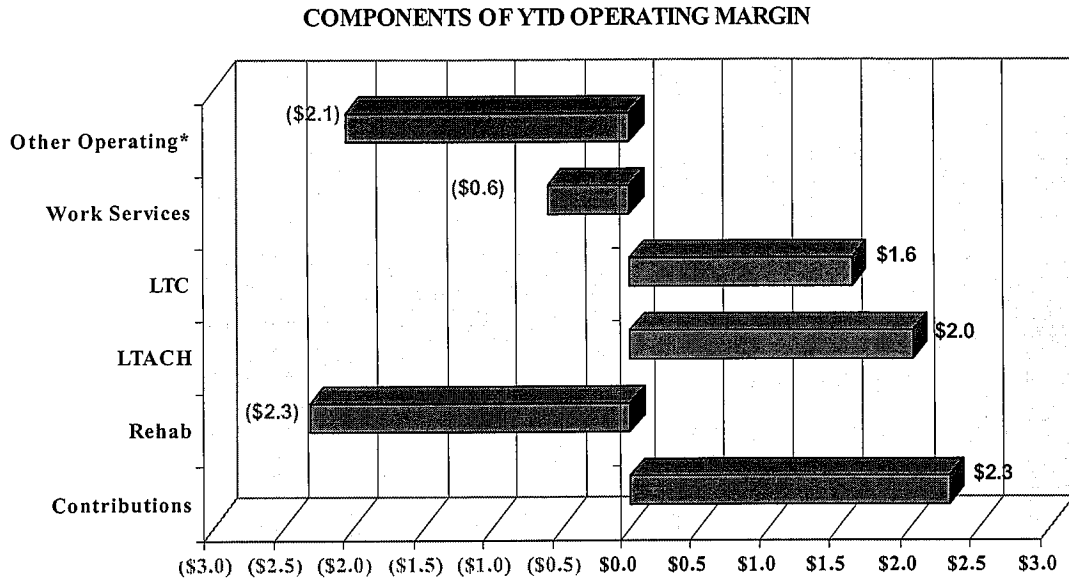
Pediatrics Rehab Unit, and continued growth in the Satellites as two new satellites were added in Hamburg and Coopersburg, and Core Physical Therapy in Bethlehem was acquired. Also, Professional Services Revenue increased 20% related to a 3-year management contract renewal with Easton, and service growth at Country Meadows.

Investment income improved \$4,800,000 year over year, to income of \$5,508,000 for the year ended June 30, 2010. Additionally related to the economy and impacting the P&L was a reversal of a previous charge taken for the decrease in the value of the two interest rate swap agreements that were put in place for the two variable rate bonds. The charge relates to a significant difference in the anticipated interest rate environment comparing the swap rates to current market conditions. The previously recorded charge of \$1,117,000 was reduced by \$255,000 during the current fiscal year. The excess margin percentage improved year over year, as illustrated on an annual basis below.



Statement of Operations

The components of Good Shepherd’s operating margin, for the year ended June 30, 2010, are delineated within the following summary:



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

As previously mentioned, revenue increased 10.5%, or \$11 million, during the year primarily related to inpatient rehab, the satellites, management contracts, and GSPP.

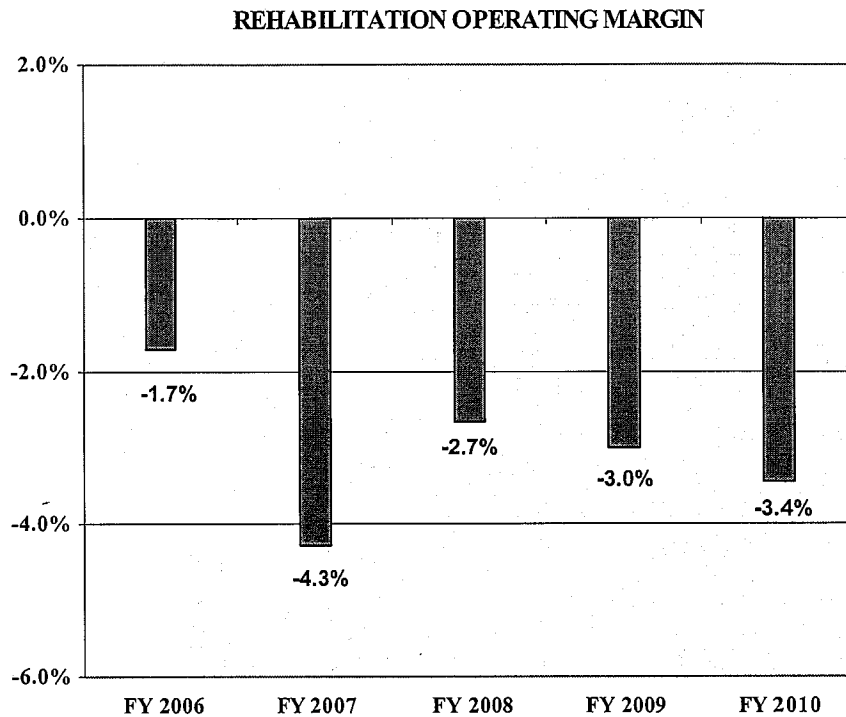
On the expense side, total expenses were 7.6% higher than last year. There is a \$757,000 Restructuring Charge for the costs of the reduction in force that took place in February. There was also a significant increase in Bad Debts of \$1 million as the self-pay balances increased and became a greater challenge to collect. This increase is something that was seen throughout the industry as the unemployment rate continued to rise and patients’ insurance plans have increased co-pays and deductibles.

Looking at performance from a cash flow perspective, cash flow from operations (defined as earnings before interest, depreciation and amortization (EBIDA)) produced a 13% cash flow margin, or \$15 million compared to 11% last year.

Divisional Review

Rehabilitation

The rehabilitation services division includes all of the inpatient and outpatient rehabilitation sites, the Psychology, Psychiatry and Developmental Pediatrics physicians, the Fitness Center and the Imaging Center service lines. Operating margin comparisons for the previous five fiscal years appear as follows:



Total admissions increased 58 cases, or 3%, from last year primarily related to the new 16-bed Pediatric Rehabilitation Unit which was established on the Bethlehem campus. This new program outperformed the first year business plan in terms of patient utilization and margin. There were 75 pediatric patients admitted to the unit during the year. Excluding the Pediatric admissions, same store admissions for the inpatient rehab service at Allentown and Pocono decreased slightly by 17 cases or about 1%.

In total, the division experienced an operating loss of \$2.3 million compared to a loss of \$1.8 million in fiscal year 2009. The Allentown inpatient site cuts its losses from \$983,000 million last year to \$564,000 in fiscal year 2010. This was offset by a negative \$526,000 swing in the margins at Pocono and the Pediatric IP unit.

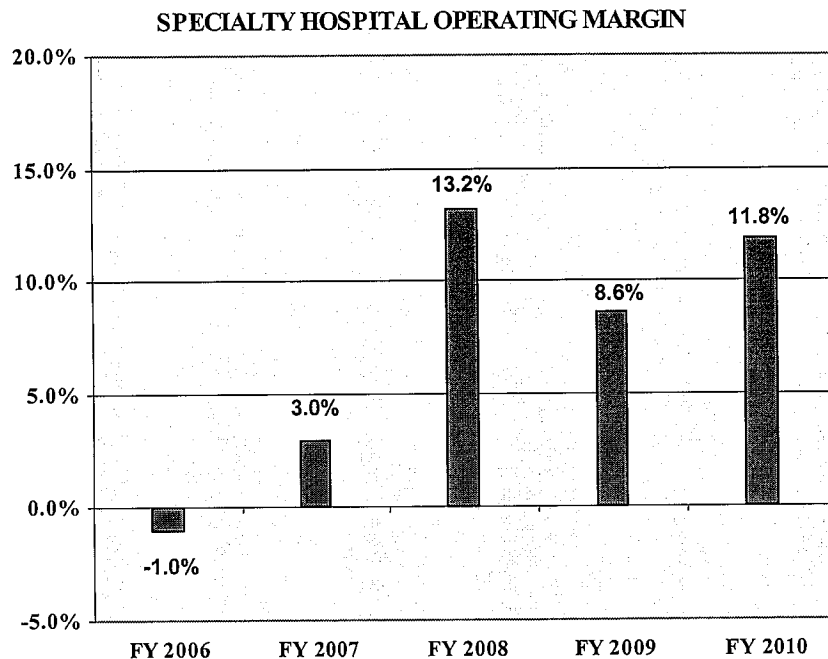
Fortunately the outpatient satellites performance improved by \$814,000 from fiscal year 2009 and helped offset a further loss associated with the Physician Group, which increased by \$707,000 in fiscal year 2010 to \$2.5 million. The increased loss in the physician group is associated with the startup of two new physicians hired for the Pediatric IP unit and a Podiatrist.

In response to the commencement of federal government proliferation of Recovery Audit Contractor's (RAC's), additional reserves were taken in fiscal year 2010 in anticipation of the potential for future revenue adjustments. This negatively impacted the margins as well.

Specialty Hospital

The long term acute care hospital (LTCH) division experienced a \$575,000 increase in performance from year to year. In fiscal year 2010 the Specialty Hospital reported an operating margin of \$2.0 million compared to a fiscal year 2009 income of \$1.5 million. Patient volume was relatively flat from year to year as the LTCH ran 89% occupancy in the last two periods.

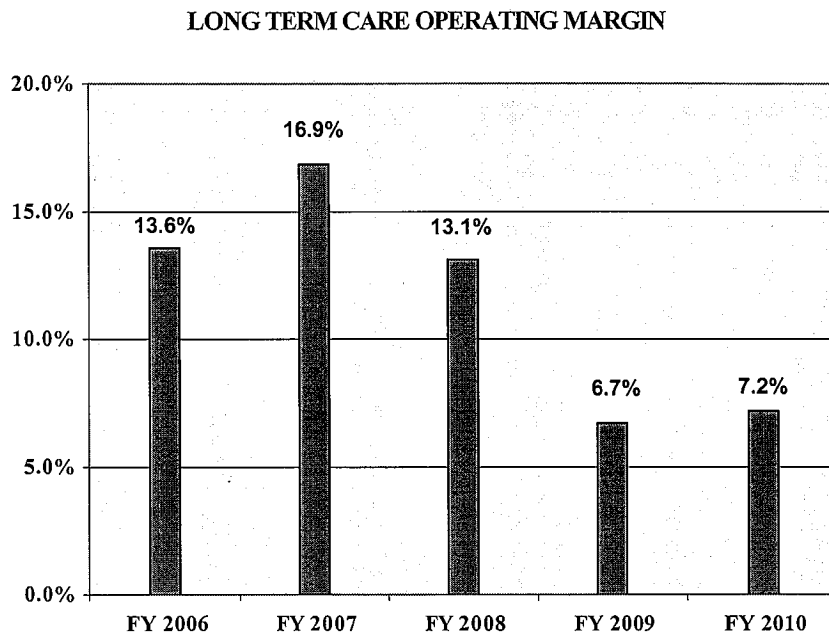
Fiscal year 2010 was the first fiscal year operating under the 25% Rule. This rule has a penalty for all cases that exceed 25% of admissions from a single hospital. Lehigh Valley Cedar Crest is the main referral source and management was able to operate within the limits. There was only one case in excess of the 25% limit from LVH-CC. The primary reason for the positive swing in the margin is because short-stay-outlier cases dropped from 34% in fiscal year 2009 to 25% in fiscal year 2010 resulting in increased Medicare payments. In response to the commencement of federal government proliferation of Recovery Audit Contractor's (RAC's), additional reserves were taken in fiscal year 2010 in anticipation of the potential for future revenue adjustments.



Long Term Care

The Long Term Care division continues to operate at almost 100% capacity at the two sites. Despite a continued decline in the MA rates, profitability in the division remained flat with last year at \$1.6 million. Management has spent considerable time negotiating with the Pennsylvania Department of Public Welfare (DPW) on a conceptual rate agreement for the division that will eliminate its current peer group and incorporate per diem payments that will not be diluted on a go-forward basis. There was agreement to implement the new rate structure on 10/1/2010.

A comparison of the Long Term Care division's annual operating margin performance appears as follows:



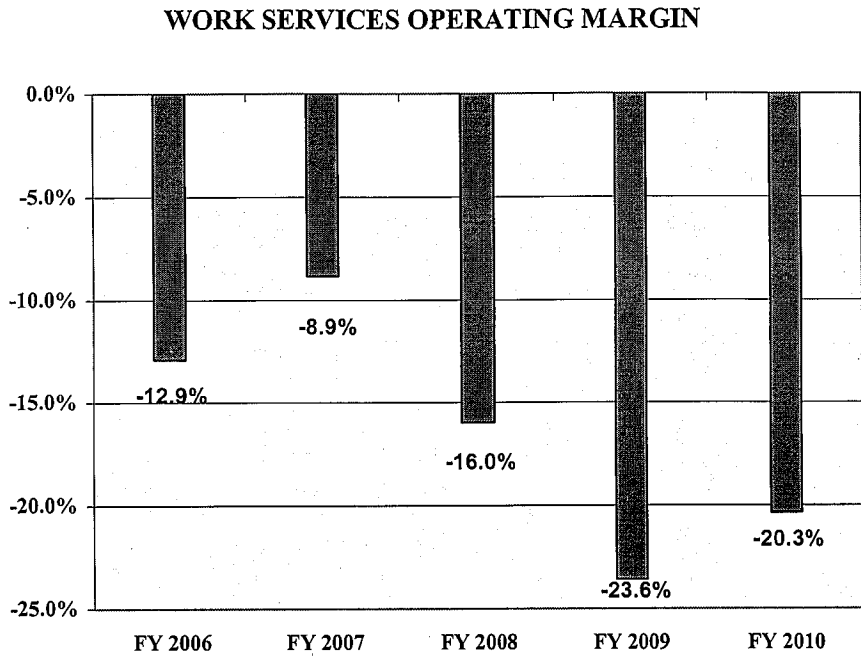
Work Services

The Work Services division is comprised of three lines of business; Production, Vocational Services, and Clubhouse. In total, operating performance from year to year improved by \$181,000. In fiscal year 2010 there was a loss of \$600,000 compared to a fiscal year 2009 loss of \$781,000.

Within the divisions there were some variations in margin. The margin loss in the Production division increased to \$386,000 from \$331,000. Production division sales fell 25% in FY 10 as the impact of a weakened economy extended to all the major contractors that outsource to Work Services. In response, management was able to decrease the cost of production by 19% from prior year. The Vocational Services division cut losses in half in fiscal year 2010 resulting in a loss of \$149,000. Revenue in fiscal year 2010 was 28% higher than fiscal year 2009 due to increased transitional employment and job placement service activities. The Clubhouse ended the year with a small profit of \$27,000 on less revenue than prior year. Under the new capped fee for service system instituted by Lehigh County, there is potential for better than break-even operations if expenses are controlled.

The RePlace building on 26th Street and the adjacent land parcel on Emmaus Avenue have been on the market for sale for two years. There is a sales agreement pending for both properties and closing is anticipated in the first half of fiscal year 2011. These properties will have continuing annual operating expenses of about \$100,000 per year for depreciation, utilities, and property taxes until they are sold.

A comparison of the Work Services division's annual operating margin performance appears as follows:



Balance Sheet

The Balance Sheet improved in fiscal year 2010 as the Investments market value improved by about 10% since last year. Investments increased by \$13 million from \$135 million to \$148 million. The increase was not the result of additional funding of investments from operations; rather, the growth was entirely related to the overall increase in the capital markets during the year. Unfortunately there was a late fiscal year dip in the market in June which brought unrestricted days cash to 482 days at year end. This is compared to 465 days in fiscal year 2009, 594 days in fiscal year 2008, and a high of 700 days in fiscal year 2007. The investment performance for the year was 9% compared to a negative return of 19% in the prior year.

The Accrued Pension Liability increased significantly during the fiscal year from \$8 million to \$13 million. The primary reason for the growth in the liability is because the discount rate used to present value projected benefit obligations (PBO) dropped from 6.25% to 5.5%. (The discount rate is based on the Citigroup Pension Liability Index which is an accepted industry index for actuarial reporting. The index is tied to Treasury yields which have been steadily decreasing since March 2009). Typically a 1% change in the discount rate is worth about a 15% to 20% change in the PBO. There was a small gain on plan assets (8.5% vs. a projected 8% return) and plan contributions (\$2.3 million) were made in excess of the cost of benefits accrued, which helped offset the growth in the PBO. The pension plan assets increased to \$39 million in fiscal year 2010 from \$34 million last year. The pension plan is fully funded by ERISA standards.

The increase in investments also carried through to the Net Assets. Unrestricted Net Assets increased \$7 million from the prior year. The increased pension liability noted above offset the increase provided by the bottom line and the change in investments.

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

	FY 10	FY 09
UR Days Cash	482	465
UR Cash to Debt	117%	104%
Debt to Capital	47%	49%

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. During the preceding fiscal year, management interpreted two matters with respect to the Debt Service Coverage calculation. Management excluded the Gains and Losses on Investment in Unconsolidated Affiliate 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.

A review of the debt covenants for fiscal year 2010 for the Obligated Group shows there are no issues bondholders will be concerned about in terms of meeting those ratios.

	Required	Actual Performance
Debt Service Coverage	Min 1.25 x	1.75x
UR Days Cash	Min. 120 days	563 days
Debt to Capital	Max. 67%	49%

Outlook

The financials improved from both the operating performance perspective as well as the Balance Sheet perspective in fiscal year 2010. The positive move in the capital markets added some additional value to our investments. This, coupled with increased profitability at GSPP, and the changes instituted by management in February, all favorably impacted the margin and reversed last year's loss and achieved positive operating performance in fiscal year 2010.

Management anticipates this momentum carrying over into fiscal year 2011 and the financials will continue to improve. On an internal financial statement presentation basis, GSRN has a 2.6% margin budgeted for fiscal year 2011. When the equity position in GSPP is included, the budgeted margin is 4.1%. The risk in the 2011 budget is the potential carryover of the utilization volatility in the Rehab Hospital that was experienced in the current year. As noted, the Rehab Hospital margins improved this year but hitting the budgeted utilization will be very important to achieve target. The Rehab Hospital is 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.

The outpatient division will continue to grow as new satellites are planned during the year and fiscal 2011 will be the first full year of the new rehab management contract with Children's Hospital of Philadelphia.

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 from 2010 through 2019. Since a large part of our business at both of the Rehabilitation Hospitals and the two LTCH's rely on Medicare funding, there will be challenges each year to balance the need to increase labor rates for our 1,500 employees while receiving a reduction in payments from Medicare. In this new environment, GSRN and GSPP will clearly need to modify the way services are delivered, be more efficient and cost-effective, and grow the revenue base through the our service lines.

Good Shepherd Rehabilitation Network and Controlled Entities
Obligated Group and Consolidated Balance Sheet
As of June 30, 2010 and 2009

	<u>Obligated Group</u>		<u>Consolidated</u>	
	Audited as of 06/30/10	Audited as of 06/30/09	Audited as of 06/30/10	Audited as of 06/30/09
<u>Assets</u>				
CURRENT ASSETS:				
Cash and cash equivalents	1,062,941	3,079,496	1,712,346	3,504,107
Resident funds	160,607	178,540	160,607	178,540
Short Term Investments	2,129,123	0	2,129,123	0
Assets whose use is limited	0	56,605	2,322,051	2,316,021
Accounts receivable, patients	10,428,670	9,834,044	13,383,228	12,375,457
Other receivables	689,068	633,994	928,273	968,994
Amount due from affiliates	1,159,720	1,309,905	1,159,720	1,309,905
Estimated third-party payor settlements	201,883	406,117	201,883	406,117
Inventories of drugs and supplies	519,517	407,119	519,517	407,119
Prepaid expenses and other current assets	1,301,978	1,045,485	1,407,225	1,173,317
Total current assets	17,653,507	16,951,305	23,923,973	22,639,577
ASSETS WHOSE USE IS LIMITED	10,302,559	11,442,137	10,302,559	11,442,137
ASSETS WHOSE USE IS LIMITED: Board Designated	2,850,000	3,000,000	2,850,000	3,000,000
INVESTMENTS				
Unrestricted	133,790,196	120,985,581	132,665,196	119,860,581
Temporarily Restricted	1,165,859	1,573,607	1,165,859	1,573,607
Permanently restricted	14,226,923	13,428,746	14,226,923	13,428,746
Total investments	149,182,977	135,987,934	148,057,977	134,862,934
INVESTMENTS IN AND OTHER ASSETS PERTAINING TO UNCONSOLIDATED SUBSIDIARY	37,465,050	34,909,450	37,465,050	34,909,450
ASSETS HELD FOR SALE				
PROPERTY AND EQUIPMENT, Net	73,739,702	77,234,317	76,839,357	80,570,762
BENEFICIAL INTEREST IN:				
Perpetual trusts	9,202,965	8,096,351	9,202,965	8,096,351
Charitable remainder trusts	10,018,441	9,314,183	10,018,441	9,314,183
PLEDGES RECEIVABLE, Net	1,852,278	2,001,309	1,852,278	2,001,309
DEFERRED FINANCING COSTS, Net	3,157,009	3,318,417	3,157,009	3,318,417
INTANGIBLE ASSETS, Net	635,721	452,129	657,732	473,843
OTHER NON-CURRENT ASSETS	286,000	390,000	286,000	390,000
TOTAL	316,346,208	303,097,531	324,613,341	311,018,963

Good Shepherd Rehabilitation Network and Controlled Entities
Obligated Group and Consolidated Balance Sheet
As of June 30, 2010 and 2009

	<u>Obligated Group</u>		<u>Consolidated</u>	
	<u>Audited as of 06/30/10</u>	<u>Audited as of 06/30/09</u>	<u>Audited as of 06/30/10</u>	<u>Audited as of 06/30/09</u>
<u>Liabilities and Net Assets</u>				
CURRENT LIABILITIES				
Demand note payable	648,000	2,186,000	648,000	2,186,000
Current portion of long-term debt	2,775,000	2,665,000	2,775,000	2,665,000
Accounts payable, trade	3,743,949	4,089,681	5,037,461	4,888,423
Estimated third-party payor settlements	882,792	651,668	1,520,548	1,038,153
Advance from third party payor	277,900	277,900	277,900	277,900
Accrued expenses	5,551,012	4,877,705	5,758,853	5,072,644
Resident funds	160,607	178,540	160,607	178,540
Amount due to affiliates	5,600,227	3,281,742	0	0
Total current liabilities	<u>19,639,487</u>	<u>18,208,236</u>	<u>16,178,369</u>	<u>16,306,660</u>
LONG-TERM DEBT:				
Revenue bonds	116,981,001	119,729,823	116,981,001	119,729,823
Mortgages payable	0	0	1,675,500	1,675,500
Total long-term debt	<u>116,981,001</u>	<u>119,729,823</u>	<u>118,656,501</u>	<u>121,405,323</u>
DERIVATIVE FINANCIAL INSTRUMENTS	4,682,439	3,347,297	4,682,439	3,347,297
ACCRUED PENSION COST	13,088,985	8,497,500	13,088,985	8,497,500
OTHER LIABILITIES	<u>5,813,065</u>	<u>5,297,619</u>	<u>6,183,442</u>	<u>5,505,609</u>
Total liabilities	<u>160,204,977</u>	<u>155,080,475</u>	<u>158,789,736</u>	<u>155,062,390</u>
NET ASSETS				
Unrestricted	123,004,067	117,373,807	132,686,440	125,313,326
Temporarily restricted	8,315,625	7,545,009	8,315,625	7,545,007
Permanently restricted	24,821,540	23,098,240	24,821,540	23,098,240
Total net assets	<u>156,141,231</u>	<u>148,017,056</u>	<u>165,823,605</u>	<u>155,956,573</u>
TOTAL	<u>316,346,208</u>	<u>303,097,531</u>	<u>324,613,341</u>	<u>311,018,963</u>

Good Shepherd Rehabilitation Network and Controlled Entities
Obligated Group and Consolidated Statement of Operations
For the Twelve Month Periods Ended June 30, 2010 and 2009

	<u>Obligated Group</u>		<u>Consolidated</u>	
	Audited Period Ending 06/30/10	Audited Period Ending 06/30/09	Audited Period Ending 06/30/10	Audited Period Ending 06/30/09
UNRESTRICTED REVENUE, GAINS, AND OTHER SUPPORT:				
Net patient service revenues	81,955,968	74,852,815	99,051,085	91,614,262
Other operating revenues	4,754,796	5,188,507	5,111,567	5,620,095
Professional services revenue	10,775,067	10,216,440	5,837,918	4,863,559
Contributions	2,280,688	2,610,293	2,280,688	2,610,293
Equity in (loss) on investment in unconsolidated subsidiary	2,731,508	(1,045,456)	2,731,508	(1,045,456)
Gains (losses) on disposal of property and equipment	(237,581)	(11,539)	(237,716)	(42,995)
Net assets released from restrictions for operations	1,504,981	1,656,577	1,508,568	1,659,234
Total unrestricted revenues, gains, and other support	<u>103,765,427</u>	<u>93,467,637</u>	<u>116,283,618</u>	<u>105,278,992</u>
EXPENSES:				
Salaries and wages	51,272,405	48,750,751	56,559,890	54,199,310
Supplies and other expenses	21,747,388	20,474,104	25,914,163	24,630,807
Employee benefits	14,395,367	11,823,293	14,785,434	12,228,739
Depreciation and amortization	7,908,630	7,139,845	8,361,705	7,582,348
Interest	5,807,788	6,053,810	5,807,788	6,053,810
Professional fees	1,415,761	1,883,884	1,669,668	2,147,392
Provision for doubtful collections	1,269,288	408,938	1,493,817	403,345
Restructuring	756,630	-	756,630	-
Total	<u>104,573,258</u>	<u>96,534,624</u>	<u>115,349,095</u>	<u>107,245,751</u>
OPERATING INCOME (LOSS) BEFORE LOSS ON ABANDONMENT OF CAPITAL PROJECTS	(807,831)	(3,066,987)	934,523	(1,966,759)
LOSS ON ABANDONMENT ON CAPITAL PROJECTS	-	-	-	-
OPERATING INCOME (LOSS)	(807,831)	(3,066,987)	934,523	(1,966,759)
OTHER INCOME (EXPENSE):				
Investment (Loss) Income	3,727,840	705,794	3,727,840	4,727,456
Unrealized Gain / Loss Alternative Investment	1,780,338	-	1,780,338	(4,021,663)
Ineffectiveness of Derivative Financial Instrument	254,553	(1,116,772)	254,553	(1,116,772)
REVENUE IN EXCESS OF EXPENSES	4,954,900	(3,477,966)	6,697,254	(2,377,738)
CHANGE IN NET UNREALIZED GAINS AND LOSSES ON INVESTMENTS OTHER THAN TRADING SECURITIES	6,631,025	(23,215,459)	6,631,025	(23,215,460)
CHANGE IN FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS	(1,589,695)	(1,037,588)	(1,589,695)	(1,037,588)
PENSION LIABILITY ADJUSTMENT	(4,591,485)	(6,611,574)	(4,591,485)	(6,611,574)
PENSION LIABILITY ADJUSTMENT - UNCONSOLIDATED AFFILIATE	(332,957)	(910,271)	(332,957)	(910,271)
NET ASSETS RELEASED FROM RESTRICTIONS FOR PURCHASE OF PROPERTY AND EQUIPMENT	677,301	444,368	677,301	444,368
OTHER CHANGES	(118,830)	(593,703)	(118,329)	(593,703)
(DECREASE) INCREASE IN UNRESTRICTED NET ASSETS BEFORE EFFECT OF ADOPTION OF FASB STATEMENT No. 158	5,630,259	(35,402,192)	7,373,114	(34,301,966)
EFFECT OF ADOPTION OF FASB STATEMENT NO. 158	-	(212,971)	-	(212,971)
(DECREASE) INCREASE IN UNRESTRICTED NET ASSETS	<u>5,630,259</u>	<u>(35,615,163)</u>	<u>7,373,114</u>	<u>(34,514,937)</u>

Good Shepherd Rehabilitation Network and Controlled Entities
Consolidated Statement of Cash Flows
For the Twelve Month Periods Ended June 30, 2010 and 2009

	<u>Audited Period Ending 06/30/10</u>	<u>Audited Period Ending 06/30/09</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase (decrease) in net assets	\$ 9,867,032	\$ (40,919,740)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation and amortization	8,361,705	7,582,348
Loss on disposal of property and equipment	237,716	42,995
Provision for doubtful collections	1,493,817	403,345
Net realized and unrealized (gains) losses on investments	(8,873,705)	29,412,422
Restricted contributions and investment income	(2,704,339)	(1,415,680)
Change in fair value of derivative financial instruments	1,335,142	2,154,360
Valuation adjustments - permanently and temporarily restricted net assets	(1,589,540)	3,804,929
Equity in (gain) loss of unconsolidated subsidiary	(2,731,508)	1,045,456
Pension liability adjustment -		
The Good Shepherd Rehabilitation Hospital	4,591,485	6,611,574
Pension liability adjustment - unconsolidated subsidiary	332,957	910,271
Effect of adoption of measurement date provisions of FASB Statement No. 158	-	212,971
Changes in assets and liabilities:		
Accounts receivable, patients	(2,501,588)	1,092,007
Other receivables	40,721	51,206
Estimated third-party payor settlements	686,629	(1,318,279)
Inventories of drugs and supplies	(112,398)	(59,742)
Prepaid expenses and other current assets	(129,908)	(586,440)
Accounts payable, trade	149,038	1,412,775
Accrued expenses and other liabilities	<u>1,154,813</u>	<u>(1,913,456)</u>
Net cash provided by operating activities	<u>9,608,069</u>	<u>8,523,322</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
(Increase) decrease in investments	(4,448,651)	9,452,296
Increase in investment in and other assets pertaining to unconsolidated subsidiary	(6,864)	(13,654,228)
Proceeds from sale of property and equipment	38,272	-
Purchase of property and equipment	(4,706,248)	(7,955,560)
Purchase of intangible assets	<u>(247,474)</u>	<u>(27,929)</u>
Net cash used in investing activities	<u>(9,370,965)</u>	<u>(12,185,421)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
(Repayment of) proceeds from demand note payable	(1,538,000)	2,186,000
Restricted contributions and investment income	2,185,869	2,103,602
Repayment of long-term debt	(2,665,000)	(1,825,000)
Decrease in annuities payable and trusts	(11,734)	(36,831)
Payment of financing costs	<u>-</u>	<u>(17,350)</u>
Net cash (used in) provided by financing activities	<u>(2,028,865)</u>	<u>2,410,421</u>
DECREASE IN CASH AND CASH EQUIVALENTS	(1,791,761)	(1,251,678)
CASH AND CASH EQUIVALENTS, BEGINNING	<u>3,504,107</u>	<u>4,755,785</u>
CASH AND CASH EQUIVALENTS, ENDING	<u>\$ 1,712,346</u>	<u>\$ 3,504,107</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION,		
Cash paid for interest (net of amounts capitalized)	<u>\$ 5,812,631</u>	<u>\$ 6,102,046</u>

Good Shepherd Rehabilitation Network Obligated Group
Selected Financial Ratios

		<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Operating Cash Flow Margin	(1)	12.9%	13.7%	12.1%	10.8%	12.4%
Long-Term Debt to Capitalization	(2)	34.0%	29.5%	44.4%	50.5%	48.7%
Debt Service Coverage	(3)	3.38	6.33	3.93	2.02	1.75
Operating Margin Ratio	(4)	2.76%	2.35%	-0.04%	-3.28%	-0.78%
Return on Equity Ratio	(5)	6.4%	12.4%	12.6%	-3.0%	4.0%
Cushion Ratio	(6)	25.0	29.6	16.9	16.0	17.0
Days Cash on Hand	(7)	625	704	676	521	527
Days in Accounts Receivable	(8)	59	55	53	46	45
Obligated Group % of Total Assets	(9)	97.3%	97.5%	97.6%	97.5%	97.5%
Obligated Group % of NPSR	(10)	81.7%	81.5%	80.2%	81.7%	82.7%
Obligated Group % of Total Expenses	(11)	89.4%	89.3%	88.9%	90.0%	90.7%
Cash to Debt	(12)	1.79	2.16	1.23	1.04	1.17
Debt to Operating Cash Flow	(13)	6.69	5.88	11.39	11.82	9.06

(1) Defined as the sum of Operating Income (Loss) before Abandonment of Capital Project, 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 Adjusted for Interest Expense, Depreciation and Amortization Expense, Loss on Investment in Unconsolidated Subsidiary, Loss on Extinguishment of Debt and Unrealized Gains and Losses on Alternative Investments divided by Maximum Annual Debt Service.

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

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

(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 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 and Investments 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, 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:

Inpatient Utilization	Fiscal Year Ended June 30				
	2006	2007	2008	2009	2010
Number of Licensed Beds	82	82	82	82	98
Average Beds in Service	82	82	82	82	98
Admissions	1,553	1,449	1,571	1,738	1,796
Patient Days	19,570	18,415	20,905	22,386	24,834
Percent Occupancy	65.39%	61.53%	69.66%	74.79%	69.43%
Average Length of Stay	12.73	12.71	13.30	12.88	13.65

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

Outpatient Visits	Fiscal Year Ended June 30				
	2006	2007	2008	2009	2010
Hospital	66,566	71,805	70,594	78,139	81,221
Satellites	87,948	89,286	91,305	105,311	111,854
Contracted Services	29,490	28,594	22,194	21,145	22,835
Total	184,004	189,685	184,093	204,595	215,910

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

Payor Mix	Fiscal Year Ended June 30				
	2006	2007	2008	2009	2010
Medicare	38.9%	38.0%	37.9%	39.0%	34.9%
Medical Assistance	11.6%	11.4%	12.0%	11.1%	13.6%
Blue Cross	15.4%	12.2%	13.6%	10.4%	10.0%
Commercial/Auto	10.9%	10.3%	7.7%	7.3%	7.4%
Managed Care	13.9%	17.3%	18.4%	23.0%	25.9%
Workers' Compensation	4.5%	5.1%	4.3%	3.9%	3.5%
Self Pay	0.7%	0.7%	0.6%	0.6%	0.5%
Other	4.1%	5.1%	5.4%	4.7%	4.2%

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

	Fiscal Year Ended June 30				
	2006	2007	2008	2009	2010
Beds Available	159	159	159	159	159
Days Available	58,035	58,035	58,194	58,035	58,035
Percentage Occupancy	99.81%	99.67%	99.55%	99.59%	99.48%
Inpatient Days	57,923	57,841	57,934	57,795	57,733

**Good Shepherd Rehabilitation Network
And Controlled Entities**

Consolidated Financial Statements
For the Years Ended
June 30, 2010 and 2009
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Independent Auditors' Report
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Additional Information

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Good Shepherd Rehabilitation Network:

We have audited the accompanying consolidated balance sheet of Good Shepherd Rehabilitation Network and controlled entities (collectively "Good Shepherd") as of June 30, 2010 and 2009, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of Good Shepherd's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Good Shepherd Rehabilitation Network and controlled entities as of June 30, 2010 and 2009, and the results of their operations, changes in net assets, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.



Philadelphia, Pennsylvania
September 28, 2010

**GOOD SHEPHERD REHABILITATION NETWORK
AND CONTROLLED ENTITIES**

**CONSOLIDATED STATEMENT OF OPERATIONS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009**

	2010	2009
UNRESTRICTED REVENUES, GAINS, AND OTHER SUPPORT:		
Net patient service revenues	\$ 99,051,085	\$ 91,614,262
Other operating revenues	5,111,567	5,620,095
Professional services revenue	5,837,918	4,863,559
Contributions	2,280,688	2,610,293
Income (loss) on investment in unconsolidated subsidiary	2,731,508	(1,045,456)
Loss on disposal of equipment	(237,716)	(42,995)
Net assets released from restrictions for operations	<u>1,508,568</u>	<u>1,659,234</u>
Total unrestricted revenues, gains, and other support	<u>116,283,618</u>	<u>105,278,992</u>
EXPENSES:		
Salaries and wages	56,559,890	54,199,310
Supplies and other expenses	25,914,163	24,630,807
Employee benefits	14,785,434	12,228,739
Depreciation and amortization	8,361,705	7,582,348
Interest	5,807,788	6,053,810
Professional fees	1,669,668	2,147,392
Provision for doubtful collections	1,493,817	403,345
Restructuring costs	<u>756,630</u>	<u>-</u>
Total	<u>115,349,095</u>	<u>107,245,751</u>
OPERATING INCOME (LOSS)	934,523	(1,966,759)
OTHER INCOME (EXPENSE):		
Investment income	3,727,840	4,727,456
Unrealized gain (loss) on alternative investment	1,780,338	(4,021,663)
Ineffectiveness of derivative financial instrument	<u>254,553</u>	<u>(1,116,772)</u>
REVENUES IN EXCESS OF (LESS THAN) EXPENSES	6,697,254	(2,377,738)
CHANGE IN NET UNREALIZED GAINS AND LOSSES ON INVESTMENTS OTHER THAN TRADING SECURITIES	6,631,025	(23,215,460)
CHANGE IN FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS	(1,589,695)	(1,037,588)
PENSION LIABILITY ADJUSTMENT THE GOOD SHEPHERD REHABILITATION HOSPITAL	(4,591,485)	(6,611,574)
PENSION LIABILITY ADJUSTMENT - UNCONSOLIDATED SUBSIDIARY	(332,957)	(910,271)
OTHER CHANGES IN UNRESTRICTED NET ASSETS	(118,329)	(593,703)
NET ASSETS RELEASED FROM RESTRICTIONS FOR PURCHASE OF PROPERTY AND EQUIPMENT	<u>677,301</u>	<u>444,368</u>
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS BEFORE EFFECT OF ADOPTION OF MEASUREMENT DATE PROVISIONS OF FASB STATEMENT NO. 158	7,373,114	(34,301,966)
EFFECT OF ADOPTION OF MEASUREMENT DATE PROVISIONS OF FASB STATEMENT NO. 158	<u>-</u>	<u>(212,971)</u>
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	<u>\$ 7,373,114</u>	<u>\$ (34,514,937)</u>

See Notes to Consolidated Financial Statements

**GOOD SHEPHERD REHABILITATION NETWORK
AND CONTROLLED ENTITIES**

**CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009**

	2010	2009
UNRESTRICTED NET ASSETS:		
Revenues in excess of (less than) expenses	\$ 6,697,254	\$ (2,377,738)
Change in net unrealized gains and losses on investments other than trading securities	6,631,025	(23,215,460)
Change in fair value of derivative financial instruments	(1,589,695)	(1,037,588)
Pension liability adjustment - The Good Shepherd Rehabilitation Hospital	(4,591,485)	(6,611,574)
Pension liability adjustment - unconsolidated subsidiary	(332,957)	(910,271)
Other changes in unrestricted net assets	(118,329)	(593,703)
Net assets released from restrictions for purchase of property and equipment	<u>677,301</u>	<u>444,368</u>
Increase (decrease) in unrestricted net assets before effect of adoption of measurement date provisions of FASB Statement No. 158	7,373,114	(34,301,966)
Effect of adoption of measurement date provisions of FASB Statement No. 158	<u>-</u>	<u>(212,971)</u>
Increase (decrease) in unrestricted net assets	<u>7,373,114</u>	<u>(34,514,937)</u>
TEMPORARILY RESTRICTED NET ASSETS:		
Contributions	1,463,529	696,609
Net realized and unrealized gains (losses) on investments	621,159	(2,636,953)
Investment income	292,544	322,846
Other changes in temporarily restricted net assets	120,037	729,083
Change in value of split-interest agreements	459,218	(1,286,218)
Net assets released from restrictions for operations	(1,508,568)	(1,659,234)
Net assets released from restrictions for purchase of property and equipment	<u>(677,301)</u>	<u>(444,368)</u>
Increase (decrease) in temporarily restricted net assets	<u>770,618</u>	<u>(4,278,235)</u>
PERMANENTLY RESTRICTED NET ASSETS:		
Contributions	948,266	396,225
Valuation gain (loss), beneficial interest in perpetual trusts	<u>775,034</u>	<u>(2,522,793)</u>
Increase (decrease) in permanently restricted net assets	<u>1,723,300</u>	<u>(2,126,568)</u>
INCREASE (DECREASE) IN NET ASSETS	9,867,032	(40,919,740)
NET ASSETS, BEGINNING	<u>155,956,573</u>	<u>196,876,313</u>
NET ASSETS, ENDING	<u>\$ 165,823,605</u>	<u>\$ 155,956,573</u>

See Notes to Consolidated Financial Statements

**GOOD SHEPHERD REHABILITATION NETWORK
AND CONTROLLED ENTITIES**

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009**

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase (decrease) in net assets	\$ 9,867,032	\$ (40,919,740)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation and amortization	8,361,705	7,582,348
Loss on disposal of property and equipment	237,716	42,995
Provision for doubtful collections	1,493,817	403,345
Net realized and unrealized (gains) losses on investments	(8,873,705)	29,412,422
Restricted contributions and investment income	(2,704,339)	(1,415,680)
Change in fair value of derivative financial instruments	1,335,142	2,154,360
Valuation adjustments - permanently and temporarily restricted net assets	(1,589,540)	3,804,929
Equity in (gain) loss of unconsolidated subsidiary	(2,731,508)	1,045,456
Pension liability adjustment -		
The Good Shepherd Rehabilitation Hospital	4,591,485	6,611,574
Pension liability adjustment - unconsolidated subsidiary	332,957	910,271
Effect of adoption of measurement date provisions of FASB Statement No. 158	-	212,971
Changes in assets and liabilities:		
Accounts receivable, patients	(2,501,588)	1,092,007
Other receivables	40,721	51,206
Estimated third-party payor settlements	686,629	(1,318,279)
Inventories of drugs and supplies	(112,398)	(59,742)
Prepaid expenses and other current assets	(129,908)	(586,440)
Accounts payable, trade	149,038	1,412,775
Accrued expenses and other liabilities	1,154,813	(1,913,456)
Net cash provided by operating activities	<u>9,608,069</u>	<u>8,523,322</u>
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(Increase) decrease in investments	(4,448,651)	9,452,296
Increase in investment in and other assets pertaining to unconsolidated subsidiary	(6,864)	(13,654,228)
Proceeds from sale of property and equipment	38,272	-
Purchase of property and equipment	(4,706,248)	(7,955,560)
Purchase of intangible assets	(247,474)	(27,929)
Net cash used in investing activities	<u>(9,370,965)</u>	<u>(12,185,421)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
(Repayment of) proceeds from demand note payable	(1,538,000)	2,186,000
Restricted contributions and investment income	2,185,869	2,103,602
Repayment of long-term debt	(2,665,000)	(1,825,000)
Decrease in annuities payable and trusts	(11,734)	(36,831)
Payment of financing costs	-	(17,350)
Net cash (used in) provided by financing activities	<u>(2,028,865)</u>	<u>2,410,421</u>
DECREASE IN CASH AND CASH EQUIVALENTS	(1,791,761)	(1,251,678)
CASH AND CASH EQUIVALENTS, BEGINNING	<u>3,504,107</u>	<u>4,755,785</u>
CASH AND CASH EQUIVALENTS, ENDING	<u>\$ 1,712,346</u>	<u>\$ 3,504,107</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION,		
Cash paid for interest (net of amounts capitalized)	<u>\$ 5,812,631</u>	<u>\$ 6,102,046</u>

See Notes to Consolidated Financial Statements

**GOOD SHEPHERD REHABILITATION NETWORK
AND CONTROLLED ENTITIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**1. NATURE OF OPERATIONS AND SUMMARY OF
SIGNIFICANT ACCOUNTING POLICIES**

BASIS OF CONSOLIDATION

The consolidated financial statements include the accounts of the following:

- Good Shepherd Rehabilitation Network (the "GSRN"), the controlling parent, formerly Good Shepherd Home
- Good Shepherd Rehabilitation Hospital (the "Hospital")
- Good Shepherd Home Long-Term Care Facility, Inc. (the "LTC")
- Good Shepherd Workshop/Vocational Services, Inc. ("Work Services")
- Good Shepherd Long-Term Acute Care Services, Inc. (the "LTACH")
- Good Shepherd Housing Development Corporation ("SUPPIL")
- Good Shepherd Reciprocal Risk Retention Group (the "RRG")
- Good Shepherd Group, LLC (the "GS Group")

All significant intercompany transactions and balances between GSRN, the Hospital, the LTC, Work Services, the LTACH, the RRG, SUPPIL, and the GS Group (collectively "Good Shepherd") have been eliminated.

GOOD SHEPHERD REHABILITATION NETWORK
AND CONTROLLED ENTITIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NATURE OF OPERATIONS

Good Shepherd's primary operations are conducted within the Hospital, which provides comprehensive inpatient rehabilitation services and outpatient rehabilitation services at numerous locations. The LTC operates two skilled nursing facilities which service the needs of severely disabled adults. Work Services specializes in employment and development programs for persons with physical, emotional and intellectual disabilities, hearing and sight impairments, and industrial injuries by providing subcontracting services. The LTACH provides services that represent the first step in the post acute care process of recovery. The RRG is a self insurance company that provides primary liability insurance and risk management services. SUPPIL provides supportive independent housing to persons with disabilities under Section 811 of the Department of Housing and Urban Development. GS Group was established to develop a wheelchair device to assist rehabilitation patients. Good Shepherd's primary service area includes Allentown and Bethlehem and surrounding communities in Lehigh, Northampton, Berks and Montgomery counties, Pennsylvania.

Good Shepherd evaluated subsequent events for recognition or disclosure through September 28, 2010 the date the financial statements were issued.

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include investments in highly liquid debt instruments purchased with an original maturity of three months or less, excluding assets whose use is limited and investments.

ACCOUNTS RECEIVABLE, PATIENTS

Accounts receivable, patients are reported at net realizable value. Accounts are written off when they are determined to be uncollectible based upon management's assessment of individual accounts. The allowance for doubtful collections is estimated based upon a periodic review of the accounts receivable aging, payor classifications, and application of historical write-off percentages.

GOOD SHEPHERD REHABILITATION NETWORK
AND CONTROLLED ENTITIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

RESIDENT FUNDS

Resident funds are accounted for as trust funds and are separately maintained from other funds.

ASSETS WHOSE USE IS LIMITED

Assets whose use is limited includes assets held by a bond trustee under trust indenture agreements, escrowed funds under a mortgage agreement, and assets held by the RRG to meet state funding requirements for self-insurance. Amounts available to meet current liabilities of Good Shepherd have been reclassified as current assets in the accompanying consolidated balance sheet.

INVENTORIES

Inventories of drugs and medical supplies are valued at the lower of cost or market. Cost is determined on a first-in, first-out basis.

INVESTMENTS AND INVESTMENT RISK

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value. Cash and cash equivalents and guaranteed income investment contract are carried at cost which approximates fair value. Good Shepherd currently has two alternative investment agreements, one of which represents an ownership interest in a managed fund that invests in equity securities of companies throughout the world, and the other investment represents an ownership interest in a fund that holds primarily real estate investments. Good Shepherd's investment in the managed fund that invests in equity securities is accounted for under the equity method as Good Shepherd's ownership interest is greater than 5%. Good Shepherd's investment in the fund that invests primarily in real estate investments is accounted for under the cost method as Good Shepherd's ownership interest is less than 5%. Investment income or loss (including realized gains and losses on investments, interest, dividends, and unrealized gains and losses on Good Shepherd's alternative investment accounted for under the equity method) are included in the determination of revenues in excess of (less than) expenses unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments are excluded from the determination of revenues in excess of (less than) expenses unless the investments are trading securities. Donor-restricted investment income is reported as an increase in temporarily restricted net assets. Interest income is measured as earned on the accrual basis. Dividends are measured based on the ex-dividend date. Purchases and sales of securities and realized gains and losses are recorded on a trade-date basis.

GOOD SHEPHERD REHABILITATION NETWORK
AND CONTROLLED ENTITIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Good Shepherd's investments are comprised of a variety of financial instruments and are managed by third-party investment advisors. The fair values reported in the consolidated balance sheet are subject to various risks including changes in the equity markets, the interest rate environment, and general economic conditions. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the fair value of investment securities, it is reasonably possible that the amounts reported in the accompanying consolidated financial statements could change materially in the near term.

Investments, in general, are exposed to various risks such as interest rate, credit, and overall market volatility. As such, it is reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the amounts reported in the consolidated balance sheet and the consolidated statements of operations and changes in net assets.

PROPERTY AND EQUIPMENT

Property and equipment acquisitions are recorded at cost. Depreciation is computed using the straight-line method based upon the estimated useful life of each class of depreciable asset. Depreciation was \$8,161,665 in 2010 and \$7,358,103 in 2009.

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

IMPAIRMENT OF PROPERTY AND EQUIPMENT

Property and equipment are evaluated for impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. If expected cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of the assets. No such losses were recognized in 2010 and 2009.

DEFERRED FINANCING COSTS

Costs incurred in connection with the issuance of long-term debt have been deferred and are being amortized over the term of the debt using an effective interest method. Amortization amounted to \$110,277 in 2010 and \$140,514 in 2009.

INTANGIBLE ASSETS

Costs incurred with the acquisition of physical therapy businesses exceeded the fair value of the net assets acquired. These excesses were allocated to intangible assets and are being amortized on a straight-line basis over periods ranging from 5 to 15 years. Amortization was \$63,585 in 2010 and \$57,554 in 2009.

DERIVATIVE FINANCIAL INSTRUMENTS

Good Shepherd has entered into two interest rate swap agreements, which are considered derivative financial instruments, to manage its interest rate exposure on certain long-term debt. The interest rate swap agreements are reported at fair value in the consolidated balance sheet and related changes in fair value are reported in the consolidated statement of operations as unrealized gain on derivative financial instruments.

SPLIT-INTEREST AGREEMENTS

GSRN received as contributions various types of split-interest agreements, including perpetual and charitable remainder trusts.

Under GSRN's charitable remainder trust arrangements, GSRN recorded the asset and recognized temporarily restricted contributions at the fair market value of GSRN's beneficial interest in the trust assets. Subsequent to certain events, GSRN may be entitled to a portion of the principal and income remaining in the trust. Subsequent changes in fair values are recorded as a change in value of split-interest agreements in temporarily restricted net assets.

Under perpetual trust arrangements, GSRN recorded the asset and recognized permanently restricted contributions at the fair market value of GSRN's beneficial interest in the trust assets. Income earned on the trust assets and distributed to GSRN is recorded as unrestricted contributions in the accompanying consolidated statement of operations, unless otherwise restricted by the donor. Subsequent changes in fair values are recorded as valuation gain (loss), beneficial interest in perpetual trusts in permanently restricted net assets.

TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets are those whose use by Good Shepherd has been limited by donors to a specific purpose or time period. Permanently restricted net assets have been restricted by donors to be maintained by Good Shepherd in perpetuity.

ENDOWMENT SPENDING POLICY

Commonwealth of Pennsylvania law permits Good Shepherd to allocate to income each year a portion of endowment return. The law allows non-profit organizations to spend a percentage of the market value of their endowment funds, including realized and unrealized gains. The percentage, which by law must be between 2% and 7%, is elected annually by the Board of Trustees. The endowment market value is determined based on an average spanning three years. Good Shepherd's policy for fiscal years 2010 and 2009 allowed for a payout of up to 5% of the three-year average of the fair market value of permanently restricted investments as stipulated by the Board of Trustees.

REVENUES IN EXCESS OF (LESS THAN) EXPENSES

The consolidated statements of operations include the determination of revenues in excess of (less than) expenses. Changes in unrestricted net assets which are excluded from the determination of revenues in excess of (less than) expenses, consistent with industry practice, include change in net unrealized gains and losses on investments other than trading securities, unrealized gain (loss) on derivative financial instruments, pension liability adjustments, and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such long-lived assets).

NET PATIENT SERVICE REVENUES

Good Shepherd has agreements with third-party payors that provide for payments to Good Shepherd at amounts different from its established rates. Payment arrangements include prospectively determined rates, reimbursed costs, discounted charges, and contracted amounts. Net patient service revenues are reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. It is reasonably possible that the estimates used could change in the near term.

CHARITY CARE

Good Shepherd provides a significant amount of charity care to patients who meet certain criteria regardless of their ability to pay. The criteria for charity considers family size, sources of income, living expenses, net worth, ongoing healthcare needs, as well as other pertinent information. Because Good Shepherd does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenues. The amount of charity care provided to patients for the years ended June 30, 2010 and 2009, measured at charges, was \$1,696,000 and \$2,026,000, respectively. These amounts do not include doubtful accounts.

DONOR-RESTRICTED GIFTS

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statement of operations as net assets released from restrictions.

ADVERTISING COSTS

Advertising costs are expensed as incurred. Advertising expense was \$630,687 in 2010 and \$840,567 in 2009.

INCOME TAXES

GSRN, the Hospital, the LTC, Work Services, the LTACH, and SUPPIL are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code and are exempt from federal income taxes on their exempt income under Section 501(a) of the Internal Revenue Code. The RRG and GS Group are taxable corporations that are subject to federal and state income taxes.

Good Shepherd prescribes a recognition threshold of more-likely-than-not to be sustained upon examination by the appropriate taxing authority in recording tax liabilities in the financial statements. Measurement and recognition of the tax uncertainty occurs if the recognition threshold has been met.

Good Shepherd's policy is to recognize interest related to unrecognized tax benefits in interest expense and penalties in operating expenses.

Good Shepherd's federal Exempt Organization Business Income Tax Returns for the years ended June 30, 2009, 2008, and 2007 remain subject to examination by the Internal Revenue Service.

ESTIMATED MEDICAL MALPRACTICE COSTS

The provision for estimated medical malpractice claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported.

RECLASSIFICATIONS

Certain items relating to 2009 have been reclassified to conform to the 2010 reporting format.

2. NEW ACCOUNTING PRONOUNCEMENTS

ACCOUNTING STANDARDS CODIFICATION

In June 2009, the Financial Accounting Standards Board ("FASB") established the FASB Accounting Standards Codification ("Codification") as the sole source of authoritative accounting principles generally accepted in the United States of America. As a result, all references to accounting literature will conform to the appropriate reference within Codification. The adoption of the Codification, which became effective during September 2009, did not have any impact on Good Shepherd's consolidated financial statements.

NOT-FOR-PROFIT ENTITIES - MERGERS AND ACQUISITIONS

In January 2010, the FASB issued Accounting Standards Update No. 2010-07, *Not-for-Profit Entities: Mergers and Acquisitions* ("ASU 2010-07"). ASU 2010-07 was issued to update the authoritative guidance surrounding the information that a not-for-profit entity provides in its financial reports about a combination with one or more other not-for-profit entities, businesses, or nonprofit activities. ASU 2010-07 was also issued to update the authoritative guidance over the recognition and subsequent accounting for goodwill and other intangible assets. ASU 2010-07 is effective for fiscal years beginning after June 15, 2010. Good Shepherd has not yet completed the process of evaluating the impact, if any, of adopting ASU 2010-07 on its consolidated financial statements.

CHARITY CARE

In August 2010, the FASB issued Accounting Standards Update No. 2010-23, *Health Care Entities: Measuring Charity Care for Disclosure* ("ASU 2010-23"). ASU 2010-23 requires that direct and indirect costs be used as the measurement for charity care disclosure purposes. The guidance was also amended to require disclosure of the method used to identify or determine such costs. ASU 2010-23 is effective for fiscal years beginning after December 15, 2010. Adoption of ASU 2010-23 will revise disclosure in the notes to Good Shepherd's consolidated financial statements but will not impact amounts reported in the consolidated financial statements.

INSURANCE CLAIMS

Also in August 2010, the FASB issued Accounting Standards Update No. 2010-24, *Health Care Entities: Presentation of Insurance Claims and Related Insurance Recoveries* ("ASU 2010-24"). ASU 2010-24 clarifies that health care entities may not net insurance recoveries against a related claim liability. In addition, the amount of the claim liability should be determined without consideration of insurance recoveries and estimated insurance recoveries, if any, should be measured and presented separately within the balance sheet. ASU 2010-24 is effective for fiscal years beginning after December 15, 2010. Good Shepherd has not completed the process of evaluating the impact, if any, of ASU 2010-24 on its consolidated financial statements.

3. NET PATIENT SERVICE REVENUES

Certain members of Good Shepherd have agreements with third-party payors that provide for payments at amounts different from their established rates. A significant portion of Good Shepherd's net patient service revenues is derived from those third-party payor programs. A summary of the principal payment arrangements with major third-party payors follows:

- **Medicare:** Inpatient rehabilitation services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. Outpatient services are paid at prospectively determined amounts based upon a published fee schedule. Inpatient post acute services for patients with an average patient stay longer than 25 days are paid at prospectively determined rates per discharge. Skilled nursing services are paid at prospectively determined rates per day and services to Medicare Part B beneficiaries are paid at the lesser of a published fee schedule or actual charges, subject to an annual limitation. These rates vary according to patient classification systems that are based on clinical, diagnostic, and other factors. Reimbursements for cost reimbursable expenditures are received at tentative interim rates, with final settlement determined after submission of annual cost reports and audits thereof by the Medicare fiscal intermediary. The classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization. The Medicare cost reports have been settled by the Medicare fiscal intermediary through June 30, 2008.
- **Medical Assistance:** Inpatient rehabilitation services and skilled nursing services rendered to Medical Assistance program beneficiaries are paid at prospectively determined per diem rates. Outpatient services are paid based on a published fee schedule.
- **Blue Cross:** Inpatient rehabilitation services rendered to Blue Cross subscribers are paid at prospectively determined per diem rates. Outpatient services are paid based on a cost reimbursement methodology subject to a limitation.

Net patient service revenues increased approximately \$836,000 in 2010 and decreased approximately \$113,000 in 2009 due to settlement of prior years' activity with third-party payors.

Certain members of Good Shepherd also have entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, preferred provider organizations, and other organizations. The basis for payment under these agreements includes prospectively determined rates per discharge, discounts from established charges, prospectively determined daily rates, or published fee schedules.

GOOD SHEPHERD REHABILITATION NETWORK
AND CONTROLLED ENTITIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. INVESTMENTS

ASSETS WHOSE USE IS LIMITED

The composition of assets whose use is limited at June 30, 2010 and 2009 is set forth in the following table:

	<u>2010</u>	<u>2009</u>
Under trust indenture, held by trustee:		
Guaranteed income investment contract	\$ 2,240,558	\$ 2,240,558
Cash and cash equivalents	8,062,001	9,243,172
Accrued interest receivable	<u>-</u>	<u>15,012</u>
Subtotal	10,302,559	11,498,742
Under self-insurance program, held to meet state funding requirements,		
Cash and cash equivalents	668,490	1,497,146
Certificates of deposit	1,301,021	488,207
Mutual funds	<u>20,914</u>	<u>-</u>
Subtotal	1,990,425	1,985,353
Under mortgage agreement,		
Cash and cash equivalents	<u>331,626</u>	<u>274,063</u>
Total	12,624,610	13,758,158
Less funds held for current liabilities	<u>2,322,051</u>	<u>2,316,021</u>
Noncurrent portion of assets whose use is limited	<u>\$10,302,559</u>	<u>\$11,442,137</u>

GOOD SHEPHERD REHABILITATION NETWORK
AND CONTROLLED ENTITIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SHORT-TERM INVESTMENTS, BOARD DESIGNATED FUNDS, AND INVESTMENTS

The composition of short-term investments, board designated funds and investments at June 30, 2010 and 2009 is set forth in the following table:

	<u>2010</u>	<u>2009</u>
Cash and cash equivalents	\$ 2,883,528	\$ 58,719
Mutual funds:		
World stock	39,496,974	36,008,894
Intermediate-term bond	33,191,290	33,325,777
Large blend	26,982,710	21,313,824
Small value	8,573,622	6,933,614
Short-term bond	2,129,123	-
Marketable equity securities	2,504,494	5,024,832
Alternative investment, managed fund	20,306,404	18,525,018
Alternative investment, at cost	<u>16,968,955</u>	<u>16,672,256</u>
Total	<u>\$153,037,100</u>	<u>\$137,862,934</u>

Investment income and gains and losses for assets whose use is limited, investments, and cash and cash equivalents are comprised of the following in 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Other operating revenues,		
Interest and dividend income	<u>\$ 112,250</u>	<u>\$ 229,601</u>
Investment income:		
Interest and dividend income	4,378,566	4,631,135
Realized (loss) gains on sale of securities, net	(158,817)	1,165,433
Write-down of the cost basis of investments due to an other-than-temporary decline in fair value	-	(703,779)
Investment expenses	<u>(491,909)</u>	<u>(365,333)</u>
Investment income	<u>\$3,727,840</u>	<u>\$ 4,727,456</u>
Change in unrealized gain (loss) on alternative investment recorded under the equity method	<u>\$1,780,338</u>	<u>\$ (4,021,663)</u>
Other changes in unrestricted net assets, Change in net unrealized gains and losses on investments other than trading securities	<u>\$6,631,025</u>	<u>\$(23,215,460)</u>

GOOD SHEPHERD REHABILITATION NETWORK
AND CONTROLLED ENTITIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. FAIR VALUE MEASUREMENTS AND FINANCIAL INSTRUMENTS

FAIR VALUE MEASUREMENTS

Good Shepherd measures its assets whose use is limited, investments, beneficial interest in trusts, and derivative financial instruments on a recurring basis in accordance with the fair value hierarchy. The financial instruments were measured with the following inputs at June 30, 2010 and 2009:

	2010			TOTAL
	QUOTED PRICES IN ACTIVE MARKETS (LEVEL 1)	OTHER OBSERVABLE INPUTS (LEVEL 2)	UNOBSERVABLE INPUTS (LEVEL 3)	
Assets:				
Cash and cash equivalents	\$ 11,945,645	\$ -	\$ -	\$ 11,945,645
Certificates of deposit	1,301,021	-	-	1,301,021
Guaranteed income investment contract	-	-	2,240,558	2,240,558
Marketable securities	2,504,494	-	-	2,504,494
Mutual funds:				
World stock	39,496,974	-	-	39,496,974
Intermediate-term bond	33,191,290	-	-	33,191,290
Large blend	27,003,624	-	-	27,003,624
Small value	8,573,622	-	-	8,573,622
Short-term bond	2,129,123	-	-	2,129,123
Alternative investment, managed fund	-	20,306,404	-	20,306,404
Beneficial interest in perpetual trusts	-	-	9,202,965	9,202,965
Beneficial interest in charitable remainder trusts	-	-	10,018,441	10,018,441
Total	<u>\$126,145,793</u>	<u>\$20,306,404</u>	<u>\$21,461,964</u>	<u>\$167,914,161</u>
Liabilities,				
Derivative financial instruments	<u>\$ -</u>	<u>\$ 4,682,439</u>	<u>\$ -</u>	<u>\$ 4,682,439</u>

GOOD SHEPHERD REHABILITATION NETWORK
AND CONTROLLED ENTITIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Changes in the beneficial interest in perpetual trusts and charitable remainder trusts in 2010 are as follows:

	BENEFICIAL INTEREST IN PERPETUAL TRUSTS	BENEFICIAL INTEREST IN CHARITABLE REMAINDER TRUSTS
Beginning balance	\$8,096,351	\$ 9,314,183
Trust interests added in the current year	242,339	6,906
Trust interests terminated during the current year	-	(12,359)
Change in unrealized gains and losses	<u>864,275</u>	<u>709,711</u>
Ending balance	<u>\$9,202,965</u>	<u>\$10,018,441</u>

	2009			
	QUOTED PRICES IN ACTIVE MARKETS (LEVEL 1)	OTHER OBSERVABLE INPUTS (LEVEL 2)	UNOBSERVABLE INPUTS (LEVEL 3)	TOTAL
Assets:				
Cash and cash equivalents	\$ 11,088,112	\$ -	\$ -	\$ 11,088,112
Certificates of deposit	488,207	-	-	488,207
Guaranteed income investment contract	-	-	2,240,558	2,240,558
Marketable securities	5,024,832	-	-	5,024,832
Mutual funds:				
World stock	36,008,894			36,008,894
Intermediate-term bond	33,325,777			33,325,777
Large blend	21,313,824			21,313,824
Small value	6,933,614			6,933,614
Alternative investment, managed fund	-	18,525,018	-	18,525,018
Beneficial interest in perpetual trusts	-	-	8,096,351	8,096,351
Beneficial interest in charitable remainder trusts	-	-	<u>9,314,183</u>	<u>9,314,183</u>
Total	<u>\$114,183,260</u>	<u>\$18,525,018</u>	<u>\$19,651,092</u>	<u>\$152,359,370</u>
Liabilities,				
Derivative financial instruments	<u>\$ -</u>	<u>\$ 3,347,297</u>	<u>\$ -</u>	<u>\$ 3,347,297</u>

GOOD SHEPHERD REHABILITATION NETWORK
AND CONTROLLED ENTITIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Changes in the beneficial interest in perpetual trusts and charitable remainder trusts in 2009 are as follows:

	BENEFICIAL INTEREST IN PERPETUAL <u>TRUSTS</u>	BENEFICIAL INTEREST IN CHARITABLE REMAINDER <u>TRUSTS</u>
Beginning balance	\$10,718,249	\$11,674,639
Trust interests added in the current year	94,816	-
Trust interests terminated during the current year	(187,106)	-
Change in unrealized gains and losses	<u>(2,529,608)</u>	<u>(2,360,456)</u>
Ending balance	<u>\$ 8,096,351</u>	<u>\$ 9,314,183</u>

Beneficial interest in perpetual and charitable remainder trusts are valued at fair value, which are the amounts reported in the consolidated balance sheet. The fair value takes into consideration the underlying principal for these assets and Good Shepherd's interest in the trusts. These assets are to be valued based on discounted cash flows and as such are determined to be measured with Level 3 inputs as disclosed above.

Guaranteed investment contracts are valued based on unobservable inputs, as observable inputs are not available, using valuation methodologies to determine fair value to include discounted cash flows and other similar techniques. There were no changes in the value of the guaranteed income investment contract during the current or prior years.

Level 1 assets whose use is limited and investments are valued at fair value, which are the amounts reported in the consolidated balance sheet, based on quoted market prices. Mutual fund securities are valued based on the net asset value ("NAV") of the shares held by Good Shepherd at year end.

Good Shepherd measures its alternative investment-managed fund (Walter Scott Global Fund) above at fair value based on the net asset value of the fund held at the end of the year. The fair value is based on the fund's underlying investments using observable inputs (Level 2) in accordance with the fair value hierarchy.

GOOD SHEPHERD REHABILITATION NETWORK
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The Walter Scott Global Fund invests in global equity securities with the objective of achieving long-term capital appreciation through investments in the equity securities of companies located throughout the world. The fund invests in securities that the investment manager believes to be capable of producing real annual returns of at least 7% to their investors, although no assurances can be given that these returns will be realized. The fund typically invests in approximately 40-60 investments. This investment is valued at net asset value per share and has no unfunded commitments or significant redemption restrictions.

Good Shepherd did not have any financial assets or financial liabilities measured at fair value on a non-recurring basis.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents, patient accounts receivable, accounts payable and accrued expenses, accrued compensation and related items, and estimated third-party payor settlements approximate their related fair values due to the short-term nature of these instruments. The fair value of Good Shepherd's alternative investment accounted for under the cost method was approximately \$9,795,000 and \$10,411,000 at June 30, 2010 and 2009, respectively. Management has determined that its investment is not other-than-temporarily impaired as of June 30, 2010. This determination was based on several factors, including the financial condition and prospects of the fund, the fact that the decline in fair value of the investment occurred in fiscal 2009 and early fiscal year 2010, and management's intent and ability to retain its investment for a sufficient period of time to recover its cost basis in the investment.

The alternative investment accounted for under the cost method consists of open ended commingled insurance company separate accounts comprised primarily of real estate investments established by the Prudential Insurance Company of America. The investment objective of the fund is to offer a core equity real estate portfolio that generates a high proportion of its total return from income. In general, fair value estimates are based upon property appraisal reports prepared by independent real estate appraisers within a reasonable amount of time following acquisition of the real estate and no less frequently than annually thereafter. Good Shepherd classifies this investment as an alternative investment, with ownership interest less than 5%, and accounts for the investment under the cost method. The fund has no unfunded commitments or significant redemption restrictions.

The carrying amounts reported in the consolidated balance sheets for Good Shepherd's variable rate long-term debt and HUD mortgages payable approximate their fair value. The fair value of Good Shepherd's remaining long-term obligations was approximately \$82,205,000 and \$77,459,000 as of June 30, 2010 and 2009, respectively, and are estimated based on market data provided by Good Shepherd's financial consultants.

The fair value of the interest rate swap derivative financial instruments is determined by an independent third party valuation specialist based on proprietary models of discounted cash flows. The fair value takes into consideration the prevailing interest rate environment and the specific terms and conditions of the derivative financial instrument, and considers the credit risk of Good Shepherd and the counterparty. The method used to determine the fair value calculates the estimated future payments required by the derivative financial instrument and discounts these payments using an appropriate discount rate. The value represents the estimated exit price Good Shepherd would pay to terminate the agreement.

6. INVESTMENT IN AND OTHER ASSETS PERTAINING TO UNCONSOLIDATED SUBSIDIARY

In January 2007, GSRN entered into a joint venture agreement with the Trustees of the University of Pennsylvania (the "University") to create Philadelphia Post-Acute Care Partners, LLC D/B/A Good Shepherd Penn Partners ("GSPP"). GSPP was created to establish and operate a new long-term acute care hospital, to assume the ownership of and continue to operate all of the outpatient rehabilitation operations of the University, to carry out, the day-to-day operations of the Hospital of the University of Pennsylvania's ("HUP") inpatient rehabilitation unit, and to provide the University and its Affiliates with certain clinical and/or staffing service relating to rehabilitation. GSRN is a seventy percent owner of GSPP; however, the operations of GSPP are not consolidated in the accompanying consolidated financial statements as GSRN is not deemed to have control over GSPP. As a result, GSRN records their investment in GSPP under the equity method in the accompanying consolidated financial statements. The operations of GSPP commenced on July 1, 2008.

As a result of this joint venture, GSRN entered into two lease agreements with the University. The first lease relates to an inpatient rehabilitation facility ("IRF") in which GSRN leases space in a building owned by the University. This space is then subleased to the University from GSRN for the operations of the IRF. The second lease relates to a long-term acute care hospital ("GSPP LTACH") which GSRN leased from the University until the commencement of the joint venture at which time GSRN's interest in this lease was assigned to GSPP and the Fixed Rent Amounts (see discussion below) were assigned to GSPP as a capital contribution. The commencement date of both of the leases referred to above was June 23, 2008.

GOOD SHEPHERD REHABILITATION NETWORK
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Through the payment to the University of the "Fixed Rent Amounts" as defined in the lease agreements, GSRN was required to fund the IRF and GSPP LTACH project renovation and construction costs. GSRN financed these costs through the issuance of the Series 2007A Bonds (See Note 10). The total fixed rent payments that GSRN made on behalf of the IRF space totaled \$20,961,807 and are being amortized based on the monthly rental amounts due to GSRN from the University per the terms of the sublease. The total fixed rent payments that GSRN made on behalf of the GSPP LTACH space totaled \$18,022,732 were transferred to GSPP during fiscal 2010 and 2009 and represent GSRN's capital contribution to GSPP. This amount is included in GSRN's investment in GSPP balance at June 30, 2010 and 2009.

GSRN's investment in and other assets pertaining to GSPP are comprised of the following components:

	<u>2010</u>	<u>2009</u>
Fixed rent amounts paid related to the IRF lease	\$20,533,162	\$20,774,297
Due from GSPP	969,393	953,155
Investment in GSPP	<u>17,122,215</u>	<u>14,491,903</u>
Investment in and other assets pertaining to GSPP	38,624,770	36,219,355
Less: current portion	<u>(1,159,720)</u>	<u>(1,309,905)</u>
Investment in and other assets pertaining to GSPP, non-current portion	<u>\$37,465,050</u>	<u>\$34,909,450</u>

GSRN recognized income of \$2,731,508 in 2010 and a loss of \$1,045,456 in 2009 as its share of GSPP's current year income in the accompanying consolidated statement of operations. In addition, GSRN recognized its share of GSPP's pension liability adjustment of \$332,957 in 2010 and \$910,271 in 2009 which is included in other changes in unrestricted net assets in the consolidated statement of operations.

Summarized condensed financial information for GSPP as of June 30, 2010 and 2009 and for the years then ended is presented below:

Balance Sheet as of June 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Total assets	<u>\$33,887,424</u>	<u>\$28,171,033</u>
Total liabilities	<u>\$17,140,726</u>	<u>\$15,106,615</u>
Total net assets	<u>\$16,746,698</u>	<u>\$13,064,418</u>

GOOD SHEPHERD REHABILITATION NETWORK
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Statement of Operations for the years ended as of June 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Revenues	<u>\$54,027,591</u>	<u>\$40,252,735</u>
Expenses	<u>\$50,088,833</u>	<u>\$41,746,245</u>
Revenues in excess of (less than) expenses	<u>\$ 3,938,758</u>	<u>\$(1,493,510)</u>

**7. PROPERTY AND EQUIPMENT AND
ACCUMULATED DEPRECIATION**

Property and equipment and accumulated depreciation at June 30, 2010 and 2009 consist of the following:

	<u>2010</u>	<u>2009</u>
Land and land improvements	\$ 9,553,889	\$ 9,505,076
Buildings	77,880,110	76,423,750
Leasehold improvements	6,507,731	5,878,796
Equipment	74,936,489	69,060,219
Construction-in-progress	<u>97,111</u>	<u>3,883,875</u>
Total	168,975,330	164,751,716
Less accumulated depreciation	<u>92,135,973</u>	<u>84,180,954</u>
Property and equipment, net	<u>\$ 76,839,357</u>	<u>\$ 80,570,762</u>

8. PLEDGES RECEIVABLE

GSRN has undertaken a capital pledge campaign to raise funds in connection with various construction and renovation projects. Pledges and grants related to this campaign have been recorded as temporarily restricted contributions.

GOOD SHEPHERD REHABILITATION NETWORK
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Pledges receivable are recorded as follows at June 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Capital campaign pledges before unamortized discount and allowance for uncollectible pledges	\$2,108,023	\$2,281,385
Less unamortized discount	<u>49,937</u>	<u>57,708</u>
Subtotal	2,058,086	2,223,677
Less allowance for uncollectible pledges	<u>205,808</u>	<u>222,368</u>
Pledges receivable, net	<u>\$1,852,278</u>	<u>\$2,001,309</u>
Amounts due in:		
Less than one year	\$ 713,010	\$ 589,450
One to five years	315,533	612,455
Five years and beyond	<u>1,079,480</u>	<u>1,079,480</u>
Total	<u>\$2,108,023</u>	<u>\$2,281,385</u>

The discount rate used was approximately 2.4% at June 30, 2010.

9. DEMAND NOTE PAYABLE

GSRN, the Hospital, the LTC, and Work Services have a \$12,000,000 unsecured bank line of credit agreement with interest at LIBOR plus 1%, and an availability fee of .5% of the unused balance. The line of credit expires on December 31, 2010. Borrowings at June 30, 2010 and 2009 were \$648,000 and \$2,186,000, respectively.

10. REVENUE BONDS

In June 2004, the Lehigh County General Purpose Authority (the "Authority") issued \$32,520,000 of its tax-exempt revenue bonds (the "2004 Bonds") to provide funds to finance the cost of various capital projects of Good Shepherd, establish a debt service reserve fund, and pay costs of the 2004 Bonds.

In November 2007, the "Authority issued \$51,645,000 of its tax-exempt revenue bonds (the "2007A Bonds") to provide funds to finance the capital investment requirements associated with the GSPP's development of a long-term acute care hospital and inpatient rehabilitation unit through prepaid lease arrangements (See Note 6). The Series 2007A Bonds also provided funds to finance the cost of various capital projects of Good Shepherd, establish a debt service reserve fund, and pay costs of the 2007A Bonds.

In November 2007, the Authority also issued \$29,395,000 of its tax-exempt revenue bonds (the "2007B Bonds") to provide funds to refund the 1997 Bonds, establish a debt service reserve, and pay costs of the 2007B Bonds. In April 2008, GSRN converted the 2007B Bonds from auction rate securities to variable rate demand bonds.

In April 2008, the Authority issued \$13,015,000 of its tax-exempt revenue bonds (the "2008 Bonds") to currently refund the 2000 Bonds and pay costs of the 2008 Bonds.

The 2004 Bonds, the 2007 Bonds, and the 2008 Bonds (collectively, the "Revenue Bonds") were issued pursuant to a Loan and Trust Agreement, as amended and supplemented by Supplemental Loan and Trust Agreements (collectively, the "Agreements"). In connection with the Agreements, GSRN, the Hospital, the LTC, and Work Services (collectively, the "Obligated Group") have agreed to be jointly and severally liable for the repayment of the Revenue Bonds.

GOOD SHEPHERD REHABILITATION NETWORK
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The Obligated Group is obligated for the payments under the terms of the Agreements which are structured to meet the Authority's principal and interest requirements on the Revenue Bonds. At June 30, 2010 and 2009, the Revenue Bonds are as follows:

	<u>2010</u>	<u>2009</u>
<u>2004 Bonds:</u>		
<u>Term Bonds</u>		
Bonds due on November 1, 2009, plus interest at 4.0%. Beginning on November 1, 2005, bonds to be selected by lot will be redeemed in varying installments through 2009	\$ -	\$ 565,000
<u>Term Bonds</u>		
Bonds due on November 1, 2014, plus interest at 5.25%. Beginning on November 1, 2010, bonds to be selected by lot will be redeemed in varying installments through 2014	3,255,000	3,255,000
<u>Term Bonds</u>		
Bonds due on November 1, 2024, plus interest at 5.50%. Beginning on November 1, 2015, bonds to be selected by lot will be redeemed in varying installments through 2024	9,745,000	9,745,000
<u>Term Bonds</u>		
Bonds due on November 1, 2034, plus interest at 5.625%. Beginning on November 1, 2025, bonds to be selected by lot will be redeemed in varying installments through 2034	16,745,000	16,745,000
<u>2007A Bonds:</u>		
<u>Serial Bonds</u>		
Bonds due in varying installments through November 1, 2019, plus interest at rates ranging from 4.00% to 4.50%	9,360,000	10,105,000
<u>Term Bonds</u>		
Bonds due on November 1, 2022, plus interest at 4.50%. Beginning on November 1, 2020, bonds to be selected by lot will be redeemed in varying installments through 2022	3,660,000	3,660,000

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	<u>2010</u>	<u>2009</u>
<u>Term Bonds</u>		
Bonds due on November 1, 2030, plus interest at 5.00%. Beginning on November 1, 2023, bonds to be selected by lot will be redeemed in varying installments through 2030	\$ 9,850,000	\$ 9,850,000
<u>Term Bonds</u>		
Bonds due on November 1, 2037, plus interest at 5.00%. Beginning on November 1, 2031, bonds to be selected by lot will be redeemed in varying installments through 2037	28,030,000	28,030,000
<u>2007B Bonds:</u>		
<u>Serial Bonds</u>		
Bonds due in varying installments through November 1, 2027, plus interest at a variable rate (a)	27,330,000	28,380,000
<u>2008 Bonds:</u>		
<u>Serial Bonds</u>		
Bonds due in varying installments through November 1, 2029, plus interest at a variable rate (b)	<u>12,440,000</u>	<u>12,745,000</u>
Total	120,415,000	123,080,000
Less current maturities	2,775,000	2,665,000
Less bond discounts	<u>658,999</u>	<u>685,177</u>
Long-term debt	<u>\$116,981,001</u>	<u>\$119,729,823</u>

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Scheduled principal repayments on the Revenue Bonds at June 30, 2010 are as follows:

YEARS ENDING JUNE 30

2011	\$ 2,775,000
2012	2,875,000
2013	2,995,000
2014	3,115,000
2015	3,235,000
Thereafter	<u>105,420,000</u>
Total	<u>\$120,415,000</u>

- (a) The 2007B Bonds bear interest at a variable rate, adjusted on a weekly basis as defined under the Series 2007 Bond Agreements. The 2007B Bonds may be converted to bear interest at Auction Period Rates, Daily Rates, Short-Term Rates, Long-Term Rates, or Fixed Rates as defined under the bond agreements. Under no circumstances shall the interest rate exceed 12%. The interest rate at June 30, 2010 was 0.23%. Good Shepherd has an interest rate swap agreement for the term of these bonds whereby Good Shepherd agreed to swap its variable interest payments for a fixed interest rate of 3.644% including related costs. (See Note 15)
- (b) The 2008 Bonds bear interest at the Variable Rate as defined under the Series 2008 Bond Agreements. Under no circumstances shall the interest rate exceed an annual rate of 12%. The interest rate at June 30, 2010 was 0.30%. Good Shepherd has an interest rate swap agreement for the term of these bonds whereby Good Shepherd agreed to swap its variable interest payments for a fixed interest rate of 3.315% including related costs. (See Note 15)

The Obligated Group executed loan and trust agreements to secure their payment obligations and collateralized their repayment obligations with a pledge of their gross revenues. Further, a trustee for the Authority holds certain deposits for the benefit of the holders of the bonds. Such deposits are included with assets whose use is limited in the accompanying consolidated balance sheet.

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The scheduled payments of principal and interest on the Series 2007A and 2007B Bonds when due are guaranteed under a financial guaranty insurance policy (the "Bond Insurance Policy") issued by Assured Guaranty Corp. As long as the Bond Insurance Policy is in effect, the Obligated Group is required to maintain a ratio of Aggregate Income Available for Debt Service to Maximum Annual Debt Service (the "Debt Service Ratio") of at least 1.15. The 2008 Bonds are secured by a Letter of Credit issued by Wachovia Bank, National Association ("Wachovia") pursuant to a Reimbursement, Credit and Security Agreement (the "Reimbursement Agreement") among the Obligated Group Members and Wachovia, which Reimbursement Agreement requires the maintenance of a Debt Service Ratio of 1.25. For purposes of these Debt Service Ratio calculations, Aggregate Income Available for Debt Service is determined by the addition of Obligated Group Depreciation and Amortization Expense, Interest Expense, and other non-cash charges as permitted under the bond agreements, to Revenues in Excess of (Less Than) Expenses of the Obligated Group. The Equity in Income (Loss) on Investment in Unconsolidated Subsidiary is excluded from Aggregate Income Available for Debt Service as the unconsolidated subsidiary is not an Obligated Group member. The Letter of Credit referred to above expires in April 2011 however the Obligated Group has entered into a firm commitment with a bank to extend the Letter of Credit for an additional three years.

As long as the Bond Insurance Policy is in effect, the Obligated Group also must maintain a liquidity ratio of at least 90 days of operating expenses in unrestricted cash and investments. This requirement is 120 days under the Reimbursement Agreement. Additionally, as long as the Bond Insurance Policy is in effect, the Obligated Group is required to maintain a debt to capitalization ratio of less than 67% and the documents relating to the Bonds establish limits on the incurrence of additional indebtedness and on the permitted transfer of assets to nonobligated group members as long as the Bonds are outstanding.

The Debt Service and debt to capitalization ratios are measured at June 30 and the liquidity ratio is measured at both June 30 and December 31 of each year pursuant to the provisions of the documents related to the Bonds. The debt to capitalization ratio is measured at June 30 and the Debt Service and liquidity ratios are measured at both June 30 and December 31 of each year pursuant to the provisions of the Reimbursement Agreement. The Obligated Group is in compliance with the debt service, liquidity, and debt to capitalization ratios as of June 30, 2010 and 2009.

Good Shepherd, along with the University, has guaranteed certain third-party debt of GSPP in relation to their ownership interests. The guarantee term is for the term of the underlying loan agreement which expires April 17, 2013. Should Good Shepherd be obligated to perform under the guarantee arrangement, Good Shepherd may seek reimbursement from GSPP. At June 30, 2010, the total outstanding balance of the loan was \$9,000,000.

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11. MORTGAGES PAYABLE

Mortgages payable at June 30, 2010 and 2009 are as follows:

	<u>2010</u>	<u>2009</u>
Mortgage payable, United States Department of Housing and Urban Development ("HUD"), under Section 811 of the National Affordable Housing Act. The mortgage bears no interest and repayment is not required as long as housing remains available for very low-income persons through the maturity date of June 1, 2043. Failure to keep the housing available for persons would result in HUD's billing SUPPIL for the entire capital advance outstanding plus interest since the date of the first advance. The mortgage grants HUD a security interest in substantially all SUPPIL's property and equipment and gross revenues	\$1,495,500	\$1,495,500
Mortgage payable, National Penn Bank ("NPB"), recipient of a direct subsidy through the Affordable Housing Program of Federal Home Loan Bank of Pittsburgh ("FHLB"). The mortgage bears no interest and repayment is not required as long as housing remains available for very low-income persons through the maturity date of July 15, 2017. Failure to keep the housing available for persons would result in FHLB's billing SUPPIL for the entire mortgage outstanding plus interest since the date of the first advance. The mortgage grants NPB a second mortgage in substantially all SUPPIL's property and equipment and gross revenues	<u>180,000</u>	<u>180,000</u>
Long-term debt	<u>\$1,675,500</u>	<u>\$1,675,500</u>

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12. ACCRUED EXPENSES

Accrued expenses at June 30, 2010 and 2009 consist of the following:

	<u>2010</u>	<u>2009</u>
Salaries and wages and payroll taxes	\$2,014,716	\$1,565,658
Paid time off	2,939,656	2,679,474
Interest	273,423	278,266
Employee benefits	314,671	331,071
Other	<u>216,387</u>	<u>218,175</u>
Total	<u>\$5,758,853</u>	<u>\$5,072,644</u>

13. OTHER LIABILITIES

Other liabilities at June 30, 2010 and 2009 consist of the following:

	<u>2010</u>	<u>2009</u>
Charitable gift annuities	\$4,043,171	\$3,771,078
Workers' compensation	1,373,620	1,123,477
Annuities payable	241,540	253,274
Estimated medical malpractice claims liability	379,380	276,929
Defined contribution plan liability	<u>145,731</u>	<u>80,852</u>
Total	<u>\$6,183,442</u>	<u>\$5,505,610</u>

14. PENSION PLANS

DEFINED BENEFIT PENSION PLAN

Good Shepherd sponsors a defined benefit pension plan for its employees. The plan provides benefits based on years of service and final average salary.

Good Shepherd recognizes the funded status of its defined benefit pension plan in its consolidated balance sheet. The funded status is measured as the difference between plan assets at fair value and the projected benefit obligation.

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Changes in the funded status will be recognized through a change in unrestricted net assets in the year in which the change occurs. Amounts recognized in the balance sheet, including the gains or losses, prior service costs or credits, and the transition asset or obligation remaining from the initial measurement application are adjusted as they are subsequently recognized as components of net periodic pension cost.

The following table sets forth the change in benefit obligation, the fair value of plan assets, and the amounts recognized in the consolidated balance sheet at June 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Change in projected benefit obligation:		
Benefit obligation, beginning of year	\$ 42,876,315	\$40,401,214
Service cost	1,863,835	1,891,107
Interest cost	2,655,480	2,400,304
Actuarial loss (gain)	5,407,113	(1,704,854)
Benefits paid	(801,571)	(705,336)
Adjustment to reflect measurement date change	<u>-</u>	<u>593,880</u>
Projected benefit obligation, end of year	<u>\$ 52,001,172</u>	<u>\$42,876,315</u>

The changes in plan assets in 2010 and 2009 are as follows:

Fair value of plan assets, beginning of year	\$ 34,378,815	\$ 38,505,684
Actual return on plan assets (net of expense)	2,996,943	(5,316,728)
Employer contributions	2,338,000	1,500,400
Benefits paid	(801,571)	(705,336)
Adjustment to reflect measurement date change	<u>-</u>	<u>394,795</u>
Fair value of plan assets, end of year	<u>38,912,187</u>	<u>\$34,378,815</u>
Funded status of the plan at end of year	<u>\$(13,088,985)</u>	<u>\$ (8,497,500)</u>

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	<u>2010</u>	<u>2009</u>
Accumulated benefit obligation	<u>\$49,193,828</u>	<u>\$37,064,130</u>
Net amount recognized in consolidated balance sheets consist of,		
Accrued pension cost	<u>\$13,088,985</u>	<u>\$ 8,497,500</u>
Amounts recognized in accumulated unrestricted net assets consist of:		
Actuarial loss	\$15,733,164	\$11,089,271
Prior service cost	<u>322,238</u>	<u>374,276</u>
	<u>\$16,055,402</u>	<u>\$11,463,547</u>

The following table sets forth the components of net periodic pension cost in 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Service cost	\$ 1,863,835	\$ 1,891,107
Interest cost	2,655,480	2,400,304
Expected return on plan assets	(2,812,734)	(3,096,900)
Amortization of unrecognized prior service cost	<u>631,049</u>	<u>83,314</u>
Net periodic pension cost	<u>\$ 2,337,630</u>	<u>\$ 1,277,825</u>

The Hospital intends to contribute approximately \$2,800,000 to the plan in 2011.

The measurement dates used to determine the pension plan asset and benefit obligation information was June 30.

A net loss of \$15,733,164 and net prior service cost of \$322,238 represent the unrecognized components of net periodic pension cost included in unrestricted net assets at June 30, 2010.

Amortization of the net loss expected to be recognized in net periodic pension cost in 2011 is \$910,000. Amortization of the net prior service cost expected to be recognized in net periodic pension cost in 2011 is \$52,000.

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The weighted-average assumptions used in computing the benefit obligation at June 30, 2010 and 2009 are as follows:

	<u>2010</u>	<u>2009</u>
Discount rate	5.50%	6.25%
Rate of compensation increase	3.00%	3.25%

The weighted-average assumptions used in the measurement of the net periodic pension cost in 2010 and 2009 are as follows:

	<u>2010</u>	<u>2009</u>
Discount rate	6.25%	6.00%
Expected return on plan assets	8.00%	8.00%
Rate of compensation increase	3.25%	3.00%

The expected long-term rate of return on the assets of the plans assumption was developed based on historical returns for the major asset classes. This review also considered both current market conditions and projected future conditions. Adjustments are made to the expected long-term rate of return assumption when deemed necessary based upon revised expectations of future investment performance of the overall capital markets.

The following table sets forth the actual asset allocation and target asset allocation for plan assets at June 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>	<u>TARGET ASSET ALLOCATION</u>
Equity securities	48%	51%	50%
Debt securities	44%	42%	40%
Real Estate	6%	7%	10%
Other	2%	0%	0%

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The composition of plan assets at June 30, 2010 is set forth in the following table:

	<u>RISK TOLERANCE</u>	<u>AMOUNT</u>
Cash equivalents:		
Money market fund	Low	\$ <u>875,908</u>
Mutual funds:		
Bond market	Low to moderate	17,171,596
Institutional index	Moderate to high	5,193,708
Global equity	Moderate to high	11,806,375
Small-cap	Moderate to high	<u>1,638,022</u>
Total		35,809,701
Marketable equity securities	Moderate to high	297
Alternative investment, real estate fund	Moderate to high	<u>2,226,281</u>
Total		<u>\$38,912,187</u>

Investment objectives for the plan assets are:

- Preservation of capital – to minimize the probability of loss of capital over the investment horizon. Emphasis is placed on minimizing return volatility rather than maximizing total return;
- Liquidity – to maintain sufficient liquidity to pay plan expenses and pension distributions.

The plan assets are invested among and within various asset classes in order to achieve sufficient diversification in accordance with Good Shepherd's risk tolerance. This is achieved through the utilization of asset managers and systemic allocation to investment management styles, providing a broad exposure to different segments of the fixed income and equity markets.

The overall expected long-term rate-of-return-on-assets assumption was chosen to anticipate the long range experience of the plan, including the consideration of the allocation of the plan assets between equity and fixed income securities. The recognition of inflationary trends in the economy was also considered to determine the overall expected long-term rate-of-return-on-assets.

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The following tables set forth by level, within the fair value hierarchy, the plan assets at fair value as of June 30, 2010:

	QUOTED PRICES IN ACTIVE MARKETS (LEVEL 1)	OTHER OBSERVABLE INPUTS (LEVEL 2)	UNOBSERVABLE INPUTS (LEVEL 3)	TOTAL
Money market fund	\$ -	\$875,908	\$ -	\$ 875,908
Marketable equity securities	297	-	-	297
Mutual funds:				
Bond market	17,171,596	-	-	17,171,596
Institutional index	5,193,708	-	-	5,193,708
Global equity	11,806,375	-	-	11,806,375
Small-cap	1,638,022	-	-	1,638,022
Alternative Investment, Real estate fund	-	-	<u>2,226,281</u>	<u>2,226,281</u>
Total	<u>\$35,809,998</u>	<u>\$875,908</u>	<u>\$2,226,281</u>	<u>\$38,912,187</u>

Changes in the real estate fund in 2010 is are as follows:

Balance, beginning of year	\$2,367,223
Transfer out	(31,295)
Realized and unrealized loss	(251,582)
Net investment income	169,635
Investment management fee	<u>(27,700)</u>
Balance, end of year	<u>\$2,226,281</u>

The following is a description of the valuation methodologies used for the plan's assets measured at fair value:

Money Market Fund: Valued at cost method, which approximates fair value.

Marketable Equity Securities: Valued at the closing price reported on the active market on which the individual securities are traded.

Mutual funds: Valued at the net asset value ("NAV") of shares held by the Plan at year end.

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Real Estate Fund: In accordance with the fair value measurement guidance, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The estimate of fair value is based on the conventional approaches to value, all of which require the exercise of subjective judgment. The three approaches are: (1) current cost of reproducing the real estate less deterioration and functional and economic obsolescence; (2) discounting a series of income streams and reversion at a specific yield or by directly capitalizing a single year income estimate by an appropriate factor; and (3) value indicated by recent sales of comparable real estate in the market. In the reconciliation of these three approaches, the independent appraiser uses one or a combination of them, to come up with the approximated value for the type of real estate in the market.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although Good Shepherd believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The real estate fund consists of open ended commingled insurance company separate accounts comprised primarily of real estate investments established by the Prudential Insurance Company of America and are carried at fair value. In general, fair value estimates are based upon property appraisal reports prepared by independent real estate appraisers (members of the Appraisal Institute or an equivalent organization) within a reasonable amount of time following acquisition of the real estate and no less frequently than annually thereafter.

The following benefit payments, which reflect expected future services, as appropriate, are expected to be paid:

YEARS ENDING JUNE 30

2011	\$ 882,000
2012	959,000
2013	1,357,000
2014	1,563,000
2015	1,792,000
2016-2020	13,869,000

DEFINED CONTRIBUTION PENSION PLAN

In addition to the defined benefit pension plan, Good Shepherd sponsors a defined contribution plan that is available to substantially all employees. Pension expense was \$948,903 in 2010 and \$828,800 in 2009.

15. INTEREST RATE SWAP AGREEMENTS

Good Shepherd has entered into two interest rate swap agreements, which are considered derivative financial instruments, to hedge variable rate interest rate payments due on certain long-term debt (See Note 10). Good Shepherd documents its risk management strategy and hedge effectiveness at the inception of and during the term of the hedge. The objective of the swap agreements is to minimize the risks associated with financing activities by reducing the impact of changes in the interest rate on variable rate debt. The swap agreements are contracts to exchange variable rate for fixed rate payments over the term of the swap agreement without the exchange of the underlying notional amount. The notional amount of the swap agreements is used to measure the interest to be paid or received and does not represent the amount of exposure to credit loss. Exposure to credit loss is limited to the receivable, if any, which may be generated as a result of the swap agreements. Management believes that losses related to credit risk are remote. The net cash paid or received under the swap agreements are recognized as an adjustment to interest expense. As a result of these swap agreements, interest expense was increased by \$1,396,198 in 2010 and \$1,306,751 in 2009. Good Shepherd does not utilize interest rate swap agreements or other financial instruments for trading or other speculative purposes.

At June 30, 2010, Good Shepherd has the following interest rate swaps in effect:

Notional amount at June 30, 2010	\$12,440,000
Notional amount at June 30, 2009	\$12,745,000
Fixed rate	3.315%
Variable rate	Weekly auction
Maturity date	November 2029
Notional amount at June 30, 2010	\$27,330,000
Notional amount at June 30, 2009	\$28,380,000
Fixed rate	3.644%
Variable rate	Weekly auction
Maturity date	November 2027

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A reconciliation of the beginning and ending balances of the Fair Value of the Derivative Financial Instruments is as follows:

	<u>2010</u>	<u>2009</u>
Fair value of Derivative Financial Instruments, beginning of year	\$(3,347,297)	\$(1,192,937)
Change in fair value of Derivative Financial Instruments, effective portion	(1,589,695)	(1,037,588)
Change in fair value of Derivative Financial Instruments, ineffective portion	<u>254,553</u>	<u>(1,116,772)</u>
Fair Value of Derivative Financial Instruments, end of year	<u>\$(4,682,439)</u>	<u>\$(3,347,297)</u>

Good Shepherd does not anticipate that any significant gains or losses excluded from revenues in excess of (less than) expenses will be reclassified into revenues in excess of (less than) expenses within the next twelve months.

16. TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes at June 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Healthcare coordination and outreach	\$6,974,356	\$6,332,337
Purchase of property and equipment	<u>1,341,269</u>	<u>1,212,670</u>
Total	<u>\$8,315,625</u>	<u>\$7,545,007</u>

During 2010 and 2009, net assets were released from donor restrictions by satisfying their restricted purpose in the amount of \$2,185,869 and \$2,103,602, respectively.

PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets consist of GSRN's beneficial interest in several perpetual trusts and annuities which are held by outside organizations serving as trustee. It also includes endowments that have been established with GSRN to be held in perpetuity. These funds are included in the investment portfolio. The terms of the trusts are such that GSRN receives a portion of the income earned on the trust assets. Trust assets consist primarily of marketable equity securities, debt securities, and cash and cash equivalents recorded at their fair value as of June 30, 2010 and 2009 and consist of the following:

	<u>2010</u>	<u>2009</u>
Investment to be held in perpetuity, the income from which is generally available for rehab services and programs	\$15,485,022	\$14,841,284
Lifetime endowment trusts held in perpetuity	9,202,965	8,096,351
Annuity funds held in perpetuity	<u>133,553</u>	<u>160,605</u>
Total	<u>\$24,821,540</u>	<u>\$23,098,240</u>

17. ENDOWMENT FUNDS

GSRN's endowment funds consist of funds established for a variety of purposes and include donor-restricted and board designated funds. Its endowment includes only donor-restricted endowment funds at the current time. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based upon the existence or absence of donor-imposed restrictions.

GSRN's policy is to require the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result, GSRN classifies as permanently restricted net assets (a) the original value of gifts donated as permanent endowments; (b) the original value of subsequent gifts to the permanent endowments; and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment funds not classified in permanently restricted net assets is classified as either unrestricted or temporarily restricted net assets, based on the existence of donor restriction or by law.

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GSRN has adopted investment and spending policies for its endowment assets that attempt to preserve the capital and achieve sufficient total return to fund the annual operating and capital expenditures in accordance with the donor restrictions. To achieve this overall goal, the primary objective of the investment policy is the long-term growth of capital. A real rate of return over capital is required to preserve the purchasing power of the endowment funds. The secondary objective of the investment policy is the preservation of capital, including the protection of capital in declining markets. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 index while assuming a moderate level of investment risk. GSRN expects its endowment funds, over time, to provide an average return of approximately 8% annually. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate of return objectives, GSRN relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). GSRN targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

GSRN has a policy of appropriating for distribution each year 5 percent of the three-year average of the fair market value of permanently restricted investments as stipulated by the Board of Trustees, in accordance with Pennsylvania Trust Fund Law. In establishing this policy, GSRN considered the long-term expected return on its endowments, which has been estimated (after inflation) at 8% of investment assets after all investment related fees and costs have been paid. Accordingly, over the long term, GSRN expects the current spending policy to allow its endowment funds to preserve the fair value of the original gifts. This is consistent with the GSRN's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment return.

Endowment net asset composition by type of fund as of June 30, 2010:

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>PERMANENTLY RESTRICTED</u>	<u>TOTAL</u>
Donor-restricted endowment funds	\$ (713,740)	\$902,592	\$15,485,022	\$15,673,874
Board-designated endowment funds	<u>2,850,000</u>	-	-	<u>2,850,000</u>
Total funds	<u>\$2,136,260</u>	<u>\$902,592</u>	<u>\$15,485,022</u>	<u>\$18,523,874</u>

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Changes in endowment net assets for the year ended June 30, 2010 is as follows:

	<u>UNRESTRICTED</u>	TEMPORARILY <u>RESTRICTED</u>	PERMANENTLY <u>RESTRICTED</u>	<u>TOTAL</u>
Endowment net assets, beginning of year	<u>\$2,406,297</u>	<u>\$ 652,751</u>	<u>\$14,841,284</u>	<u>\$17,900,332</u>
Investment return:				
Investment income	-	292,544	-	292,544
Net appreciation (depreciation) (realized and unrealized)	<u>-</u>	<u>621,157</u>	<u>-</u>	<u>621,157</u>
Total investment return	-	913,701	-	913,701
Contributions			643,738	643,738
Appropriation of endowment assets for expenditure	(150,000)	(783,897)	-	(933,897)
Other changes	<u>(120,037)</u>	<u>120,037</u>	<u>-</u>	<u>-</u>
Endowment net assets, end of year	<u>\$2,136,260</u>	<u>\$ 902,592</u>	<u>\$15,485,022</u>	<u>\$18,523,874</u>

Endowment net asset composition by type of fund as of June 30, 2009:

	<u>UNRESTRICTED</u>	TEMPORARILY <u>RESTRICTED</u>	PERMANENTLY <u>RESTRICTED</u>	<u>TOTAL</u>
Donor-restricted endowment funds	\$ (593,703)	\$652,751	\$14,841,284	\$14,900,332
Board-designated endowment funds	<u>3,000,000</u>	<u>-</u>	<u>-</u>	<u>3,000,000</u>
Total funds	<u>\$2,406,297</u>	<u>\$652,751</u>	<u>\$14,841,284</u>	<u>\$17,900,332</u>

GOOD SHEPHERD REHABILITATION NETWORK
AND CONTROLLED ENTITIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Changes in endowment net assets for the year ended June 30, 2009 is as follows:

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>PERMANENTLY RESTRICTED</u>	<u>TOTAL</u>
Endowment net assets, beginning of year	\$3,269,019	\$2,965,254	\$14,352,769	\$20,587,042
Investment return:				
Investment income		322,846		322,846
Net depreciation (realized and unrealized)	<u>(269,019)</u>	<u>(2,636,953)</u>	<u> </u>	<u>(2,905,972)</u>
Total investment return	(269,019)	(2,314,107)		(2,583,126)
Contributions			654,587	654,587
Appropriation of endowment assets for expenditure		(592,099)	(166,072)	(758,171)
Other changes	<u>(593,703)</u>	<u>593,703</u>	<u> </u>	<u> </u>
Endowment net assets, end of year	<u>\$2,406,297</u>	<u>\$ 652,751</u>	<u>\$14,841,284</u>	<u>\$17,900,332</u>

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or law requires GSRN to retain as a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, deficiencies of this nature that are reported in unrestricted net assets were \$713,740 as of June 30, 2010 and \$593,703 as of June 30, 2009.

18. MEDICAL MALPRACTICE CLAIMS COVERAGE

PRIMARY COVERAGE

Effective February 3, 2006, primary medical and professional liability coverage for Good Shepherd is being provided through the RRG. The RRG is a separate legal entity established for the payment of medical malpractice claim settlements and expenses. Good Shepherd was required to deposit an initial capital investment of \$1,125,000 into the RRG. Good Shepherd's annual funding requirements and capital investment were determined by an actuary based upon an evaluation of Good Shepherd's past claims history.

GOOD SHEPHERD REHABILITATION NETWORK
AND CONTROLLED ENTITIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The coverage limits for medical malpractice claims under the RRG are \$500,000 per occurrence and either \$1,500,000 or \$2,500,000, depending on the applicable entity, in the aggregate per year. The medical malpractice coverage is funded on a mature claims-made basis with retroactive coverage.

Previously, Good Shepherd insured medical malpractice coverage on a claims-made basis.

MCARE FUND COVERAGE

The Pennsylvania Medical Care Availability and Reduction of Error Fund ("MCARE Fund") provides excess coverage per the Pennsylvania law governing the MCARE Fund. Pursuant to the per occurrence and aggregate limits set forth in the controlling Pennsylvania statutes, the MCARE Fund provides coverage for losses in excess of the primary coverage that was in effect on the date of the incident. The cost of MCARE Fund coverage is recognized as expense in the period incurred. Increases in annual surcharges and concerns over the MCARE Fund's ability to manage and pay claims continue to result in proposals to reform or restructure the MCARE Fund. MCARE Fund coverage is currently scheduled to be reduced in 2011, unless the State Insurance Commissioner determines that additional primary insurance capacity is not available at that time, and eliminated three years after such reduction. Good Shepherd will be required to purchase additional primary insurance to take the place of the MCARE Fund coverage as it phases out. Depending upon the ultimate resolution of this matter, Good Shepherd may incur additional insurance costs.

UMBRELLA OR EXCESS COVERAGE

Umbrella liability insurance coverage insures against losses in excess of the primary or MCARE Fund coverage reported during the period the contract is in force.

Good Shepherd believes it has adequate insurance coverages for all asserted claims and it has no knowledge of unasserted claims which would exceed its insurance coverages.

Good Shepherd's estimated medical malpractice claims liability for both asserted and unasserted claims was \$1,135,999 and \$501,884 at June 30, 2010 and 2009, respectively. It is reasonably possible that the estimates used could change materially in the near term.

19. SIGNIFICANT GROUP CONCENTRATIONS OF CREDIT RISK

Good Shepherd's primary operations and service area includes most communities of Lehigh, Northampton, and Monroe Counties, Pennsylvania. Good Shepherd grants credit without collateral to its patients, who are insured under third-party payor arrangements, primarily with Medicare, Medical Assistance, Blue Cross, and various commercial insurance companies.

Good Shepherd maintains its cash and cash equivalents with several financial institutions. Cash and cash equivalents on deposit with any one financial institution are insured to \$250,000.

20. LEASE AND OTHER COMMITMENTS

Certain members of Good Shepherd are committed under the terms of operating leases for future minimum rental payments on real property and equipment as follows:

YEARS ENDING JUNE 30

2011	\$2,865,363
2012	1,651,525
2013	1,496,352
2014	757,198
2015	<u>260,734</u>
Total	<u>\$7,031,172</u>

Rental expense for these operating leases was \$2,786,752 in 2010 and \$2,719,183 in 2009.

21. SELF-FUNDED PLAN

Good Shepherd maintains a self-insurance program for its workers' compensation costs. Estimated self-insurance costs are accrued based upon actuarial determinations, data provided by the third-party administrator of the program, and historical claims experience. Self-insurance costs incurred under this program were \$1,350,618 and \$808,772 in 2010 and 2009, respectively, and are included in employee benefits in the consolidated statements of operations. Good Shepherd's estimated self-insured workers' compensation liability at June 30, 2010 and 2009 was included in other liabilities in the consolidated balance sheets.

22. CONTINGENCIES

As not-for-profit corporations in the Commonwealth of Pennsylvania, certain members of Good Shepherd presently qualify for an exemption from real estate taxes. A number of cities, municipalities, and school districts in the Commonwealth of Pennsylvania have challenged the real estate tax exemption of not-for-profit corporations. The possible future effects of this matter on Good Shepherd, if any, are not presently determinable.

The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations is subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time. Government activity continues to increase with respect to investigations and allegations concerning possible violations by healthcare providers of fraud and abuse statutes and regulations, which could result in the imposition of significant fines and penalties as well as significant repayments for patient services previously billed. Management is not aware of any material incidents of noncompliance; however, the possible future financial effects of this matter on Good Shepherd, if any, are not presently determinable.

23. FUNCTIONAL EXPENSES

Good Shepherd provides post acute care and related services to individuals within its geographic location. Expenses related to providing these services in 2010 and 2009 approximate the following:

	<u>2010</u>	<u>2009</u>
Healthcare and other related services	\$ 81,787,000	\$ 75,457,000
General and administrative	31,110,000	29,221,000
Fundraising	<u>2,452,000</u>	<u>2,568,000</u>
Total expenses	<u>\$115,349,000</u>	<u>\$107,246,000</u>

24. RESTRUCTURING COSTS

During 2010, GSRN initiated a restructuring plan which resulted in the termination of certain employees. The restructuring costs included in the accompanying consolidated statement of operations reflect the termination costs associated with those personnel.

**INDEPENDENT AUDITORS' REPORT
ON ADDITIONAL INFORMATION**

Board of Trustees
Good Shepherd Rehabilitation Network:

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information presented on pages 50 through 57 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and changes in net assets of the individual entities. The consolidating information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

ParenteBeard LLC

Philadelphia, Pennsylvania
September 28, 2010

GOOD SHEPHERD REHABILITATION NETWORK
AND CONTROLLED ENTITIES

SCHEDULE OF CONSOLIDATING INFORMATION, BALANCE SHEET
JUNE 30, 2010

	GOOD SHEPHERD REHABILITATION NETWORK AND CONTROLLED ENTITIES					GOOD SHEPHERD REHABILITATION NETWORK		GOOD SHEPHERD HOME LONG-TERM CARE FACILITY, INC.		GOOD SHEPHERD WORKSHOP/ VOCATIONAL SERVICES, INC.		OBLIGATED GROUP		GOOD SHEPHERD LONG-TERM ACUTE CARE SERVICES, INC.		GOOD SHEPHERD HOUSING DEVELOPMENT CORPORATION		GOOD SHEPHERD RECIPROCAL RISK RETENTION GROUP		GOOD SHEPHERD GROUP, LLC		CONSOLIDATION			
	ASSETS	REHABILITATION NETWORK	REHABILITATION HOSPITAL	REHABILITATION LONG-TERM CARE FACILITY, INC.	SHEPHERD HOME LONG-TERM CARE FACILITY, INC.	SHEPHERD WORKSHOP/ VOCATIONAL SERVICES, INC.	ELIMINATIONS	ELIMINATIONS	ELIMINATIONS	ELIMINATIONS	ELIMINATIONS	ELIMINATIONS	ELIMINATIONS	ELIMINATIONS	ELIMINATIONS	ELIMINATIONS	ELIMINATIONS	ELIMINATIONS	ELIMINATIONS	ELIMINATIONS	ELIMINATIONS	ELIMINATIONS	ELIMINATIONS	ELIMINATIONS	ELIMINATIONS
CURRENT ASSETS:																									
Cash and cash equivalents	\$ 1,046,924	\$ 18,952	\$ 1,398	\$ 160,607	\$ (3,935)	\$ 1,082,939	\$ 1,082,939	\$ 1,082,939	\$ 1,082,939	\$ 1,082,939	\$ 1,082,939	\$ 1,082,939	\$ 1,082,939	\$ 1,082,939	\$ 1,082,939	\$ 1,082,939	\$ 1,082,939	\$ 1,082,939	\$ 1,082,939	\$ 1,082,939	\$ 1,082,939	\$ 1,082,939	\$ 1,082,939	\$ 1,082,939	
Resident and investments	2,129,123						180,607																		1,712,346
Short-term investments							2,129,123																		160,607
Assets whose use is limited																									2,129,123
Accounts receivable, net of estimated allowance for doubtful collections of \$1,452,000	79,781	9,525,404	612,913	290,359	290,359	10,428,670	689,069	290,359	290,359	290,359	290,359	290,359	290,359	290,359	290,359	290,359	290,359	290,359	290,359	290,359	290,359	290,359	290,359	13,383,228	
Amounts due from and other assets pertaining to unconsolidated subsidiary	1,168,659	(8,938)	201,883	201,883	201,883	1,159,720	201,883	201,883	201,883	201,883	201,883	201,883	201,883	201,883	201,883	201,883	201,883	201,883	201,883	201,883	201,883	201,883	201,883	1,199,720	
Estimated third-party payor settlements		519,517	4,050	31,197,107	26,729	1,301,974	519,517	26,729	26,729	26,729	26,729	26,729	26,729	26,729	26,729	26,729	26,729	26,729	26,729	26,729	26,729	26,729	26,729	201,883	
Inventories of drugs and supplies	171,901	1,098,284	31,197,107	31,197,107	31,197,107	31,197,107	31,197,107	31,197,107	31,197,107	31,197,107	31,197,107	31,197,107	31,197,107	31,197,107	31,197,107	31,197,107	31,197,107	31,197,107	31,197,107	31,197,107	31,197,107	31,197,107	31,197,107	519,517	
Prepaid expenses and other current assets																									1,407,225
Amounts due from affiliates																									
Total current assets	4,598,388	11,783,136	32,177,958	313,147	313,147	17,653,502	10,302,559	313,147	313,147	313,147	17,653,502	10,302,559	313,147	313,147	313,147	313,147	313,147	313,147	313,147	313,147	313,147	313,147	313,147	23,923,973	
ASSETS WHOSE USE IS LIMITED	10,302,559						10,302,559					10,302,559													10,302,559
BOARD DESIGNATED FUNDS	2,850,000						2,850,000					2,850,000													2,850,000
INVESTMENTS	149,182,977						149,182,977					149,182,977													149,182,977
INVESTMENT IN AND OTHER ASSETS PERTAINING TO UNCONSOLIDATED SUBSIDIARY	37,465,050						37,465,050					37,465,050													37,465,050
PROPERTY AND EQUIPMENT, Net	10,246,284	52,863,302	7,799,999	2,831,117	2,831,117	73,739,702	902,095	2,831,117	2,831,117	2,831,117	73,739,702	902,095	2,831,117	2,831,117	2,831,117	2,831,117	2,831,117	2,831,117	2,831,117	2,831,117	2,831,117	2,831,117	2,831,117	76,899,357	
BENEFICIAL INTEREST IN:																									
Prepaid trusts	9,202,985						9,202,985					9,202,985													9,202,985
Charitable remainder trusts	10,018,441						10,018,441					10,018,441													10,018,441
PLEDGES RECEIVABLE, Net	1,852,278						1,852,278					1,852,278													1,852,278
DEFERRED FINANCING COSTS, Net	3,157,009						3,157,009					3,157,009													3,157,009
INTANGIBLE ASSETS, Net		635,721					635,721					635,721													635,721
OTHER ASSETS		286,000					286,000					286,000													286,000
TOTAL	<u>\$ 238,873,931</u>	<u>\$ 65,548,159</u>	<u>\$ 39,976,957</u>	<u>\$ 3,144,284</u>	<u>\$ (31,197,107)</u>	<u>\$ 318,346,204</u>	<u>\$ 318,346,204</u>	<u>\$ 3,144,284</u>	<u>\$ (31,197,107)</u>	<u>\$ 318,346,204</u>	<u>\$ 10,521,625</u>	<u>\$ 2,541,401</u>	<u>\$ 2,905,878</u>	<u>\$ 11,700</u>	<u>\$ (7,613,465)</u>	<u>\$ 324,613,341</u>	<u>\$ 286,000</u>	<u>\$ 2,541,401</u>	<u>\$ 2,905,878</u>	<u>\$ 11,700</u>	<u>\$ (7,613,465)</u>	<u>\$ 324,613,341</u>	<u>\$ 286,000</u>	<u>\$ 2,541,401</u>	<u>\$ 2,905,878</u>

GOOD SHEPHERD REHABILITATION NETWORK AND CONTROLLED ENTITIES
SCHEDULE OF CONSOLIDATING INFORMATION, BALANCE SHEET
JUNE 30, 2010

	GOOD SHEPHERD REHABILITATION NETWORK	GOOD SHEPHERD REHABILITATION HOSPITAL	GOOD SHEPHERD HOME LONG-TERM CARE FACILITY, INC.	GOOD SHEPHERD WORKSHOP/ VOCATIONAL SERVICES, INC.	GOOD SHEPHERD LONG-TERM ACUTE CARE SERVICES, INC.		GOOD SHEPHERD HOUSING DEVELOPMENT CORPORATION	GOOD SHEPHERD RECIPROCAL RISK RETENTION GROUP	GOOD SHEPHERD GROUP, LLC	CONSOLIDATION	
					OBLIGATED GROUP ELIMINATIONS	COMBINED				ELIMINATIONS	CONSOLIDATED
LIABILITIES AND NET ASSETS											
CURRENT LIABILITIES:											
Demand note payable	\$ 648,000										\$ 648,000
Current portion of long-term debt	2,775,000										2,775,000
Accounts payable, trade	3,265,588										5,037,461
Estimated third-party payor settlements	882,792										1,520,548
Advances from third-party payor	2,335,926										277,900
Accrued expenses	4,983,084										5,758,853
Resident funds	14,007,609										180,607
Amounts due to affiliates											
Total current liabilities											\$ (6,488,465)
LONG-TERM DEBT:											
Revenue bonds	116,981,001										116,981,001
Mortgages payable	116,981,001										1,675,500
Total long-term debt											118,656,501
DERIVATIVE FINANCIAL INSTRUMENT											
ACCRUED PENSION COSTS											
OTHER LIABILITIES											
Total liabilities											4,682,439
NET ASSETS:											
Unrestricted	64,276,173										13,088,985
Temporarily restricted	8,315,625										6,183,442
Permanently restricted	24,821,540										(6,488,465)
Total net assets											158,789,739
TOTAL											
	\$ 238,873,931	\$ 65,548,159	\$ 39,976,957	\$ 3,144,264	\$ (31,197,107)	\$ 10,421,625	\$ 2,541,401	\$ 2,905,876	\$ 11,700	\$ (7,613,465)	\$ 324,613,341

See Notes to Consolidated Financial Statements

**GOOD SHEPHERD REHABILITATION NETWORK
AND CONTROLLED ENTITIES**

**SCHEDULE OF CONSOLIDATING INFORMATION, STATEMENT OF OPERATIONS
FOR THE YEAR ENDED JUNE 30, 2010**

	GOOD SHEPHERD REHABILITATION NETWORK	GOOD SHEPHERD REHABILITATION HOSPITAL	GOOD SHEPHERD HOME LONG-TERM CARE FACILITY, INC.	GOOD SHEPHERD WORKSHOP/ VOCATIONAL SERVICES, INC.	GOOD SHEPHERD LONG-TERM ACUTE CARE SERVICES, INC.	GOOD SHEPHERD HOUSING DEVELOPMENT CORPORATION	GOOD SHEPHERD RECIPROCAL RISK RETENTION GROUP	GOOD SHEPHERD SHEPHERD GROUP, LLC	CONSOLIDATION ELIMINATIONS CONSOLIDATED
UNRESTRICTED REVENUES, GAINS, AND OTHER SUPPORT:									
Net patient service revenues	\$ 1,501,691	\$ 60,215,789	\$ 2,740,179	\$ 2,895,914	\$ 17,095,117	\$ 174,094	\$ 983,769	\$ -	\$ 99,051,085
Other operating revenues	42,783,715	376,415	5,994,013	10,775,067	1,957	-	-	-	5,111,567
Professional services revenue	2,280,688	5,984,013	-	2,880,688	2,280,688	-	-	-	5,837,918
Contributions	2,731,508	(74,198)	-	2,731,508	(237,361)	(135)	-	-	2,280,688
Income on investment in unconsolidated subsidiary	(163,383)	-	-	-	3,587	-	-	-	2,731,508
Loss on disposal of equipment	-	-	-	-	-	-	-	-	(237,716)
Net assets released from restrictions for operations	15,379	1,021,345	410,316	57,941	3,587	-	-	-	1,508,588
Total unrestricted revenues, gains, and other support	48,149,598	67,135,364	22,150,495	2,951,855	17,100,891	173,959	983,769	-	115,283,610
EXPENSES:									
Salaries and wages	14,329,054	28,237,195	8,817,803	1,888,353	5,220,628	5,832	823,438	61,025	56,559,890
Supplies and other expenses	12,456,403	30,552,084	8,017,142	1,081,129	7,938,655	90,014	-	2,623	25,974,463
Employee benefits	11,951,861	6,988,615	2,387,201	388,209	1,420,880	1,321	-	4,155	14,785,434
Depreciation and amortization	2,528,457	4,062,276	1,080,971	228,926	7,908,630	244,081	-	1,800	8,361,705
Interest	5,807,788	386,755	57,396	(12,489)	5,807,788	44,534	-	-	5,807,788
Professional fees	1,021,612	1,291,653	(9,875)	-	1,415,763	-	-	-	1,669,688
Provision (credit) for doubtful collections	-	-	-	-	1,269,289	-	-	-	1,483,817
Restructuring costs	756,630	-	-	-	756,630	-	-	-	756,630
Total expenses	48,853,805	69,448,578	20,340,638	3,552,128	15,076,905	385,782	983,769	69,603	115,348,095
OPERATING INCOME (LOSS)	295,793	(2,313,214)	1,809,857	(600,273)	2,023,786	(211,823)	-	(69,603)	934,523
OTHER INCOME (EXPENSE):									
Investment income	3,727,840	-	-	-	-	-	-	-	3,727,840
Unrealized gain on alternative investment	1,780,338	-	-	-	-	-	-	-	1,780,338
Ineffectiveness of derivative financial instrument	254,553	-	-	-	-	-	-	-	254,553
REVENUES IN EXCESS OF (LESS THAN) EXPENSES	6,058,524	(2,313,214)	1,809,857	(600,273)	2,023,786	(211,823)	-	(69,603)	6,697,254
CHANGE IN NET UNREALIZED GAINS AND LOSSES ON INVESTMENTS OTHER THAN TRADING SECURITIES	6,631,025	-	-	-	-	-	-	-	6,631,025
CHANGE IN FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS	(1,589,695)	-	-	-	-	-	-	-	(1,589,695)
PENSION LIABILITY ADJUSTMENT - THE GOOD SHEPHERD REHABILITATION HOSPITAL	-	(4,591,485)	-	-	-	-	-	-	(4,591,485)
PENSION LIABILITY ADJUSTMENT - UNCONSOLIDATED SUBSIDIARY	(332,957)	-	-	-	-	-	-	-	(332,957)
OTHER CHANGES IN UNRESTRICTED NET ASSETS	(118,829)	-	-	-	-	-	500	-	(118,329)
NET ASSETS RELEASED FROM RESTRICTIONS FOR PURCHASE OF PROPERTY AND EQUIPMENT	-	655,014	22,287	-	677,301	-	-	-	677,301
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS BEFORE EFFECT OF ADOPTION OF MEASUREMENT DATE PROVISIONS OF FASB STATEMENT NO. 158	10,648,068	(6,249,685)	1,832,144	(600,273)	2,023,786	(211,823)	500	(69,603)	7,373,114
EFFECT OF MEASUREMENT DATE PROVISIONS OF FASB STATEMENT NO. 158	-	-	-	-	-	-	-	-	-
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	\$ 10,648,068	\$ (6,249,685)	\$ 1,832,144	\$ (600,273)	\$ 2,023,786	\$ (211,823)	\$ 500	\$ (69,603)	\$ 7,373,114

See Notes to Consolidated Financial Statements

GOOD SHEPHERD REHABILITATION NETWORK
AND CONTROLLED ENTITIES

SCHEDULE OF CONSOLIDATING INFORMATION, STATEMENT OF CHANGES IN NET ASSETS (DEFICIT)
FOR THE YEAR ENDED JUNE 30, 2010

	GOOD SHEPHERD REHABILITATION NETWORK		GOOD SHEPHERD HOME LONG-TERM CARE FACILITY, INC.		GOOD SHEPHERD WORKSHOP VOCATIONAL SERVICES, INC.		GOOD SHEPHERD LONG-TERM ACUTE CARE SERVICES, INC.		GOOD SHEPHERD HOUSING DEVELOPMENT CORPORATION		GOOD SHEPHERD RECIPROCAL RISK RETENTION GROUP		GOOD SHEPHERD SHEPHERD GROUP, LLC		CONSOLIDATION ELIMINATIONS CONSOLIDATED	
UNRESTRICTED NET ASSETS:																
Revenues in excess of (less than) expenses	\$ 6,058,524	\$ (2,313,214)	\$ 1,809,857	\$ (600,273)	\$ 4,954,894	\$ 2,023,786	\$ (211,823)									
Change in net unrealized gains and losses on investments other than trading securities	6,631,025	(1,589,695)			6,631,025	(1,589,695)										
Change in fair value of derivative financial instruments																
Pension liability adjustment - The Good Shepherd Rehabilitation Hospital	(332,957)	(4,591,485)			(4,591,485)											
Pension liability adjustment - unconsolidated subsidiary	(118,829)		22,287		(118,829)											
Other changes in unrestricted net assets																
Net assets released from restrictions for purchase of property and equipment					577,301											
Increase (decrease) in unrestricted net assets before effect of measurement date provisions of FASB Statement No. 158	10,648,068	(6,249,685)	1,832,144	(600,273)	5,630,254	2,023,786	(211,823)									
Effect of adoption of measurement date provisions of FASB Statement No. 158																
Increase (decrease) in unrestricted net assets	10,648,068	(6,249,685)	1,832,144	(600,273)	5,630,254	2,023,786	(211,823)									
TEMPORARILY RESTRICTED NET ASSETS:																
Contributions	1,459,942	1,676,358	432,603	57,941	(2,168,902)	1,459,942	3,587									
Net realized and unrealized gains on investments	621,159				621,159											
Investment income	292,544				292,544											
Other changes in temporarily restricted net assets	120,037				120,037											
Change in value of split-interest agreements	459,218				459,218											
Net assets released from restrictions for operations	(1,504,981)	(1,021,344)	(410,316)	(57,941)	1,489,601	(1,504,981)	(3,587)									
Net assets released from restrictions for purchase of property and equipment	(677,301)	(655,014)	(22,287)		(677,301)											
Increase in temporarily restricted net assets	770,618				770,618											
PERMANENTLY RESTRICTED NET ASSETS:																
Contributions	948,266				948,266											
Valuation gain, beneficial interest in perpetual trusts	775,034				775,034											
Increase in permanently restricted net assets	1,723,300				1,723,300											
INCREASE (DECREASE) IN NET ASSETS	13,141,986	(6,249,685)	1,832,144	(600,273)	8,124,172	2,023,786	(211,823)									
NET ASSETS, BEGINNING	84,273,352	25,197,189	37,513,744	1,032,770	148,017,055	7,305,572	723,455									
NET ASSETS, ENDING	\$ 97,415,338	\$ 18,947,504	\$ 39,346,888	\$ 432,497	\$ 156,141,227	\$ 9,329,358	\$ 511,632									

See Notes to Consolidated Financial Statements

GOOD SHEPHERD REHABILITATION NETWORK
AND CONTROLLED ENTITIES

SCHEDULE OF CONSOLIDATING INFORMATION, BALANCE SHEET
JUNE 30, 2009

	GOOD SHEPHERD REHABILITATION NETWORK	GOOD SHEPHERD REHABILITATION HOSPITAL	GOOD SHEPHERD HOME LONG-TERM CARE FACILITY, INC.	GOOD SHEPHERD WORKSHOP/ VOCATIONAL SERVICES, INC.	OBLIGATED GROUP		GOOD SHEPHERD LONG-TERM ACUTE CARE SERVICES, INC.	GOOD SHEPHERD HOUSING DEVELOPMENT CORPORATION	GOOD SHEPHERD RECIPROCAL RISK RETENTION GROUP	GOOD SHEPHERD GROUP, LLC	CONSOLIDATION ELIMINATIONS	CONSOLIDATED
					COMBINED	ELIMINATIONS						
ASSETS												
CURRENT ASSETS:												
Cash and cash equivalents	\$ 3,072,729	\$ 10,753	\$ 1,400	\$ (5,366)	\$ 3,079,496	\$ 51,019	\$ 373,592	\$ 3,504,107				
Resident funds	56,605		178,540		178,540			178,540				
Assets whose use is limited					56,605			2,316,021				
Accounts receivable, patients (net of estimated allowance for doubtful collections of \$1,158,000)		7,714,591	1,795,757	323,686	9,854,044			12,375,457				
Other receivables	53,109	560,352	533		633,984			988,994				
Amounts due from and other assets pertaining to unconsolidated subsidiary	1,312,410	(2,505)	406,117		1,309,905			1,309,905				
Estimated third-party payor settlements		407,119			406,117			406,117				
Inventories of drugs and supplies	258,119	764,154			1,045,463			407,119				
Prepaid expenses and other current assets			24,431,722	23,210	1,045,463		90,586	1,173,317				
Amounts due from affiliates							4,524,783					
Total current assets	4,752,972	9,474,464	26,614,069	341,520	16,951,303	325,082	7,166,792	22,659,577				
ASSETS WHOSE USE IS LIMITED	11,442,137				11,442,137			11,442,137				
BOARD DESIGNATED FUNDS	3,000,000				3,000,000			3,000,000				
INVESTMENTS	135,987,934				135,987,934			134,882,934				
INVESTMENT IN AND OTHER ASSETS PERTAINING TO UNCONSOLIDATED SUBSIDIARY	34,909,450				34,909,450			34,909,450				
PROPERTY AND EQUIPMENT, Net	10,654,254	52,213,647	11,312,692	3,065,724	77,234,317	2,425,147	903,398	80,570,762				
BENEFICIAL INTEREST IN:												
Perpetual trusts	8,096,351				8,096,351			8,096,351				
Charitable remainder trusts	9,314,183				9,314,183			9,314,183				
PLEDGES RECEIVABLE, Net	2,001,309				2,001,309			2,001,309				
DEFERRED FINANCING COSTS, Net	3,318,417				3,318,417			3,318,417				
INTANGIBLE ASSETS, Net		452,129			452,129			473,843				
OTHER ASSETS		390,000			390,000			390,000				
TOTAL	\$ 223,477,007	\$ 62,530,240	\$ 38,126,761	\$ 3,395,244	\$ 303,087,530	\$ 2,750,229	\$ 8,060,190	\$ 27,744,812	\$ 15,985	\$ (4,524,783)	\$ (6,649,783)	\$ 311,018,963

GOOD SHEPHERD REHABILITATION NETWORK AND CONTROLLED ENTITIES
SCHEDULE OF CONSOLIDATING INFORMATION, BALANCE SHEET
JUNE 30, 2009

	GOOD SHEPHERD REHABILITATION NETWORK	GOOD SHEPHERD REHABILITATION HOSPITAL	GOOD SHEPHERD HOME LONG-TERM CARE FACILITY, INC.	GOOD SHEPHERD WORKSHOP/ VOCATIONAL SERVICES, INC.	GOOD SHEPHERD LONG-TERM ACUTE CARE SERVICES, INC.	GOOD SHEPHERD HOUSING DEVELOPMENT CORPORATION	GOOD SHEPHERD RECIPROCAL RISK RETENTION GROUP	GOOD SHEPHERD GROUP, LLC	CONSOLIDATION
									ELIMINATIONS CONSOLIDATED
LIABILITIES AND NET ASSETS									
CURRENT LIABILITIES:									
Demand note payable	\$ 2,186,000								\$ 2,186,000
Current portion of long-term debt	2,665,000								2,665,000
Accounts payable, trade	3,426,106	\$ 572,838	\$ 84,662	\$ 6,075	\$ 175,229	\$ 8,954	\$ 614,559		4,886,423
Estimated third-party payor settlements		651,688			386,485				1,038,153
Advance from third-party payor	2,024,150	277,900	348,815	117,122	192,904				277,900
Accrued expenses		2,386,618	178,540						5,072,644
Resident funds	596,599	24,877,588	178,540	2,239,277		342,320	797,262		178,540
Amounts due to affiliates				3,281,742					
Total current liabilities	10,897,855	28,766,612	613,017	2,362,474	754,618	351,274	1,411,821		(4,524,783)
LONG-TERM DEBT:									
Revenue bonds	119,729,823					1,675,500			119,729,823
Mortgages payable						1,675,500			1,675,500
Total long-term debt	119,729,823					1,675,500			121,405,323
DERIVATIVE FINANCIAL INSTRUMENT	3,347,297								3,347,297
ACCRUED PENSION COSTS	5,228,680								8,497,500
OTHER LIABILITIES	139,203,655	37,333,051		2,362,474	754,618	2,026,774	207,991		5,505,610
Total liabilities	139,203,655	37,333,051	613,017	2,362,474	754,618	2,026,774	1,619,812	105,494	155,062,390
NET ASSETS:									
Unrestricted	53,630,165	25,197,189	37,513,744	1,032,770	7,305,572	723,455	1,125,000	(89,509)	125,313,326
Temporarily restricted	7,545,007								7,545,007
Permanently restricted	23,096,240								23,096,240
Total net assets	84,271,352	25,197,189	37,513,744	1,032,770	7,305,572	723,455	1,125,000	(89,509)	155,956,573
TOTAL	\$ 223,477,007	\$ 62,530,240	\$ 38,126,761	\$ 3,395,244	\$ 8,060,190	\$ 2,750,229	\$ 2,744,812	\$ 15,985	\$ 311,018,963

See Notes to Consolidated Financial Statements

**GOOD SHEPHERD REHABILITATION NETWORK
AND CONTROLLED ENTITIES**

**SCHEDULE OF CONSOLIDATING INFORMATION STATEMENT OF OPERATIONS
FOR THE YEAR ENDED JUNE 30, 2009**

	GOOD SHEPHERD REHABILITATION NETWORK	GOOD SHEPHERD REHABILITATION HOSPITAL	GOOD SHEPHERD HOME CARE FACILITY, INC.	GOOD SHEPHERD WORKSHOP/ VOCATIONAL SERVICES, INC.	GOOD SHEPHERD ACUTE CARE SERVICES, INC.	GOOD SHEPHERD DEVELOPMENT CORPORATION	GOOD SHEPHERD RECIPROCAL RISK RETENTION GROUP	GOOD SHEPHERD GROUP, LLC	CONSOLIDATION ELIMINATIONS	CONSOLIDATED
UNRESTRICTED REVENUES, GAINS, AND OTHER SUPPORT:										
Net patient service revenues	\$ 1,538,464	\$52,683,722	\$22,169,093	\$3,245,725	\$16,761,447	\$ 172,864	\$320,600	\$ 25,000	\$ (89,127)	\$ 91,614,262
Other operating revenues	39,167,473	443,125	40		2,252				(5,352,861)	5,620,095
Professional services revenue	2,610,293	4,752,622								4,863,559
Contributions										2,610,293
Loss on investment in unconsolidated subsidiary	(1,045,456)									(1,045,456)
Loss on disposal of equipment	(11,539)									(11,539)
Net assets released from restrictions for operations	40,000	941,700	608,349	66,528	1,656,577	(31,456)				1,659,234
Total unrestricted revenues, gains, and other support	42,289,235	58,821,169	22,777,482	3,312,253	16,766,356	141,403	320,600	25,000	(5,442,008)	105,278,992
EXPENSES:										
Salaries and wages	14,410,437	23,356,378	8,981,216	2,002,716	5,370,770	9,533	152,931	68,260	(4,492,843)	54,189,310
Supplies and other expenses	11,172,438	27,557,757	8,541,151	1,497,454	20,474,104	113,801		24,824	(931,165)	24,630,807
Employee benefits	9,513,780	5,390,292	1,995,735	371,593	1,329,912	1,671		5,028		12,228,739
Depreciation and amortization	1,930,388	3,657,086	1,332,971	239,398	7,139,845	243,535		500		7,582,348
Interest	6,053,810	262,445	67,133	(17,723)	6,053,810	41,532		5,817	(18,000)	6,053,810
Professional fees	1,554,306	376,257	50,404		1,883,884					2,147,392
Provision (credit) for doubtful collections					(5,593)					403,345
Total expenses	44,635,159	60,580,217	20,968,610	4,093,138	15,318,037	410,072	320,600	104,429	(5,442,008)	107,245,751
OPERATING (LOSS) INCOME BEFORE LOSS ON ABANDONMENT OF CAPITAL PROJECT	(2,335,924)	(1,759,048)	1,808,872	(780,885)	1,448,319	(268,664)		(79,429)		(1,966,759)
LOSS ON ABANDONMENT OF CAPITAL PROJECT										
OPERATING (LOSS) INCOME	(2,335,924)	(1,759,048)	1,808,872	(780,885)	1,448,319	(268,664)		(79,429)		(1,966,759)
NONOPERATING GAINS (LOSSES):										
Investment income	4,727,456									4,727,456
Unrealized Gain / Loss Alternative Investment	(4,021,693)									(4,021,693)
Ineffectiveness of Derivative Financial Instrument	(1,116,772)									(1,116,772)
REVENUES (LESS THAN) IN EXCESS OF EXPENSES	(2,746,903)	(1,759,048)	1,808,872	(780,885)	1,448,319	(268,664)		(79,429)		(2,377,738)
CHANGE IN NET UNREALIZED GAINS AND LOSSES ON INVESTMENTS OTHER THAN TRADING SECURITIES	(23,215,460)									(23,215,460)
CHANGE IN NET UNREALIZED GAIN ON DERIVATIVE FINANCIAL INSTRUMENTS	(1,037,588)									(1,037,588)
PENSION LIABILITY ADJUSTMENT - THE GOOD SHEPHERD REHABILITATION HOSPITAL	(910,271)	(6,611,574)								(6,611,574)
PENSION LIABILITY ADJUSTMENT - UNCONSOLIDATED SUBSIDIARY	(593,703)									(593,703)
OTHER CHANGES IN UNRESTRICTED NET ASSETS										
NET ASSETS RELEASED FROM RESTRICTIONS FOR PURCHASE OF PROPERTY AND EQUIPMENT	419,835			24,533	444,368					444,368
(DECREASE) INCREASE IN UNRESTRICTED NET ASSETS BEFORE EFFECT OF ADOPTION OF MEASUREMENT DATE PROVISIONS OF FASB STATEMENT NO. 158	(28,503,925)	(7,950,787)	1,808,872	(756,352)	1,448,319	(268,664)		(79,429)		(34,301,966)
EFFECT OF MEASUREMENT DATE PROVISIONS OF FASB STATEMENT NO. 158		(212,971)								(212,971)
(DECREASE) INCREASE IN UNRESTRICTED NET ASSETS	(28,503,925)	(8,163,758)	1,808,872	(756,352)	1,448,319	(268,664)		(79,429)		(34,514,937)

GOOD SHEPHERD REHABILITATION NETWORK
AND CONTROLLED ENTITIES

SCHEDULE OF CONSOLIDATING INFORMATION, STATEMENT OF CHANGES IN NET ASSETS (DEFICIT)
FOR THE YEAR ENDED JUNE 30, 2009

	GOOD SHEPHERD REHABILITATION NETWORK	GOOD SHEPHERD REHABILITATION HOSPITAL	GOOD SHEPHERD HOME LONG-TERM CARE FACILITY, INC.	GOOD SHEPHERD WORKSHOP VOCATIONAL SERVICES, INC.	GOOD SHEPHERD LONG-TERM ACUTE CARE SERVICES, INC.	GOOD SHEPHERD HOUSING DEVELOPMENT CORPORATION	GOOD SHEPHERD RECIPROCAL RISK RETENTION GROUP	GOOD SHEPHERD GROUP, LLC	CONSOLIDATION ELIMINATIONS	CONSOLIDATED
UNRESTRICTED NET ASSETS:										
Revenues (less than) in excess of expenses	\$ (2,746,903)	\$ (1,759,948)	\$ 1,808,872	\$ (760,885)	\$ 1,448,319	\$ (268,664)	\$ -	\$ (79,429)	\$ -	\$ (2,377,758)
Change in net unrealized gains and losses on investments other than trading securities	(23,215,460)			(23,215,460)						(23,215,460)
Change in net unrealized gain on derivative financial instruments	(1,037,588)	(6,611,574)		(1,037,588)						(1,037,588)
Pension liability adjustment - The Good Shepherd Rehabilitation Hospital	(910,271)			(910,271)						(910,271)
Pension liability adjustment - unconsolidated subsidiary	(593,703)			(593,703)						(593,703)
Other changes in unrestricted net assets		419,835		24,533						444,368
Net assets released from restrictions for purchase of property and equipment					444,368					444,368
(Decrease) increase in unrestricted net assets before effect of measurement date provisions of FASB Statement No. 158	(28,503,925)	(7,950,787)	1,808,872	(756,352)	1,448,319	(268,664)		(79,429)		(34,301,966)
Effect of adoption of measurement date provisions of FASB Statement No. 158		(212,971)			(212,971)					(212,971)
(Decrease) increase in unrestricted net assets	(28,503,925)	(8,163,759)	1,808,872	(756,352)	1,448,319	(268,664)		(79,429)		(34,514,937)
TEMPORARILY RESTRICTED NET ASSETS:										
Contributions	693,952	1,361,535	608,349	91,061	2,657					696,609
Net realized and unrealized losses on investments	(2,636,953)			(2,636,953)						(2,636,953)
Investment income	322,846			322,846						322,846
Other changes in temporarily restricted net assets	729,083			729,083						729,083
Change in value of split-interest agreements	(1,286,218)			(1,286,218)						(1,286,218)
Net assets released from restrictions for operations	(1,656,577)	(841,700)	(608,349)	(66,528)	(2,657)					(1,659,234)
Net assets released from restrictions for purchase of property and equipment	(444,368)	(419,835)		(444,368)						(444,368)
Decrease in temporarily restricted net assets	(4,278,235)									(4,278,235)
PERMANENTLY RESTRICTED NET ASSETS:										
Contributions	396,225									396,225
Valuation gain, beneficial interest in perpetual trusts	(2,522,793)									(2,522,793)
Decrease in permanently restricted net assets	(2,126,568)									(2,126,568)
(DECREASE) INCREASE IN NET ASSETS	(34,908,728)	(8,163,758)	1,808,872	(756,352)	1,448,319	(268,664)		(79,429)		(40,919,740)
NET ASSETS, BEGINNING	119,182,080	33,360,947	35,704,872	1,789,122	5,857,253	992,119		(10,080)	(1,125,000)	196,876,313
NET ASSETS, ENDING	\$ 84,273,352	\$ 25,197,189	\$ 37,513,744	\$ 1,032,770	\$ 7,305,572	\$ 723,455		\$ (89,509)	\$ (1,125,000)	\$ 155,966,573

See Notes to Consolidated Financial Statements