

This Document is dated as of October 21, 2016

Annual Report
For the Fiscal Year Ending 6/30/16

Concerning

Good Shepherd Rehabilitation Network
Obligated Group

Fiscal Year Ended June 30, 2016

	<u>% of Obligated Group</u>	
	<u>Assets</u>	<u>Revenue</u>
Parent Corporation	74.8%	11.6%
Hospital	14.7%	69.3%
Long-Term Care Division	10.4%	19.1%
Work Services	0.0%	0.0%
Total Obligated Group	<u>100.0%</u>	<u>100.0%</u>
LTACH Services	-	-
Housing Development Corp	-	-
GS Group	-	-
GS Development LLC	-	-
Risk Retention Group	-	-
Total Good Shepherd Rehabilitation Network & Controlled Entities	-	-

	<u>Obligated Group</u>	
	<u>Assets</u>	<u>Revenue</u>
Parent Corporation	\$ 306,431,033	\$ 13,855,047
Hospital	60,157,370	82,622,054
Long-Term Care Division	42,462,487	22,768,099
Work Services	<u>-</u>	<u>-</u>
Total Obligated Group	409,050,890	119,245,200
LTACH Services		
Housing Development Corp		
GS Group		
GS Development LLC		
Risk Retention Group		
Total Good Shepherd Rehabilitation Network & Controlled Entities		

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

	2011	2012	2013	2014	2015	2016
Net Patient Service Revenues	\$ 89,591	\$ 92,433	\$ 92,895	\$ 95,363	\$ 100,555	\$ 97,721
Provision for Doubtful Accounts	(583)	(647)	(503)	(537)	(706)	(649)
Net Patient Service Revenues Less Provision for Doubtful Accounts	\$ 89,008	\$ 91,786	\$ 92,392	\$ 94,826	\$ 99,849	\$ 97,072
Other Operating Revenues	\$ 4,926	\$ 4,747	\$ 1,789	\$ 1,865	\$ 1,834	\$ 1,784
Contributions	2,202	2,873	2,694	4,212	3,071	1,689
Professional Services Revenue	11,141	10,284	10,477	10,576	9,886	10,493
Equity in Income (Losses) of Unconsolidated Affiliate ⁽¹⁾	6,765	4,692	6,927	6,666	8,145	5,984
Gains (Losses) on Disposal of Equipment	(363)	1,102	(7)	-	-	-
Net Assets Released from Restriction for Operations	1,646	1,734	1,748	1,901	1,910	2,223
Total Operating Revenue	\$ 115,325	\$ 117,218	\$ 116,020	\$ 120,046	\$ 124,695	\$ 119,245
Salaries and Benefits	\$ 71,397	\$ 73,276	\$ 75,341	\$ 75,985	\$ 79,164	\$ 82,799
Supplies and Other Expenses	22,032	26,320	21,333	22,060	23,480	24,051
Depreciation and Amortization	7,976	7,962	7,672	7,419	7,159	6,700
Interest	5,696	5,686	5,362	5,029	4,926	4,817
Professional Fees	1,371	1,469	1,504	2,118	2,053	1,910
Total Operating Expenses	\$ 108,472	\$ 114,713	\$ 111,212	\$ 112,611	\$ 116,782	\$ 120,277
Operating Income (Loss)	\$ 6,853	\$ 2,505	\$ 4,808	\$ 7,435	\$ 7,913	\$ (1,032)
Other Income (Expense)						
Loss on Extinguishment of Debt	\$ -	\$ -	\$ (3,685)	\$ -	\$ -	\$ -
Debt Restructuring Costs	-	(621)	-	-	-	(4,236)
Investment Income	5,181	2,150	7,794	8,174	8,974	9,699
Unrealized Gain (Loss) on Alternative Investment	4,494	(1,017)	1,005	2,137	1,469	146
Ineffectiveness of Derivative Financial Instrument	617	245	-	-	-	-
Revenues in Excess of (Less Than) Expenses	\$ 17,145	\$ 3,262	\$ 9,922	\$ 17,746	\$ 18,356	\$ 4,577
Change in Net Unrealized Gains and Losses on Investments Other Than Trading Securities	\$ 20,388	\$ (3,997)	\$ 12,532	\$ 24,974	\$ (10,831)	\$ (14,384)
Change in Fair Value of Derivative Financial Instrument	93	(3,031)	2,330	(211)	39	(1,081)
Pension Liability Adjustment	6,175	(17,810)	10,177	(741)	(4,392)	(13,820)
Other Changes in Unrestricted Net Assets	542	(609)	275	39	-	-
Net Assets Released from Restriction for Purchase of Property and Equipment	439	158	86	195	1,033	125
Increase (Decrease) in Unrestricted Net Assets Before Effect of Adoption of New Accounting Standard	\$ 44,782	\$ (22,027)	\$ 35,322	\$ 42,002	\$ 4,205	\$ (24,583)
Effect of Adoption of New Accounting Standard	-	-	-	-	-	-
Increase (Decrease) in Unrestricted Net Assets	\$ 44,782	\$ (22,027)	\$ 35,322	\$ 42,002	\$ 4,205	\$ (24,583)

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

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

		Fiscal Year Ended					
		2011	2012	2013	2014	2015	2016
Operating Cash Flow Margin	(1)	17.8%	13.8%	15.4%	16.6%	16.0%	8.8%
Long-Term Debt to Capitalization	(2)	40.5%	42.8%	38.1%	32.7%	31.7%	33.7%
Debt Service Coverage	(3)	2.41	1.45	3.31	3.62	3.74	2.12
Operating Margin Ratio	(4)	5.9%	2.1%	4.1%	6.2%	6.3%	-0.9%
Return on Equity Ratio	(5)	10.2%	2.2%	5.5%	8.0%	8.1%	2.3%
Cushion Ratio	(6)	22.6	21.3	26.7	32.0	32.8	31.3
Days Cash on Hand	(7)	678	639	760	899	866	783
Days in Accounts Receivable	(8)	47	51	56	53	56	51
Obligated Group % of Total Assets	(9)	98.0%	98.1%	98.8%	98.5%	98.2%	97.8%
Obligated Group % of NPSR	(10)	83.8%	84.4%	85.0%	84.5%	85.0%	85.9%
Obligated Group % of Total Expenses	(11)	90.5%	91.2%	91.0%	90.3%	89.8%	89.8%
Cash to Debt	(12)	1.56	1.65	1.86	2.29	2.41	2.29
Debt to Operating Cash Flow	(13)	5.56	6.76	6.24	5.46	5.27	9.82

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

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

(3) Defined as the sum of Revenues in Excess of (Less Than) Expenses, Interest Expense and Depreciation and Amortization Expense divided by Maximum Annual Debt Service.

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

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

(6) Defined as the sum of Cash and Unrestricted Investments divided by Maximum Annual Debt Service.

(7) Defined as the sum of Cash and Unrestricted Investments divided by the quotient of the sum of Total Expenses less Provision for Doubtful Accounts and Depreciation and Amortization Expense divided by 365 days.

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

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

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

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

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

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

Unrestricted / Restricted Investment Portfolio
As of June 30, 2016

<u>Asset Class</u>	<u>\$000s</u>	<u>%</u>
Global Equity	\$ 95,591	48.3%
Fixed-Income	28,874	14.6%
Absolute Return	25,932	13.1%
Large Cap Equity	20,834	10.5%
Emerging Markets Equity	11,980	6.1%
Mid Cap Equity	7,468	3.8%
Small Cap Equity	7,151	3.6%
Short-Term Bond	15	0.0%
Cash and Cash Equivalents	-	0.0%
Marketable Equity Securities	-	0.0%
Total	<u>\$ 197,845</u>	<u>100.0%</u>

Good Shepherd Rehabilitation Hospital
Inpatient Admissions by Acute Care Referral Hospital

Fiscal Year Ended June 30,

	<u>2016</u>		<u>2015</u>	
	<u>Total</u>	<u>Percent</u>	<u>Total</u>	<u>Percent</u>
<u>Lehigh Valley Hospitals</u>				
LVH - Allentown	502	36.0%	778	55.8%
LVH - Bethlehem	112	8.0%	166	11.9%
Lehigh Valley Hospitals	614	44.0%	944	67.7%
<u>St. Luke's Hospitals</u>				
St. Luke's - Allentown	129	9.3%	109	7.8%
St. Luke's - Bethlehem	103		84	
St. Luke's - Anderson	7	0.5%	2	0.1%
St. Luke's - Other	7	0.5%	5	0.4%
St. Luke's Hospitals	246	10.3%	200	8.3%
Pocono Medical Center, East Stroudsburg	208	14.9%	224	13.7%
<u>Coordinated Health Hospitals</u>				
Coordinated Health Hospital - Allentown	15	1.1%	19	1.4%
Coordinated Health Hospital - Bethlehem	8	0.6%	37	2.7%
Coordinated Health Hospitals	23	7.4%	56	7.4%
Good Shepherd Specialty Hospital, Bethlehem	82	5.9%	55	3.9%
Sacred Heart Hospital, Allentown	2	0.1%	1	0.1%
Thomas Jefferson University Hospital, Philadelphia	17	1.2%	12	0.9%
University of Pennsylvania Health System	33	2.4%	24	1.7%
Children Hospital of Philadelphia	12	0.9%	7	0.5%
Home	56	4.0%	29	2.1%
All Others	101	7.2%	85	6.1%
Total Admissions	1,394	100.0%	1,637	100.0%

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

	Fiscal Year Ended June 30,					
	2011	2012	2013	2014	2015	2016
<u>Inpatient Utilization</u>						
Number of Licensed Beds	102	102	106	106	106	106
Average Beds in Service	102	102	106	106	106	106
Admissions	1,908	1,895	1,940	1,763	1,637	1,394
Patient Days	27,473	29,033	29,017	28,811	28,865	26,487
Percent Occupancy	76.0%	77.8%	75.0%	74.5%	74.6%	68.3%
Average Length of Stay	14.4	15.4	15.0	16.3	17.6	19.0

	Fiscal Year Ended June 30,					
	2011	2012	2013	2014	2015	2016
<u>Outpatient Visits</u>						
Hospital	81,479	87,699	91,280	91,937	97,101	101,262
Satellites	122,070	122,458	117,852	123,227	128,105	136,130
Contracted Services	20,242	11,659	9,286	10,936	11,220	10,151
Total	223,791	221,816	218,418	226,100	236,426	247,543

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

	Fiscal Year Ended June 30,					
	2011	2012	2013	2014	2015	2016
Beds Available	159	159	159	159	159	159
Days Available	58,035	58,194	58,194	58,035	58,035	58,194
Percentage Occupancy	99.6%	99.6%	99.2%	99.6%	99.5%	99.71%
Inpatient Days	57,829	57,972	57,711	57,801	57,727	58,023

Outstanding Long-Term Indebtedness
Obligated Group
As of June 30, 2016
(\$000s)

<u>Issue</u>	<u>Actual</u>
Series B of 2007	\$ 18,310
Series A of 2008	\$ 10,450
Series 2012	\$ 30,775
Series 2016	\$ 43,425
Total	\$ 102,960