

This Document is dated as of October 16, 2018

Annual Report
For the Fiscal Year Ending 6/30/18

Concerning

Good Shepherd Rehabilitation Network
Obligated Group

Fiscal Year Ended June 30, 2018

% of Obligated Group

	<u>Assets</u>	<u>Revenue</u>
Parent Corporation	77.2%	10.5%
Hospital	12.4%	68.1%
Long-Term Care Division	10.3%	21.4%
Total Obligated Group	<u>100.0%</u>	<u>100.0%</u>

Obligated Group

	<u>Assets</u>	<u>Revenue</u>
Parent Corporation	\$ 344,580,039	\$ 12,800,412
Hospital	55,171,728	83,275,857
Long-Term Care Division	45,731,691	26,212,111
Total Obligated Group	<u>\$ 445,483,458</u>	<u>\$ 122,288,380</u>

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

	2013	2014	2015	2016	2017	2018
Net Patient Service Revenues	\$ 92,895	\$ 95,363	\$ 100,555	\$ 97,721	\$ 103,897	\$ 103,463
Provision for Doubtful Accounts	(503)	(537)	(706)	(649)	(988)	(641)
Net Patient Service Revenues Less Provision for Doubtful Accounts	\$ 92,392	\$ 94,826	\$ 99,849	\$ 97,072	\$ 102,909	\$ 102,822
Other Operating Revenues	\$ 1,789	\$ 1,865	\$ 1,834	\$ 1,784	\$ 1,744	\$ 1,629
Contributions	2,694	4,212	3,071	1,689	2,445	2,094
Professional Services Revenue	10,477	10,576	9,886	10,493	7,108	6,232
Equity in Income (Losses) of Unconsolidated Affiliate ⁽¹⁾	6,927	6,666	8,145	5,984	2,821	5,140
Gains (Losses) on Disposal of Equipment	(7)	-	-	-	(95)	-
Net Assets Released from Restriction for Operations	1,748	1,901	1,910	2,223	3,012	4,372
Total Operating Revenue	\$ 116,020	\$ 120,046	\$ 124,695	\$ 119,245	\$ 119,944	\$ 122,289
Salaries and Benefits	\$ 75,341	\$ 75,985	\$ 79,164	\$ 82,799	\$ 82,006	\$ 84,778
Supplies and Other Expenses	21,333	22,060	23,480	24,051	23,482	27,298
Depreciation and Amortization	7,672	7,419	7,159	6,700	6,432	7,001
Interest	5,362	5,029	4,926	4,817	4,067	3,895
Professional Fees	1,504	2,118	2,053	1,910	1,422	1,893
Total Operating Expenses	\$ 111,212	\$ 112,611	\$ 116,782	\$ 120,277	\$ 117,409	\$ 124,865
Operating Income (Loss)	\$ 4,808	\$ 7,435	\$ 7,913	\$ (1,032)	\$ 2,535	\$ (2,576)
Other Income (Expense)						
Loss on Extinguishment of Debt	\$ (3,685)	\$ -	\$ -	\$ -	\$ -	\$ -
Debt Restructuring Costs	-	-	-	(4,236)	-	-
Investment Income	7,794	8,174	8,974	9,699	13,499	16,410
Unrealized Gain (Loss) on Alternative Investment	1,005	2,137	1,469	146	5,675	(3,685)
Revenues in Excess of Expenses	\$ 9,922	\$ 17,746	\$ 18,356	\$ 4,577	\$ 21,709	\$ 10,149
Change in Net Unrealized Gains and Losses on Investments Other Than Trading Securities	\$ 12,532	\$ 24,974	\$ (10,831)	\$ (14,384)	\$ 8,990	\$ 1,858
Change in Fair Value of Derivative Financial Instrument	2,330	(211)	39	(1,081)	1,969	1,314
Pension Liability Adjustment	10,177	(741)	(4,392)	(13,820)	8,807	4,641
Other Changes in Unrestricted Net Assets	275	39	-	-	-	-
Net Assets Released from Restriction for Purchase of Property and Equipment	86	195	1,033	125	79	785
Increase (Decrease) in Unrestricted Net Assets	\$ 35,322	\$ 42,002	\$ 4,205	\$ (24,583)	\$ 41,554	\$ 18,747

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

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

		Fiscal Year Ended					
		June 30,					
		2013	2014	2015	2016	2017	2018
Operating Cash Flow Margin	(1)	15.4%	16.6%	16.0%	8.8%	10.9%	6.8%
Long-Term Debt to Capitalization	(2)	38.1%	32.7%	31.7%	33.7%	28.9%	26.9%
Debt Service Coverage	(3)	3.31	3.62	3.74	2.12	3.51	3.28
Operating Margin Ratio	(4)	4.1%	6.2%	6.3%	-0.9%	2.1%	-2.1%
Return on Equity Ratio	(5)	5.5%	8.0%	8.1%	2.3%	8.9%	3.9%
Cushion Ratio	(6)	26.7	32.0	32.8	31.3	32.5	34.1
Days Cash on Hand	(7)	760	899	866	783	834	817
Days in Accounts Receivable	(8)	56	53	56	51	60	58
Obligated Group % of Total Assets	(9)	98.8%	98.5%	98.2%	97.8%	97.4%	96.8%
Obligated Group % of NPSR	(10)	85.0%	84.5%	85.0%	85.9%	87.5%	86.6%
Obligated Group % of Total Expenses	(11)	91.0%	90.3%	89.8%	89.8%	89.2%	88.7%
Cash to Debt	(12)	1.86	2.29	2.41	2.29	2.48	2.66
Debt to Operating Cash Flow	(13)	6.24	5.46	5.27	9.82	7.60	11.62

- (1) Defined as the sum of Operating Income (Loss) before Interest Expense and Depreciation and Amortization Expense divided by Total Operating Revenue.
- (2) Defined as Non-Current Portion of Long-Term Debt divided by the sum of Non-Current Portion of Long-Term Debt and Unrestricted Net Assets.
- (3) Defined as the sum of Revenues in Excess of (Less Than) Expenses, Interest Expense and Depreciation and Amortization Expense divided by Maximum Annual Debt Service.
- (4) Defined as Operating Income (Loss) divided by Total Operating Revenue.
- (5) Defined as Revenues in Excess of (Less Than) Expenses divided by Unrestricted Net Assets. June 30, 2018 value reflects annualized Revenue in Excess of (Less Than) Expenses.
- (6) Defined as the sum of Cash and Unrestricted Investments divided by Maximum Annual Debt Service.
- (7) Defined as the sum of Cash and Unrestricted Investments divided by the quotient of the sum of Total Expenses less Provision for Doubtful Accounts and Depreciation and Amortization Expense divided by 365 days.
- (8) Defined as Total Net Patient Accounts Receivable and Work Services Accounts Receivable multiplied by 365 days divided by Net Patient Service Revenues and Work Services revenue.
- (9) Defined as Obligated Group's Total Assets divided by Total Consolidated Assets.
- (10) Defined as Obligated Group's Net Patient Service Revenue ("NPSR") divided by Total Consolidated NPSR.
- (11) Defined as Obligated Group's Total Expenses divided by Total Consolidated Expenses.
- (12) Defined as the sum of Unrestricted Cash, Investments and Assets Whose Use is Limited-Board Designated divided by Long Term Debt net of Current Portion.
- (13) Defined as Long Term Debt net of Current portion divided by the sum of Operating Income (Loss) before Depreciation and Amortization Expense and Interest Expense.

**Good Shepherd Rehabilitation Network
Unrestricted / Restricted Investment Portfolio
at Market Value
As of June 30, 2018**

<u>Asset Class</u>	<u>\$ 000' s</u>	<u>%</u>
Large Cap Equity	52,994	21.2%
Mid Cap Equity	27,634	11.0%
Small Cap Equity	7,378	2.9%
International Equity	76,287	30.4%
Fixed Income	57,182	22.8%
Real Estate	25,675	10.3%
Private equity	3,407	1.4%
Total	\$ 250,557	100.0%

Good Shepherd Rehabilitation Hospital
Inpatient Admissions by Acute Care Referral Hospital

Fiscal Year Ended June 30,

	<u>2018</u>		<u>2017</u>	
	<u>Total</u>	<u>Percent</u>	<u>Total</u>	<u>Percent</u>
<u>Lehigh Valley Hospitals</u>				
LVH - Allentown	393	31.8%	483	39.1%
LVH - Pocono	47	3.8%	57	
LVH - Bethlehem	73	5.9%	168	13.6%
Lehigh Valley Hospitals	513	41.5%	708	52.7%
<u>St. Luke's Hospitals</u>				
St. Luke's - Allentown	114	9.2%	125	10.1%
St. Luke's - Bethlehem	139	11.3%	126	
St. Luke's - Anderson	18	1.5%	20	1.6%
St. Luke's - Other	155	12.6%	66	5.3%
St. Luke's Hospitals	426	34.5%	337	17.1%
Pocono Medical Center, East Stroudsburg	-	-	107	7.2%
<u>Coordinated Health Hospitals</u>				
Coordinated Health Hospital - Allentown	6	0.5%	7	0.6%
Coordinated Health Hospital - Bethlehem	6	0.5%	10	0.8%
Coordinated Health Hospitals	12	7.4%	17	7.4%
Good Shepherd Specialty Hospital, Bethlehem	70	5.7%	92	7.4%
Sacred Heart Hospital, Allentown	5	0.4%	3	0.2%
Thomas Jefferson University Hospital, Philadelphia	15	1.2%	16	1.3%
University of Pennsylvania Health System	30	2.4%	22	1.8%
Children Hospital of Philadelphia	6	0.5%	10	0.8%
Home	30	2.4%	63	5.1%
All Others	128	10.4%	119	9.6%
Total Admissions	1,235	100.0%	1,494	100.0%

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

	Fiscal Year Ended June 30,					
	2013	2014	2015	2016	2017	2018
<u>Inpatient Utilization</u>						
Number of Licensed Beds	106	106	106	106	106	106
Average Beds in Service	106	106	106	106	106	106
Admissions	1,940	1,763	1,637	1,394	1,494	1,235
Patient Days	29,017	28,811	28,865	26,487	29,437	26,429
Percent Occupancy	75.0%	74.5%	74.6%	68.3%	76.1%	68.3%
Average Length of Stay	15.0	16.3	17.6	19.0	19.7	21.2

	Fiscal Year Ended June 30,					
	2013	2014	2015	2016	2017	2018
<u>Outpatient Visits</u>						
Hospital	91,280	91,937	97,101	101,262	87,507	93,419
Satellites	117,852	123,227	128,105	136,130	140,743	153,900
Contracted Services	9,286	10,936	11,220	10,151	4,023	-
Total	218,418	226,100	236,426	247,543	232,273	247,319

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

	Fiscal Year Ended June 30,					
	2013	2014	2015	2016	2017	2018
Beds Available	159	159	159	159	159	159
Days Available	58,035	58,035	58,035	58,194	58,035	58,035
Percentage Occupancy	99.4%	99.6%	99.5%	99.71%	99.75%	99.61%
Inpatient Days	57,711	57,801	57,727	58,023	57,889	57,809

Outstanding Long-Term Indebtedness
Obligated Group
As of June 30, 2018
(\$000s)

<u>Issue</u>	<u>Actual</u>
Series B of 2007	15,680
Series A of 2008	9,720
Series 2012	29,850
Series 2016	43,425
Subtotal	<u>98,675</u>
Less current maturities	(2,275)
Plus bond premiums	2,002
Less bond discounts	(164)
Less unamortized deferred financing costs, net	(1,525)
Total	<u>96,713</u>