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GoodShepherdRehab.org

November 20, 2020

Re: \$29,395,000 Lehigh County General Purpose Authority Hospital Revenue Bonds (Good Shepherd Group) Series B of 2007

\$13,015,000 Lehigh County General Purpose Authority Hospital Revenue Bonds (Good Shepherd Group) Series A of 2008

\$31,730,000 Lehigh County General Purpose Authority Hospital Revenue Bonds (Good Shepherd Group) Series of 2012

\$43,425,000 Lehigh County General Purpose Authority Hospital Revenue Bonds (The Good Shepherd Group) Series of 2016

Attached are the unaudited obligated group Statement of Operations, Statement of Financial Position, Selected Financial Ratios, and Utilization of Services for the period July 1, 2020 through September 30, 2020.

Sincerely,

Benjamin T. Jarmul, Jr.

Interim Chief Financial Officer

**Good Shepherd Rehabilitation Network and Controlled Entities**  
**Statement of Financial Position**  
**As of September 30, 2020 and 2019**

	<b>Obligated Group</b>	
	<b>Unaudited as of 09/30/20</b>	<b>Unaudited as of 09/30/19</b>
<b><u>Assets</u></b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	3,866,366	\$ 494,055
Resident funds	319,354	212,047
Short-term investments	14,897	14,588
Assets whose use is limited	0	87,777
Accounts receivable, patients	13,710,274	16,997,666
Other receivables	839,126	6,314,285
Amount due from affiliates	395,665	677,798
Estimated third-party payor settlements	611,556	891,013
Inventories of drugs and supplies	644,975	546,477
Prepaid expenses and other current assets	2,405,398	2,374,896
Total current assets	22,807,611	28,610,602
ASSETS WHOSE USE IS LIMITED	625,341	579,539
ASSETS WHOSE USE IS LIMITED: Board Designated	1,312,500	1,462,500
<b>INVESTMENTS</b>		
Unrestricted	269,146,406	257,515,401
Temporarily Restricted	9,587,117	8,537,892
Permanently restricted	23,440,201	20,854,664
Total investments	302,173,724	286,907,957
INVESTMENTS IN AND OTHER ASSETS PERTAINING TO UNCONSOLIDATED SUBSIDIARY	33,358,014	36,015,598
PROPERTY AND EQUIPMENT, Net	58,949,594	64,245,361
<b>BENEFICIAL INTEREST IN:</b>		
Perpetual trusts	11,756,967	12,125,710
Charitable remainder trusts	6,440,317	6,996,579
PLEDGES RECEIVABLE, Net	488,696	4,202,034
DEFERRED FINANCING COSTS, Net	2,068,400	2,116,743
OTHER NON-CURRENT ASSETS	274,429	295,754
<b>TOTAL</b>	<b>\$ 440,255,593</b>	<b>\$ 443,558,377</b>

**Good Shepherd Rehabilitation Network and Controlled Entities**  
**Statement of Financial Position**  
**As of September 30, 2020 and 2019**

	Obligated Group	
	Unaudited as of 09/30/20	Unaudited as of 09/30/19
<b><u>Liabilities and Net Assets</u></b>		
<b>CURRENT LIABILITIES</b>		
Demand note payable	0	\$ 3,925,152
Current portion of long-term debt	2,485,000	2,375,000
Accounts payable, trade	7,521,429	7,374,906
Estimated third-party payor settlements	1,553,774	1,121,079
Advance from third party payor	5,040,343	277,900
Accrued expenses	11,598,344	9,633,431
Resident funds	319,354	212,047
Amount due to affiliates	6,512,754	7,606,549
	<b>35,030,998</b>	<b>32,526,064</b>
<b>LONG-TERM DEBT:</b>		
Revenue bonds	91,760,398	94,280,067
Mortgages payable		
	<b>91,760,398</b>	<b>94,280,067</b>
<b>DERIVATIVE FINANCIAL INSTRUMENTS</b>	3,583,513	3,302,721
<b>ACCRUED PENSION COST</b>	10,614,808	6,914,577
<b>OTHER LIABILITIES</b>	4,120,081	4,173,138
<b>Total liabilities</b>	<b>145,109,798</b>	<b>141,196,567</b>
<b>NET ASSETS</b>		
Unrestricted	244,685,498	248,798,081
Temporarily restricted	15,219,508	20,538,853
Permanently restricted	35,240,789	33,024,876
	<b>295,145,795</b>	<b>302,361,810</b>
<b>TOTAL</b>	<b>\$ 440,255,593</b>	<b>\$ 443,558,377</b>

**Good Shepherd Rehabilitation Network and Controlled Entities**  
**Statement of Operations**  
**For the Three Month Periods Ended September 30, 2020 and 2019**

	<u>Obligated Group</u>	
	Unaudited Period Ending 09/30/20	Unaudited Period Ending 09/30/19
UNRESTRICTED REVENUE, GAINS, AND OTHER SUPPORT:		
Net patient service revenues	24,400,446	\$ 26,193,362
Provision for doubtful collections	<u>(202,084)</u>	<u>(251,958)</u>
Net patient service revenue less provision for doubtful collections	24,198,362	25,941,404
Other operating revenues	324,729	385,064
Professional services revenue	2,266,104	2,724,730
Stimulus Grant Revenue (Covid)	623,280	0
Contributions	1,335,822	254,724
Equity in (loss) on investment in unconsolidated subsidiary	(1,077,708)	547,328
Gains (losses) on disposal of property and equipment	0	(53,297)
Gains (losses) on Sale of JV Interest	0	1,713,623
Net assets released from restrictions for operations	<u>692,214</u>	<u>748,392</u>
Total unrestricted revenues, gains, and other support	<u>28,362,803</u>	<u>32,261,968</u>
EXPENSES:		
Salaries and wages	16,834,762	18,108,240
Supplies and other expenses	6,590,783	7,236,851
Employee benefits	4,476,624	4,085,499
Depreciation and amortization	1,770,827	1,919,236
Interest	921,823	978,305
Bad Debt	0	0
Professional fees	<u>684,431</u>	<u>1,012,913</u>
Total	<u>31,279,250</u>	<u>33,341,044</u>
OPERATING INCOME	(2,916,447)	(1,079,076)
OTHER INCOME (EXPENSE):		
Debt Restructuring Costs	-	-
Investment (Loss) Income	4,978,130	3,852,185
Other Net Periodic Pension <i>nc (Exp)</i>	4,679,828	581,750
Unrealized Gain / Loss Alternative Investment	747,848	(1,208,505)
Ineffectiveness of Derivative Financial Instrument	<u>-</u>	<u>-</u>
REVENUE IN EXCESS OF EXPENSES	7,489,359	2,146,354
CHANGE IN NET UNREALIZED GAINS AND LOSSES ON INVESTMENTS OTHER THAN TRADING SECURITIES	2,671,507	(867,252)
CHANGE IN FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS	205,947	(204,811)
PENSION LIABILITY ADJUSTMENT	-	-
PENSION LIABILITY ADJUSTMENT - UNCONSOLIDATED AFFILIATE	-	-
NET ASSETS RELEASED FROM RESTRICTIONS FOR PURCHASE OF PROPERTY AND EQUIPMENT	-	-
NET ASSETS RELEASED FROM RESTRICTION FOR PP&E - UNCONSOLIDATED AFFILIATE	75,000	6,155
OTHER CHANGES IN UNRESTRICTED NET ASSETS	<u>-</u>	<u>-</u>
INCREASE IN UNRESTRICTED NET ASSETS	<u>\$ 10,441,813</u>	<u>\$ 1,080,446</u>

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

	2016	2017	2018	2019	2020	Three months ended	
						9/30/20	9/30/19
Net Patient Service Revenues	\$ 97,721	\$ 103,897	\$ 103,463	\$ 103,320	\$ 98,478	\$ 24,400	\$ 26,193
Provision for Doubtful Accounts	(649)	(988)	(641)	(2,622)	(1,779)	(202)	(252)
Net Patient Service Revenues Less Provision for Doubtful Accounts	97,072	102,909	102,822	100,698	96,699	24,198	25,941
Other Operating Revenues	1,784	1,744	1,629	1,581	1,494	325	385
Contributions	1,689	2,445	2,094	1,467	2,033	1,336	255
Professional Services Revenue	10,493	7,108	6,232	7,743	9,968	2,266	2,725
Stimulus Grant Revenue (Covid)	-	-	-	-	2,410	623	-
Equity in Income (Losses) of Unconsolidated Affiliate <sup>(1)</sup>	5,984	2,821	5,140	(1,337)	(107)	(1,078)	547
Gains (Losses) on Disposal of Equipment	-	(95)	-	-	(413)	-	(53)
Gains (Losses) on Sale of JV Interest	-	-	-	-	1,939	-	1,714
Net Assets Released from Restriction for Operations	2,223	3,012	4,372	3,416	3,854	692	748
Total Operating Revenue	119,245	119,944	122,289	113,568	117,877	28,362	32,262
Salaries and Benefits	82,799	82,006	84,778	90,684	\$ 85,602	21,310	22,194
Supplies and Other Expenses	24,051	23,482	27,298	27,128	26,445	6,591	7,237
Depreciation and Amortization	6,700	6,432	7,001	7,790	7,465	1,771	1,919
Interest	4,817	4,067	3,895	4,103	3,834	922	978
Bad Debt	-	-	-	-	-	-	-
Professional Fees	1,910	1,422	1,893	2,609	5,262	684	1,013
Total Operating Expenses	120,277	\$ 117,409	\$ 124,865	\$ 132,314	\$ 128,608	\$ 31,278	\$ 33,341
Operating Income (Loss)	(1,032)	2,535	(2,576)	(18,746)	(10,731)	(2,916)	(1,079)
Other Income (Expense)							
Loss on Extinguishment of Debt	-	-	-	-	-	-	-
Debt Restructuring Costs	(4,236)	-	-	-	-	-	-
Investment Income	9,699	13,499	16,410	21,833	12,323	4,978	3,852
Other Net Periodic Pension Inc (Exp)	-	-	-	-	2,327	748	582
Unrealized Gain (Loss) on Alternative Investment	146	5,675	(3,685)	2,950	(4,503)	4,679	(1,209)
Ineffectiveness of Derivative Financial Instrument	-	-	-	-	-	-	-
Revenues in Excess of Expenses	4,577	21,709	10,149	6,037	(584)	7,489	2,146
Change in Net Unrealized Gains and Losses on Investments Other Than Trading Securities	(14,384)	8,990	1,858	(11,873)	\$ (4,938)	2,672	(867)
Change in Fair Value of Derivative Financial Instrument	(1,081)	1,969	1,314	(701)	(692)	206	(205)
Pension Liability Adjustment	(13,820)	8,807	4,641	(8,221)	(7,266)	-	-
Other Changes in Unrestricted Net Assets	-	-	-	-	-	-	-
Net Assets Released from Restriction for Purchase of Property and Equipment	125	79	785	69	6	75	6
<b>Increase (Decrease) in Unrestricted Net Assets</b>	<b>\$ (24,583)</b>	<b>\$ 41,554</b>	<b>\$ 18,747</b>	<b>\$ (14,689)</b>	<b>\$ (13,474)</b>	<b>\$ 10,442</b>	<b>\$ 1,080</b>

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

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

		For the Fiscal Year Ending					Three Months Ended	
		2016	2017	2018	2019	2020	09/30/20	09/30/19
Operating Cash Flow Margin	(1)	8.8%	10.9%	6.8%	-6.0%	0.5%	-0.8%	5.6%
Long-Term Debt to Capitalization	(2)	33.7%	28.9%	26.9%	27.6%	28.2%	27.3%	27.5%
Debt Service Coverage	(3)	2.12	3.51	3.28	1.99	1.76	0.63	0.58
Operating Margin Ratio	(4)	-0.9%	2.1%	-2.1%	-16.5%	-9.1%	-10.3%	-3.3%
Return on Equity Ratio	(5)	2.3%	8.9%	3.9%	3.3%	-0.2%	12.1%	3.4%
Cushion Ratio	(6)	31.3	32.5	34.1	34.1	34.6	36.4	34.4
Days Cash on Hand	(7)	783	834	817	763	810	879	775
Days in Accounts Receivable	(8)	51	60	58	50	57	52	60
Obligated Group % of Total Assets	(9)	97.8%	97.4%	96.8%	97.2%	96.5%	96.4%	96.8%
Obligated Group % of NPSR	(10)	85.9%	87.5%	86.6%	85.8%	83.3%	83.9%	85.3%
Obligated Group % of Total Expenses	(11)	89.8%	89.2%	88.7%	88.8%	89.1%	89.3%	88.9%
Cash to Debt	(12)	2.29	2.48	2.66	2.73	2.84	2.99	2.75
Debt to Operating Cash Flow	(13)	9.82	7.60	11.62	-13.76	161.65	(103.35)	13.03

(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 multiplied by 365 days divided by Net Patient Service Revenues.

(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 and Controlled Entities  
The Good Shepherd Rehabilitation Hospital - Utilization of Services**

The following table sets forth historical inpatient utilization statistics for the

<b>Inpatient Utilization</b>	<b>Fiscal Year Ended June 30</b>					<b>Three Months Ended</b>	
	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>09/30/20</b>	<b>09/30/19</b>
Number of Licensed Beds	106	106	106	106	94	94	106
Average Beds in Service	106	106	106	106	96	94	106
Admissions	1,394	1,494	1,248	1,337	1,104	281	290
Patient Days	26,487	29,437	26,429	25,571	23,259	5,470	6,075
Percent Occupancy	68.3%	76.1%	68.3%	66.1%	66.2%	63.3%	62.3%
Average Length of Stay	19.0	19.7	21.2	19.1	21.1	19.5	20.9

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

<b>Outpatient Visits</b>	<b>Fiscal Year Ended June 30</b>					<b>Three Months Ended</b>	
	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>09/30/20</b>	<b>09/30/19</b>
Hospital	101,262	87,507	93,508	93,853	78,827	20,159	24,284
Satellites	136,130	140,743	153,900	155,281	141,382	35,538	41,570
Contracted Services	10,151	4,023	-	-	-	-	-
<b>Total</b>	<b>247,543</b>	<b>232,273</b>	<b>247,408</b>	<b>249,134</b>	<b>220,209</b>	<b>55,697</b>	<b>65,854</b>

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

<b>Payor Mix</b>	<b>Fiscal Year Ended June 30</b>					<b>Three Months Ended</b>	
	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>09/30/20</b>	<b>09/30/19</b>
Medicare	33.0%	34.2%	33.3%	35.3%	31.3%	30.5%	30.6%
Managed Care	24.5%	20.5%	18.5%	19.5%	27.9%	33.6%	22.2%
Medical Assistance	18.8%	20.3%	26.4%	25.4%	20.3%	13.7%	26.7%
Commercial/Auto	6.0%	7.6%	5.0%	4.8%	3.7%	4.7%	3.5%
Blue Cross	10.1%	10.0%	11.2%	9.1%	10.1%	10.8%	9.7%
Workers' Compensation	3.1%	3.2%	2.1%	2.1%	3.3%	3.4%	3.5%
Self Pay	0.8%	0.6%	0.5%	0.3%	0.3%	0.3%	0.4%
Other	3.6%	3.6%	3.0%	3.5%	3.1%	3.0%	3.4%

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

	<b>Fiscal Year Ended June 30</b>					<b>Three Months Ended</b>	
	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>09/30/20</b>	<b>09/30/19</b>
Beds Available	159	159	159	159	159	159	159
Days Available	58,194	58,035	58,035 #	58,035	58,194	14,628	14,628
Percentage Occupancy	99.71%	99.75%	99.61%	99.46%	99.24%	99.45%	99.78%
Inpatient Days	58,023	57,889	57,809	57,723	57,749	14,548	14,596

Source: Hospital Records