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October 27, 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 audited obligated group Statement of Operations, Statement of Financial Position, Selected Financial Ratios, and Utilization of Services for the period July 1, 2019 through June 30, 2020.

Sincerely,

Benjamin T. Jarmul, Jr.

Interim Chief Financial Officer

This Document is dated as of October 27, 2020

Annual Report
For the Fiscal Year Ending 6/30/20

Concerning

Good Shepherd Rehabilitation Network
Obligated Group

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

	2015	2016	2017	2018	2019	2020
Net Patient Service Revenues	\$ 100,555	\$ 97,721	\$ 103,897	\$ 103,463	\$ 103,320	\$ 98,478
Provision for Doubtful Accounts	<u>(706)</u>	<u>(649)</u>	<u>(988)</u>	<u>(641)</u>	<u>(2,622)</u>	<u>(1,779)</u>
Net Patient Service Revenues Less Provision for Doubtful Accounts	\$ 99,849	\$ 97,072	\$ 102,909	\$ 102,822	\$ 100,698	\$ 96,699
Other Operating Revenues	\$ 1,834	\$ 1,784	\$ 1,744	\$ 1,629	1,581	1,494
Contributions	3,071	1,689	2,445	2,094	1,467	2,033
Professional Services Revenue	9,886	10,493	7,108	6,232	7,743	9,968
Stimulus Grant Revenue (Covid)	-	-	-	-	-	2,410
Equity in Income (Losses) of Unconsolidated Affiliate ⁽¹⁾	8,145	5,984	2,821	5,140	(1,337)	(107)
Gains (Losses) on Disposal of Equipment	-	-	(95)	-	-	(413)
Gains (Losses) on Sale of JV Interest	-	-	-	-	-	1,939
Net Assets Released from Restriction for Operations	<u>1,910</u>	<u>2,223</u>	<u>3,012</u>	<u>4,372</u>	<u>3,416</u>	<u>3,854</u>
Total Operating Revenue	\$ 124,695	\$ 119,245	\$ 119,944	\$ 122,289	\$ 113,568	\$ 117,877
Salaries and Benefits	\$ 79,164	\$ 82,799	\$ 82,006	\$ 84,778	\$ 90,684	\$ 85,602
Supplies and Other Expenses	23,480	24,051	23,482	27,298	27,128	26,445
Depreciation and Amortization	7,159	6,700	6,432	7,001	7,790	7,465
Interest	4,926	4,817	4,067	3,895	4,103	3,834
Professional Fees	<u>2,053</u>	<u>1,910</u>	<u>1,422</u>	<u>1,893</u>	<u>2,609</u>	<u>5,262</u>
Total Operating Expenses	\$ 116,782	\$ 120,277	\$ 117,409	\$ 124,865	\$ 132,314	\$ 128,608
Operating Income (Loss)	\$ 7,913	\$ (1,032)	\$ 2,535	\$ (2,576)	\$ (18,746)	\$ (10,731)
Other Income (Expense)						
Loss on Extinguishment of Debt	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Debt Restructuring Costs	-	(4,236)	-	-	-	-
Investment Income	8,974	9,699	13,499	16,410	21,833	12,323
Other Net Periodic Pension Inc (Exp)	-	-	-	-	-	2,327
Unrealized Gain (Loss) on Alternative Investment	<u>1,469</u>	<u>146</u>	<u>5,675</u>	<u>(3,685)</u>	<u>2,950</u>	<u>(4,503)</u>
Ineffectiveness of Derivative Financial Instrument	-	-	-	-	-	-
Revenues in Excess of Expenses	\$ 18,356	\$ 4,577	\$ 21,709	\$ 10,149	\$ 6,037	\$ (584)
Change in Net Unrealized Gains and Losses on Investments Other Than Trading Securities	\$ (10,831)	\$ (14,384)	\$ 8,990	\$ 1,858	\$ (11,873)	\$ (4,938)
Change in Fair Value of Derivative Financial Instrument	39	(1,081)	1,969	1,314	(701)	(692)
Pension Liability Adjustment	(4,392)	(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	<u>1,033</u>	<u>125</u>	<u>79</u>	<u>785</u>	<u>69</u>	<u>6</u>
Increase (Decrease) in Unrestricted Net Assets Before Effect of Adoption of New Accounting Standard	\$ 4,205	\$ (24,583)	\$ 41,554	\$ 18,747	\$ (14,689)	\$ (13,474)
Effect of Adoption of New Accounting Standard	-	-	-	-	-	-
Increase (Decrease) in Unrestricted Net Assets	<u>\$ 4,205</u>	<u>\$ (24,583)</u>	<u>\$ 41,554</u>	<u>\$ 18,747</u>	<u>\$ (14,689)</u>	<u>\$ (13,474)</u>

(1) Reflects Good Shepherd'S 70% portion of income from GSPP (2015 to 2019)

(1) Reflects Good Shepherd'S 51% portion of income from GSPP (2020)

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

		Fiscal Year Ended					
		June 30,					
		2015	2016	2017	2018	2019	2020
Operating Cash Flow Margin	(1)	16.0%	8.8%	10.9%	6.8%	-6.0%	0.5%
Long-Term Debt to Capitalization	(2)	31.7%	33.7%	28.9%	26.9%	27.6%	28.2%
Debt Service Coverage	(3)	3.74	2.12	3.51	3.28	1.99	1.76
Operating Margin Ratio	(4)	6.3%	-0.9%	2.1%	-2.1%	-16.5%	-9.1%
Return on Equity Ratio	(5)	8.1%	2.3%	8.9%	3.9%	3.3%	-0.2%
Cushion Ratio	(6)	32.8	31.3	32.5	34.1	34.1	34.6
Days Cash on Hand	(7)	866	783	834	817	763	810
Days in Accounts Receivable	(8)	56	51	60	58	50	57
Obligated Group % of Total Assets	(9)	98.2%	97.8%	97.4%	96.8%	97.2%	96.5%
Obligated Group % of NPSR	(10)	85.0%	85.9%	87.5%	86.6%	85.8%	83.3%
Obligated Group % of Total Expenses	(11)	89.8%	89.8%	89.2%	88.7%	88.8%	89.1%
Cash to Debt	(12)	2.41	2.29	2.48	2.66	2.73	2.84
Debt to Operating Cash Flow	(13)	5.27	9.82	7.60	11.62	-13.76	161.65

(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
Unrestricted / Restricted Investment Portfolio
at Market Value
As of June 30, 2020

<u>Asset Class</u>	<u>\$ 000' s</u>	<u>%</u>
Large Cap Equity	14,334	5.7%
Small Cap Equity	25,553	10.2%
International Equity	65,099	26.0%
Fixed Income	66,596	26.6%
Real Estate	14,799	5.9%
Private equity	12,682	5.1%
Cash and Cash Equivalents	5,397	2.2%
Exchange Traded Funds	46,144	18.4%
Total	\$ 250,604	100.0%

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

	Fiscal Year Ended June 30,					
	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
<u>Inpatient Utilization</u>						
Number of Licensed Beds	106	106	106	106	106	94
Average Beds in Service	106	106	106	106	106	96
Admissions	1,637	1,394	1,494	1,248	1,337	1,104
Patient Days	28,865	26,487	29,437	26,429	25,571	23,259
Percent Occupancy	74.6%	68.3%	76.1%	68.3%	66.1%	66.2%
Average Length of Stay	17.6	19.0	19.7	21.2	19.1	21.1

	Fiscal Year Ended June 30,					
	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
<u>Outpatient Visits</u>						
Hospital	97,101	101,262	87,507	93,508	93,853	78,827
Satellites	128,105	136,130	140,743	153,900	155,281	141,382
Contracted Services	11,220	10,151	4,023	-	-	-
Total	236,426	247,543	232,273	247,408	249,134	220,209

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

	Fiscal Year Ended June 30,					
	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Beds Available	159	159	159	159	159	159
Days Available	58,035	58,194	58,035	58,035	58,035	58,194
Percentage Occupancy	99.5%	99.71%	99.75%	99.61%	99.46%	99.24%
Inpatient Days	57,727	58,023	57,889	57,809	57,723	57,749

Outstanding Long-Term Indebtedness
Obligated Group
As of June 30, 2020
(\$000s)

<u>Issue</u>	<u>Actual</u>
Series B of 2007	12,860
Series A of 2008	8,955
Series 2012	28,785
Series 2016	43,425
Subtotal	<u>94,025</u>
Less current maturities	(2,485)
Plus bond premiums	1,738
Less bond discounts	(146)
Less unamortized deferred financing costs, net	(1,363)
Total	<u>91,769</u>