

This Document is Dated as of October 13, 2014.

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 Ended June 30, 2014**

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 Twelve-Month Period Ended
June 30, 2014**

	Page
A. Good Shepherd Rehabilitation Network and Controlled Entities	
Management Discussion and Analysis	1
Balance Sheet – Obligated Group and Consolidated	11
Statement of Operations – Obligated Group and Consolidated	13
Statement of Cash Flows – Consolidated	14
B. Good Shepherd Rehabilitation Network Obligated Group	
Selected Financial Ratios	15
C. Other Updates to Appendix A to the Official Statement	
The Good Shepherd Rehabilitation Hospital - Utilization of Services	16
The Good Shepherd Home Long-Term Care Facility, Inc. – Utilization	17

Good Shepherd Rehabilitation Network and Controlled Entities
Management Discussion and Analysis
As of and for the Twelve-Month Period Ended June 30, 2014

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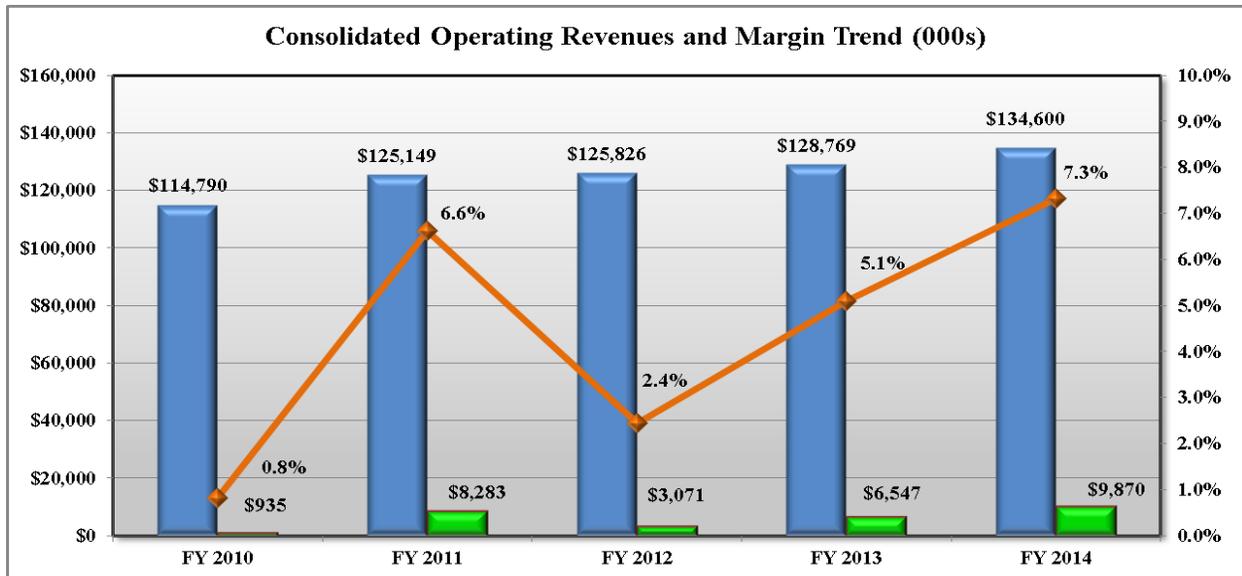
Performance Overview

For the fiscal year ended June 30, 2014 (FY 2014), Good Shepherd Rehabilitation Network (GSRN) generated a consolidated operating margin of \$9.9 million or 7.3%. These results are inclusive of the operating performance of Good Shepherd Penn Partners (GSPP) and were calculated based upon the financial statement presentation contained within the audited financial statements. This represents a \$3.3 million or 51% improvement in consolidated operating margin performance over the previous fiscal year.

Total unrestricted revenues, gains and other support of \$134.6 million for FY 2014 increased \$5.8 million or 4.5% over the preceding fiscal year. Contained within total unrestricted revenues, gains and other support is GSRN’s 70% ownership percentage of GSPP’s operating results (reflected as income on investment in unconsolidated subsidiary). GSRN’s ownership percentage of GSPP’s operating results actually declined from \$6.9 million to \$6.7 million between fiscal years.

Unlike the internal financial statement format, the audited financial statement format classifies contributions (unrestricted gifts and bequests) as a component of unrestricted revenues, gains and other support, as well as a component of operating margin. Contributions increased from \$2.7 million to \$4.2 million between fiscal years.

The following graph illustrates GSRN’s consolidated operating revenues and operating margin performance over the past five fiscal years. Total operating revenues, operating margin and operating margin percentage were all at their five-year high in FY 2014. The accumulated operating margin over that five-year period aggregated \$28.7 million.



Consolidated Statement of Operations

GSRN's Lehigh Valley operations generated a \$4.2 million or 3.3% operating margin during FY 2014 on total unrestricted revenues, gains and other support of \$127.9 million. By comparison, a \$597,000 or 0.5% operating margin was realized during FY 2013.

Net patient service revenue increased by \$3.5 million, or 3.3%, between fiscal years. Approximately \$1.7 million of this increase was generated at the Rehabilitation Hospital, \$1.1 million was realized at the Specialty Hospital, and the remaining occurred in Long-Term Care. Rehabilitation Hospital admissions in FY 2014 declined 9.1% from the previous fiscal year while Specialty Hospital admission increased by 8.3% between periods. The Rehabilitation Hospital also experienced a slightly higher acuity level and favorable payor mix over FY 2013. Finally, total outpatient visits increased by 3.0% between fiscal years.

Other operating revenues were \$547,000 or 18% more than the previous fiscal year as a result of higher insurance premiums collected from GSPP for general and professional liability insurance. This premium revenue was offset by higher required insurance reserves, which increased professional and general liability insurance expense, as discussed later in this document.

Contributions increased from \$2.7 million to \$4.2 million between fiscal years as the receipt of unrestricted bequests increased by \$1.5 million between fiscal years.

GSRN's consolidated expense base increased by 2.1% from the prior fiscal year. Salaries and wages increased by 2.3%, inclusive of a 2.5% average annual performance increase. Employee benefits decreased by 2.6% from the prior fiscal year. The 20% increase in employee health insurance costs was offset by lower defined benefit pension plan and workers compensation costs.

Supplies and other expenses increased \$1.7 million or 6.3% in FY 2014 primarily as a result of the insurance expense associated with the higher general and professional liability reserves.

From a cash flow perspective, cash flow from operations or EBIDA (defined as operating margin before interest, depreciation and amortization) produced a 15.6% cash flow margin or \$20.8 million compared to 15.8% or \$20.4 million in the previous fiscal year. The EBIDA calculation removes GSRN's 70%

ownership percentage in GSPP and replaces it with the GSRN's portion of GSPP's dividend distributions in FY 2014 and FY 2013 of \$4.8 million and \$7.3 million, respectively.

Rehabilitation Hospital Division

The Rehabilitation Hospital Division includes all inpatient, outpatient, physician, and contracted rehabilitation management services at all locations. Total admissions of 1,763 represented a 9.1% decline from the prior year. However, although total admissions declined, the Division was favorably impacted by a slightly higher acuity level and a more favorable payor mix.

Outpatient visits increased by 6,200 visits or 3% over the previous fiscal year. No new outpatient locations were opened during FY 2014; however, the Performing Arts Center in Bethlehem, PA, which opened in late FY 2013, experienced a 300% or 1,300 growth in visits between fiscal years.

In total, the Rehabilitation Hospital generated an operating margin loss of (\$303,000) in FY 2014 compared to an operating margin loss of (\$1.4) million in FY 2013. The Rehabilitation Hospital received an MA Modernization payment of \$685,000 in FY 2014 pursuant to Act 49. While amounts differ each year, this is the fifth consecutive year that the Rehabilitation Hospital has received such a payment. A similar sized payment is again expected in FY 2015. The Pediatrics service line operated at a break even operating margin in FY 2014 as compared to a (\$2.2) million loss in FY 2013. The Physician group's losses increased by (\$544,000) between fiscal years to (\$2.4) million.

The outpatient service line produced a favorable operating margin in FY 2014 despite continued fee reductions instituted by Medicare for multiple procedures and limitations on the number of approved therapy visits for managed care subscribers. The outpatient service line also experienced an unfavorable shift in payor mix to government sponsored programs (Medicare and Medicaid). These payors average a much lower fee schedule than non-government payors. As a result, outpatient service line operating margins decreased from 8% to 3% between FY 2013 and FY 2014.

Long Term Care Division

The Long Term Care Division continues to operate at almost 100% capacity at both locations and their operating margin improved to 1.4% in FY 2014 from a 1.1% operating margin in FY 2013. Although this is an improvement, the Long-Term Care Division's operating margins continue to erode (3.4% in FY 2012, 7.0% in FY 2011, and 8.2% in FY 2010). Operating margins continue to be negatively impacted by the reduced Medicaid rates assigned to Peer Group 13.

Long Term Acute Care Division

The Long Term Acute Care (LTCH) Division's operating margin performance improved from \$1.8 million or 11% in FY 2013 to \$2.6 million or 15% in FY 2014. Total admissions increased by 8.3% between years and average daily census improved by 12%. While this volume increase resulted in a \$1.1 million increase in revenue, expenses were managed to an increase of only 2% or \$333,000. Since FY 2010, the LTCH has operated under the constraints of the 25% Rule. In FY 2014, there was no revenue impact related to this rule.

Long-Term Bond Ratings

In December 2013, Standard and Poor's affirmed GSRN's "A" long-term bond rating and improved their outlook perspective from stable to positive. Fitch is on a two year bond rating cycle with GSRN and a review is expected in FY 2015. Currently GSRN is rated as "A" by Fitch with a stable outlook.

Balance Sheet

The Balance Sheet remained very strong as total assets grew by 11.8% and total net assets grew by 21.1% between June 30, 2013 and 2014. Unrestricted day's cash on hand ended the year at 799 days which is 120 days higher than the previous fiscal year-end.

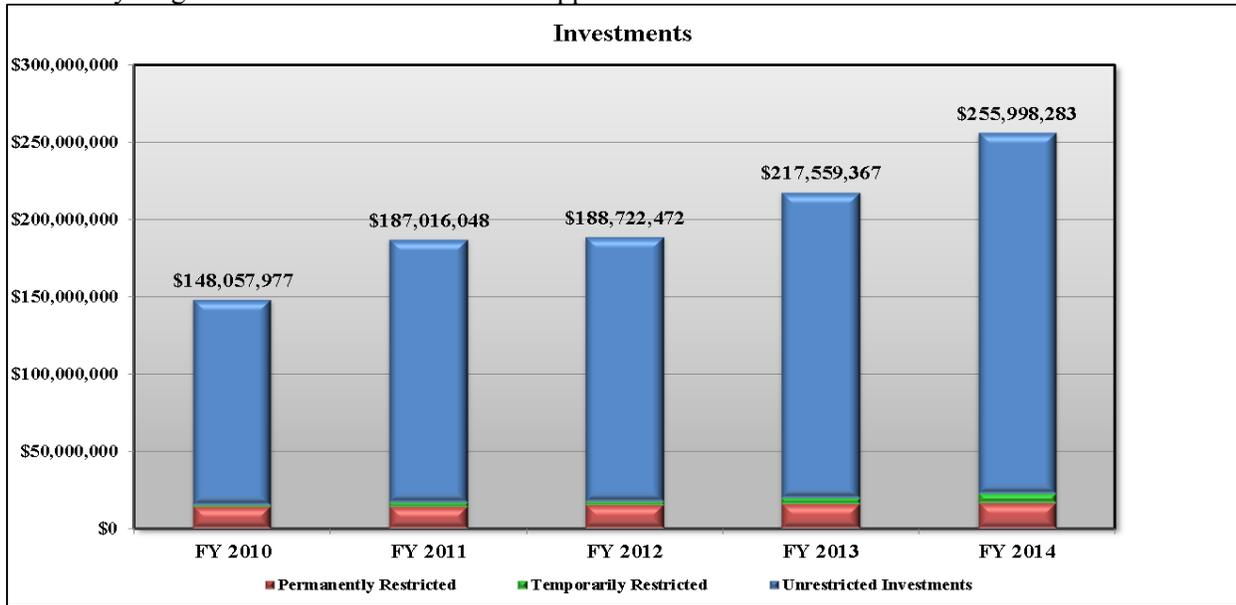
Accounts receivable remained flat between years while net patient service revenue increased by 3.3%. This resulted in a drop in days in accounts receivable from 55 to 53 days.

The market value of Investments grew \$38 million and a 17.6% net return was earned on the investment portfolio, compared to the performance benchmark of 17.2%. During FY 2014, one new Global Equity and one new Fixed Income fund were added to the portfolio as part of an investment strategy to diversify the portfolio and reduce risk. These two new funds are indicated by an "*" in the table which follows:

Manager	Asset Class	Percent Of Total Portfolio	Market Value June 30, 2014 (in \$ Millions)	FY 2014 Performance (Net of Fees)
Vanguard Institutional Fund	Large Cap Equity	9.3%	24.2	24.6%
Artisan Partners	Small Cap Equity	6.0%	15.7	15.7%
GMO World Fund	Global Equity	18.7%	48.8	24.1%
Dreyfus Global Stock Fund	Global Equity	13.5%	35.1	17.7%
Dodge & Cox Global Stock *	Global Equity	14.8%	38.6	*
Capital International Emerging Growth	Emerging Equity	5.6%	14.8	12.7%
TCW Met West Total Return *	Fixed Income	3.9%	10.1	*
PIMCO Unconstrained Bond Fund	Fixed Income	3.8%	9.8	1.5%
PIMCO Global Strategic Bond Fund	Fixed Income	5.2%	13.7	9.0%
Prudential Real Estate Fund	Real Estate	5.1%	13.3	12.7%
Cornerstone Patriot Real Estate Fund	Real Estate	4.6%	12.1	8.0%
Blackrock Alternative Asset Fund	Absolute Return	9.5%	24.8	8.3%
Total			261.0	17.6%
Performance Benchmark				17.2%

GSRN records the investment in the Prudential Real Estate Fund and the Cornerstone Patriot Real Estate Fund at cost. Accordingly, the Unrestricted and Restricted Investment Portfolio value on the GSRN Balance Sheet appears as \$258.2 million (\$256.0 million in investments and \$2.2 million in assets whose use is limited). The difference from the total market value of \$261.0 million represents the \$2.8 million unrealized appreciation over cost for these two real estate funds.

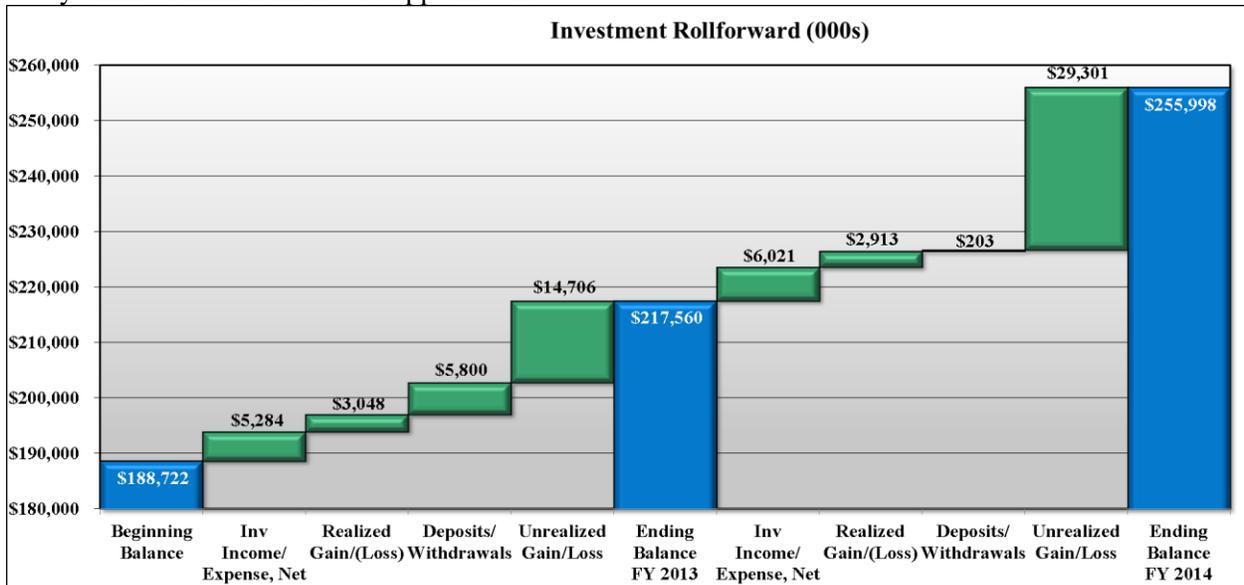
The five-year growth in GSRN's investments appears below:



The classification of investments on GSRN's Balance Sheet appears as follows:

	FY 2012	FY 2013	FY 2014
Unrestricted Investments	\$170,799,553	\$197,865,882	\$233,142,125
Temporarily Restricted	2,531,365	3,458,802	6,254,845
Permanently Restricted	15,391,554	16,234,683	16,601,313
Total Investments	\$188,722,472	\$217,559,367	\$255,998,283

During FY 2014, GSRN's investments had a 17.6% return. This return was comprised of \$29 million in unrealized gains, \$6 million of investment income (net of expenses) and \$3 million of realized gains. A two-year investment rollforward appears below.



GSRN's debt to capitalization ratio decreased from 37% to 31% between fiscal years. This improvement resulted from an increase in unrestricted net assets relating to the current fiscal year's \$9.9 million operating margin coupled with the \$38 million increase in investments through realized and unrealized gains and investment income (net of expenses). Long term debt decreased by \$2.9 million year over year.

GSRN's \$12 million line of credit (demand notes payable) was unused as of June 30, 2014 as GSRN generated sufficient cash flows to fund operations and capital investment. Accrued expenses increased from June 30, 2013 primarily due to reserves established for the self-funded health insurance plan and additional required payroll accruals.

The defined benefit (DB) pension plan continues to be funded in excess of ERISA and IRS requirements although an accrued pension liability of \$12.3 million is represented on the Balance Sheet as of June 30, 2014. This accrued pension liability represents a measurement of the difference between the market value of plan assets and actuarially determined benefit obligations. The pension liability decreased during the fiscal year from \$13.9 million to \$12.3 million. Total pension assets increased from \$57 million to \$67 million during the year due primarily due to 13.0% net return on invested assets as well as \$4 million of employer contributions.

During FY 2014, contributions of \$1.5 million were also made to GSRN's defined contribution plan.

Total Net Assets increased \$49.3 million or 21% during the year. The table below delineates the main components of the increase.

FY 2014	
Revenue in Excess of Expenses	\$20,181,269
Unrestricted Unrealized Gains and Losses on Investments	24,973,713
Temporarily Restricted Investment Income and Realized and Unrealized Gains on Investments	2,655,849
Other	1,453,435
Total Increase in Net Assets	\$49,264,266

Some of the more significant Balance Sheet ratios were impacted by favorable operating and investment performance. The table below captures the favorable trend in these ratios.

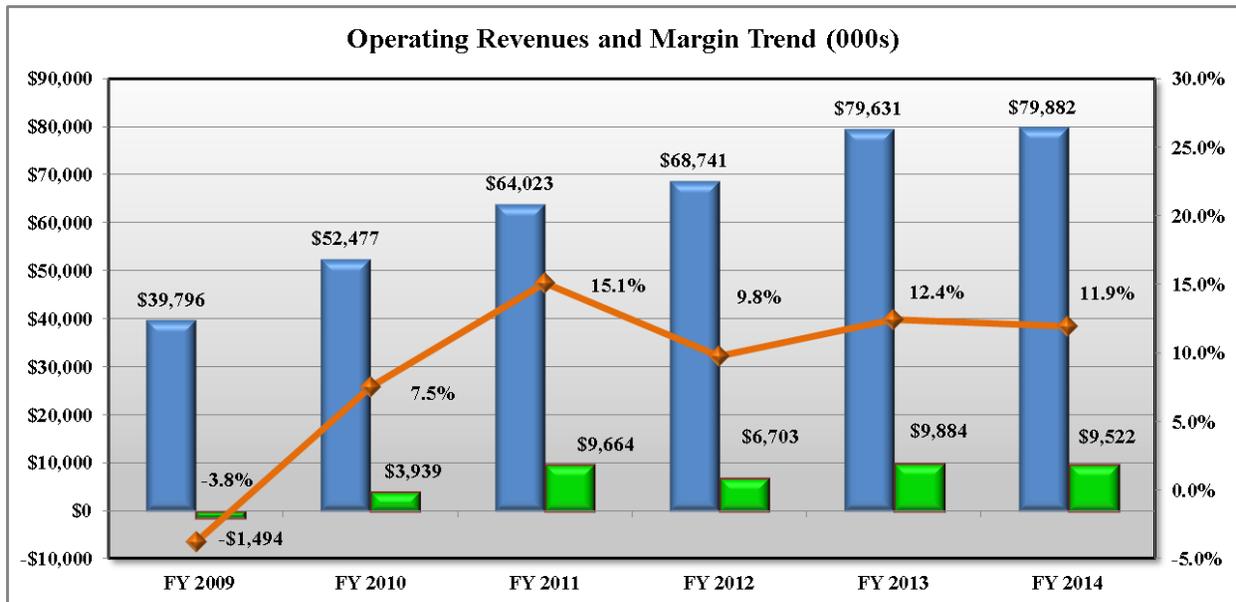
	FY 2012	FY 2013	FY 2014
Unrestricted Days Cash on Hand	579	679	799
Debt Service Coverage	2.26	3.59	3.98
Debt to Capitalization Ratio	41%	37%	31%
Cash To Debt	161%	180%	223%

All debt covenants associated with the Master Trust Indenture and the Wells Fargo Continuing Covenants Agreement have been comfortably achieved as noted below. The minimum requirement is based upon the most restrictive covenant.

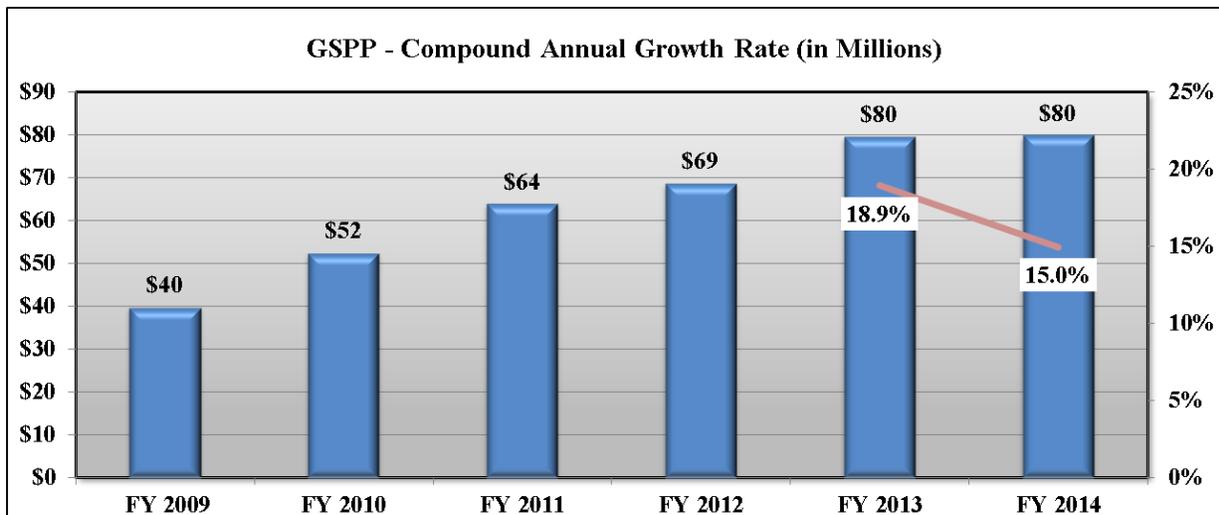
	Minimum	Actual
Unrestricted Days Cash on Hand	Min. 120 Days	799
Debt Service Coverage	Min. 1.25x	3.98
Debt to Capitalization Ratio	Max. 60%	31%

Good Shepherd Penn Partners (GSPP)

For the fiscal year ended June 30, 2014, GSPP, on a separate company basis, generated an operating margin of \$9.5 million or 11.9%. This represents a decline from the prior year operating margin of \$9.9 million or 12.4%. The following graph illustrates GSPP’s operating revenue and operating margin performance since inception. While total operating revenue was higher in FY 2014 than in all previous years, both the operating margin and operating margin percentage for FY 2014 fell slightly below FY 2011 and FY 2013 levels. GSPP’s accumulated operating margin since inception aggregated \$38.2 million.

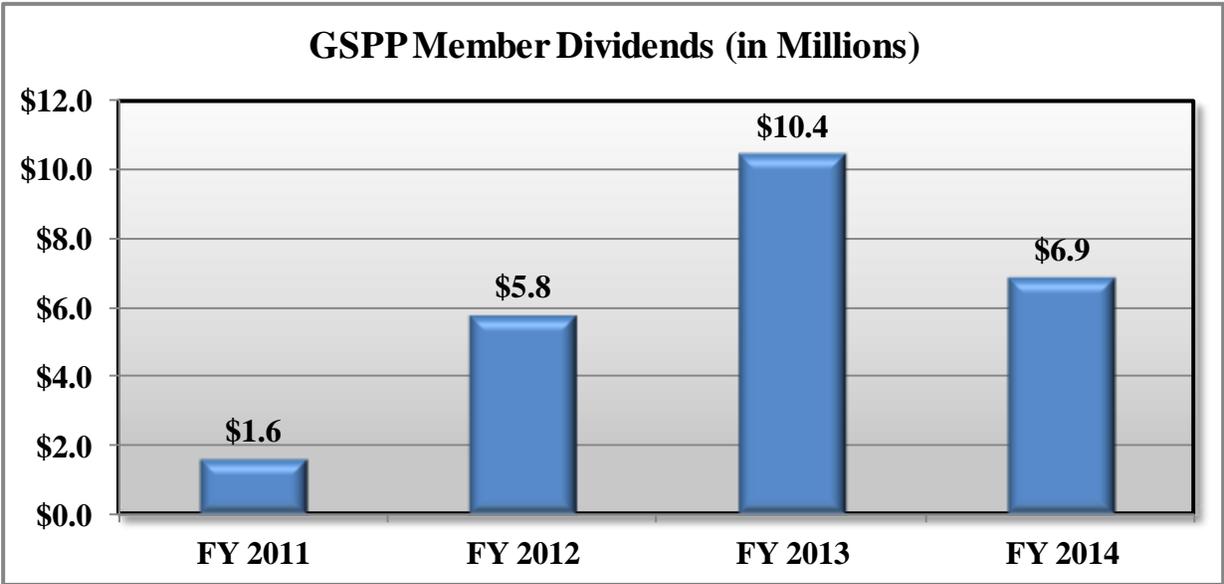


Since inception, GSPP’s operating revenue growth rate has been significant. However, GSPP’s growth rate plateaued during FY 2014, resulting in a reduction in GSPP’s compound annual growth rate to 15.0%, from 18.9% in the previous year.



GSPP dividend payments to Members declined from \$10.4 to \$6.9 million between fiscal years. However, GSPP ended the year with a strong cash balance of \$10.1 million. This, coupled with a new,

soon to be finalized, \$8 million line of credit, will increase GSPP's ability to pay higher Member dividends in FY 2015. GSRN receives 70% of the dividends paid by GSPP and cumulative dividends paid by GSPP since inception was \$24.7 million. GSPP's Member dividend history appears below.



GSPP's total assets grew by \$3 million or 8% between fiscal years. This growth results from operating cash flow, as partially offset by Member dividends and investments in property and equipment. GSPP's operating cash flow declined slightly between FY 2013 and FY 2014 from \$10.8 million to \$10.4 million.

Outlook

GSRN's overall consolidated operating margin performance for FY 2014 of 7.3% was very respectable in terms of industry performance. GSRN's Lehigh Valley operations generated a 3.3% profit margin while GSPP generated an 11.9% operating margin on a separate company basis. These margins were achieved despite the Medicare cuts imposed by the Patient Protection and Affordable Care Act (PPACA) and the 2% sequester that occurred on April 1, 2013 as well as the increased level of competition in the Lehigh Valley marketplace, particularly with respect to inpatient rehabilitation services.

GSRN's strategic diversification into the Philadelphia marketplace through the joint venture with the Trustees of the University of Pennsylvania continues to prove to be a significant initiative.

GSRN's financial strength and stability continued to improve throughout FY 2014. Cash and investments saw significant growth and debt capacity increased. The Balance Sheet is well-positioned to support GSRN's short-term and long-term business cycles as well as a robust strategic plan.

FY 2015 will be a year of great challenges and opportunities as we continue to navigate healthcare reform, maintain and develop new strategic partnerships and relationships, grow profitable core businesses and continue to enhance quality monitoring and reporting.

Ronald John Petula,
SVP of Finance
Chief Financial Officer
October 13, 2014

Good Shepherd Rehabilitation Network and Controlled Entities
Obligated Group and Consolidated Balance Sheet
As of June 30, 2014 and 2013

	<u>Obligated Group</u>		<u>Consolidated</u>	
	Audited as of <u>06/30/14</u>	Audited as of <u>06/30/13</u>	Audited as of <u>06/30/14</u>	Audited as of <u>06/30/13</u>
<u>Assets</u>				
CURRENT ASSETS:				
Cash and cash equivalents	8,284,914	1,703,216	9,763,936	2,514,255
Resident funds	141,566	146,175	141,566	146,175
Short-term investments	35,347	363,499	35,347	363,499
Assets whose use is limited	144,146	21,715	4,823,430	3,575,285
Accounts receivable, patients	13,716,339	14,167,149	16,414,976	16,484,279
Other receivables	2,289,244	1,221,490	2,289,244	1,221,490
Amount due from affiliates	1,684,453	1,878,714	1,684,453	1,878,714
Estimated third-party payor settlements	258,966	212,907	258,966	212,907
Inventories of drugs and supplies	536,898	502,927	536,898	502,927
Prepaid expenses and other current assets	1,296,375	1,390,505	1,409,349	1,487,594
Total current assets	28,388,248	21,608,297	37,358,165	28,387,125
ASSETS WHOSE USE IS LIMITED	7,721,146	9,277,983	7,721,146	9,277,983
ASSETS WHOSE USE IS LIMITED: Board Designated	2,250,000	2,400,000	2,250,000	2,400,000
INVESTMENTS				
Unrestricted	237,517,125	202,240,882	233,142,125	197,865,882
Temporarily Restricted	6,254,845	3,458,802	6,254,845	3,458,802
Permanently restricted	16,601,313	16,234,683	16,601,313	16,234,683
Total investments	260,373,283	221,934,367	255,998,283	217,559,367
INVESTMENTS IN AND OTHER ASSETS PERTAINING TO UNCONSOLIDATED SUBSIDIARY	44,101,730	42,821,939	44,101,730	42,821,939
PROPERTY AND EQUIPMENT, Net	59,234,602	61,686,885	61,134,908	63,779,873
BENEFICIAL INTEREST IN:				
Perpetual trusts	11,583,135	10,477,027	11,583,135	10,477,027
Charitable remainder trusts	8,969,628	8,270,870	8,969,628	8,270,870
PLEDGES RECEIVABLE, Net	1,436,279	1,542,690	1,436,279	1,542,690
DEFERRED FINANCING COSTS, Net	2,123,001	2,218,790	2,123,001	2,218,790
OTHER NON-CURRENT ASSETS	1,952,985	2,047,090	1,980,308	2,066,668
TOTAL	<u>428,134,037</u>	<u>384,285,938</u>	<u>434,656,583</u>	<u>388,802,332</u>

Good Shepherd Rehabilitation Network and Controlled Entities
Obligated Group and Consolidated Balance Sheet
As of June 30, 2014 and 2013

	<u>Obligated Group</u>		<u>Consolidated</u>	
	<u>Audited as of 06/30/14</u>	<u>Audited as of 06/30/13</u>	<u>Audited as of 06/30/14</u>	<u>Audited as of 06/30/13</u>
<u>Liabilities and Net Assets</u>				
CURRENT LIABILITIES				
Demand note payable	0	1,844,002	0	1,844,002
Current portion of long-term debt	2,840,000	2,530,000	2,840,000	2,530,000
Accounts payable, trade	3,603,386	4,255,010	3,985,362	4,565,812
Estimated third-party payor settlements	1,368,383	1,354,793	1,947,887	1,947,164
Advance from third party payor	277,900	277,900	277,900	277,900
Accrued expenses	8,417,111	5,696,543	9,875,039	6,783,164
Resident funds	141,566	146,175	141,566	146,175
Amount due to affiliates	15,629,685	14,123,323	0	0
Total current liabilities	<u>32,278,031</u>	<u>30,227,746</u>	<u>19,067,754</u>	<u>18,094,217</u>
LONG-TERM DEBT:				
Revenue bonds	108,461,206	111,381,721	108,461,206	111,381,721
Mortgages payable			<u>1,675,500</u>	<u>1,675,500</u>
Total long-term debt	<u>108,461,206</u>	<u>111,381,721</u>	<u>110,136,706</u>	<u>113,057,221</u>
DERIVATIVE FINANCIAL INSTRUMENTS	4,639,040	4,427,846	4,639,040	4,427,846
ACCRUED PENSION COST	12,309,485	13,874,640	12,309,485	13,874,640
OTHER LIABILITIES	<u>4,125,748</u>	<u>4,882,733</u>	<u>5,653,581</u>	<u>5,762,657</u>
Total liabilities	<u>161,813,510</u>	<u>164,794,686</u>	<u>151,806,566</u>	<u>155,216,581</u>
NET ASSETS				
Unrestricted	223,095,191	181,092,500	239,624,681	195,186,999
Temporarily restricted	13,851,866	10,481,046	13,851,866	10,481,046
Permanently restricted	<u>29,373,470</u>	<u>27,917,706</u>	<u>29,373,470</u>	<u>27,917,706</u>
Total net assets	<u>266,320,527</u>	<u>219,491,252</u>	<u>282,850,017</u>	<u>233,585,751</u>
TOTAL	<u><u>428,134,037</u></u>	<u><u>384,285,938</u></u>	<u><u>434,656,583</u></u>	<u><u>388,802,332</u></u>

Good Shepherd Rehabilitation Network and Controlled Entities
Obligated Group and Consolidated Statement of Operations
For the Twelve Month Periods Ended June 30, 2014 and 2013

	<u>Obligated Group</u>		<u>Consolidated</u>	
	<u>Audited Period Ending 06/30/14</u>	<u>Audited Period Ending 06/30/13</u>	<u>Audited Period Ending 06/30/14</u>	<u>Audited Period Ending 06/30/13</u>
UNRESTRICTED REVENUE, GAINS, AND OTHER SUPPORT:				
Net patient service revenues	95,363,099	92,894,590	112,849,360	109,150,667
Provision for doubtful collections	(537,196)	(502,645)	(603,520)	(444,847)
Net patient service revenue less provision for doubtful collections	94,825,903	92,391,945	112,245,840	108,705,820
Other operating revenues	1,864,961	1,789,255	3,563,358	3,016,413
Professional services revenue	10,576,316	10,477,179	6,011,655	5,682,914
Contributions	4,211,859	2,693,855	4,211,859	2,693,855
Equity in (loss) on investment in unconsolidated subsidiary	6,665,750	6,927,463	6,665,750	6,927,463
Gains (losses) on disposal of property and equipment	284	(7,301)	284	(7,301)
Net assets released from restrictions for operations	1,900,579	1,747,550	1,901,355	1,749,898
Total unrestricted revenues, gains, and other support	<u>120,045,652</u>	<u>116,019,946</u>	<u>134,600,101</u>	<u>128,769,062</u>
EXPENSES:				
Salaries and wages	58,659,382	57,518,033	63,987,852	62,560,889
Supplies and other expenses	22,059,937	21,333,408	27,747,097	26,094,441
Employee benefits	17,325,416	17,822,594	17,708,324	18,188,639
Depreciation and amortization	7,418,685	7,671,864	7,708,672	8,088,559
Interest	5,028,808	5,362,212	5,028,808	5,362,212
Professional fees	2,118,278	1,504,405	2,549,211	1,926,967
Total	<u>112,610,506</u>	<u>111,212,516</u>	<u>124,729,964</u>	<u>122,221,707</u>
OPERATING INCOME FROM CONTINUING OPERATIONS	7,435,146	4,807,430	9,870,137	6,547,355
OTHER INCOME (EXPENSE):				
Loss on Extinguishment of Debt	-	(3,684,534)	-	(3,684,534)
Investment (Loss) Income	8,174,482	7,793,832	8,174,482	7,793,832
Unrealized Gain / Loss Alternative Investment	2,136,650	1,005,204	2,136,650	1,005,204
REVENUE IN EXCESS OF EXPENSES FROM CONTINUING OPERATIONS	17,746,278	9,921,932	20,181,269	11,661,857
CHANGE IN NET UNREALIZED GAINS AND LOSSES ON INVESTMENTS OTHER THAN TRADING SECURITIES	24,973,713	12,532,115	24,973,713	12,532,115
CHANGE IN FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS	(211,194)	2,329,795	(211,194)	2,329,795
PENSION LIABILITY ADJUSTMENT	(533,446)	9,551,532	(533,446)	9,551,532
PENSION LIABILITY ADJUSTMENT - UNCONSOLIDATED SUBSIDIARY	(207,606)	625,404	(207,606)	625,404
OTHER CHANGES IN UNRESTRICTED NET ASSETS	39,489	275,224	39,489	157,441
NET ASSETS RELEASED FROM RESTRICTIONS FOR PURCHASE OF PROPERTY AND EQUIPMENT	195,457	86,465	195,457	86,465
INCREASE IN UNRESTRICTED NET ASSETS	<u>42,002,691</u>	<u>35,322,467</u>	<u>44,437,682</u>	<u>36,944,609</u>

Good Shepherd Rehabilitation Network and Controlled Entities
Consolidated Statement of Cash Flows
For the Twelve Month Periods Ended June 30, 2014 and 2013

	Audited Period Ending 06/30/14	Audited Period Ending 06/30/13
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase (decrease) in net assets	49,264,266	39,093,955
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation and amortization	7,708,672	8,088,559
Amortization of debt premium	(68,570)	(44,368)
(Gain) loss on disposal of property and equipment	(284)	7,301
Provision for bad debts	603,520	444,847
Net realized and unrealized gains on investments	(32,064,395)	(17,780,631)
Restricted contributions and investment income	(2,767,637)	(2,637,141)
Change in fair value of derivative financial instruments	211,194	(2,329,795)
Valuation adjustments - permanently and temporarily restricted net assets	(1,867,956)	(407,753)
Loss on Extinguishment of Debt	-	3,684,534
Debt restructuring costs	-	-
Income on investment in unconsolidated subsidiary	(6,665,750)	(6,927,463)
Pension liability adjustment-	-	-
The Good Shepherd Rehabilitation Hospital	533,446	(9,551,532)
Pension liability adjustment - unconsolidated subsidiary	207,606	(625,404)
Changes in assets and liabilities:	-	-
Accounts receivable, patients	(534,217)	(1,251,629)
Other receivables	(1,067,754)	5,634,530
Estimated third-party payor settlements	(45,336)	840,447
Inventories of drugs and supplies	(33,971)	12,642
Prepaid expenses and other current assets	145,489	705,535
Account payable, trade	(580,450)	(531,785)
Accrued expenses and other liabilities	928,719	(8,890,775)
Net cash provided by operating activities	13,906,592	7,534,074
CASH FLOWS FROM INVESTING ACTIVITIES:		
Increase in investments	(4,752,297)	(10,894,456)
Decrease in investment in and other assets pertaining to unconsolidated subsidiary	563,614	882,430
Cash dividends received from unconsolidated subsidiary	4,809,000	7,299,250
Proceeds from sale of property and equipment	300	-
Purchase of property and equipment	(4,960,763)	(4,821,671)
Increase in other assets	-	(63,000)
Net cash used in investing activities	(4,340,146)	(7,597,447)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of demand note payable	(1,844,002)	(1,714,914)
Restricted contributions and investment income	2,096,812	1,600,881
Repayment of long-term debt, net	(2,530,000)	(2,935,001)
Proceeds from issuance of long term debt	-	3,835,000
Payment of interest from escrow and related to refunded debt	-	(2,741,605)
Increase in bond discount and premium, net	-	572,416
Payment of financing costs	-	(286,674)
Decrease in annuities payable and trusts	(39,575)	(73,570)
Net cash used for financing activities	(2,316,765)	(1,743,467)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	7,249,681	(1,806,840)
CASH AND CASH EQUIVALENTS, BEGINNING	2,514,255	4,321,095
CASH AND CASH EQUIVALENTS, ENDING	9,763,936	2,514,255
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION,		
Cash paid for interest	5,099,217	5,717,224
SUPPLEMENTAL DISCLOSURE OF NONCASH FINANCING ACTIVITIES,		
Long-term debt refinanced	-	27,895,000

Good Shepherd Rehabilitation Network Obligated Group
Selected Financial Ratios

		For the Fiscal Year Ending				
		2010	2011	2012	2013	2014
Operating Cash Flow Margin	(1)	12.6%	17.8%	13.8%	15.4%	16.6%
Long-Term Debt to Capitalization	(2)	48.7%	40.5%	42.8%	38.1%	32.7%
Debt Service Coverage	(3)	1.75	2.41	1.45	3.31	3.62
Operating Margin Ratio	(4)	-0.8%	5.9%	2.1%	4.1%	6.2%
Return on Equity Ratio	(5)	4.0%	10.2%	2.2%	5.5%	8.0%
Cushion Ratio	(6)	17.6	22.6	21.3	26.7	32.0
Days Cash on Hand	(7)	563	678	639	760	899
Days in Accounts Receivable	(8)	45	47	51	56	53
Obligated Group % of Total Assets	(9)	97.5%	98.0%	98.1%	98.8%	98.5%
Obligated Group % of NPSR	(10)	82.7%	83.8%	84.4%	85.0%	84.5%
Obligated Group % of Total Expenses	(11)	90.7%	90.5%	91.2%	91.0%	90.3%
Cash to Debt	(12)	1.20	1.56	1.65	1.86	2.29
Debt to Operating Cash Flow	(13)	9.06	5.56	6.76	6.24	5.46

(1) Defined as the sum of Operating Income (Loss) before Abandonment of Capital Project and Extinguishment of Debt, 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 and Interest Expense and Depreciation and Amortization Expense divided by Maximum Annual Debt Service.

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

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

(6) Defined as the sum of Cash, Unrestricted Investments (Short and Long Term), and Board Designated Funds divided by Maximum Annual Debt Service.

(7) Defined as the sum of Cash, Unrestricted Investments (Short and Long Term), and Board Designated Funds less 50% of all outstanding Short-term Indebtedness divided by the quotient of the sum of Total Expenses less Depreciation, Amortization, and Interest 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 Cash, Unrestricted Investments (Short and Long Term) and Assets Whose Use is Limited-Board Restricted 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 and Extinguishment of Debt, 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

	Fiscal Year Ended June 30				
	2010	2011	2012	2013	2014
<u>Inpatient Utilization</u>					
Number of Licensed Beds	98	102	102	106	106
Average Beds in Service	98	102	102	106	106
Admissions	1,796	1,908	1,895	1,940	1,763
Patient Days	24,834	27,473	29,033	29,017	28,811
Percent Occupancy	69.4%	76.0%	77.8%	75.0%	74.5%
Average Length of Stay	13.7	14.4	15.4	15.0	16.3

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

	Fiscal Year Ended June 30				
	2010	2011	2012	2013	2014
<u>Outpatient Visits</u>					
Hospital	81,221	81,479	87,699	91,280	91,937
Satellites	111,854	122,070	122,458	117,852	123,227
Contracted Services	22,835	20,242	11,659	9,286	10,936
Total	<u>215,910</u>	<u>223,791</u>	<u>221,816</u>	<u>218,418</u>	<u>226,100</u>

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

	Fiscal Year Ended June 30				
	2010	2011	2012	2013	2014
<u>Payor Mix</u>					
Medicare	34.9%	32.4%	33.5%	33.1%	33.4%
Medical Assistance	13.6%	14.6%	16.1%	17.3%	16.6%
Blue Cross	10.0%	10.5%	11.8%	9.4%	9.4%
Commercial/Auto	7.4%	7.7%	6.0%	6.2%	6.9%
Managed Care	25.9%	26.8%	24.9%	27.1%	27.6%
Workers' Compensation	3.5%	3.6%	3.6%	3.3%	2.9%
Self Pay	0.5%	0.5%	0.7%	0.8%	0.7%
Other	4.2%	3.9%	3.5%	2.9%	2.6%

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

	Fiscal Year Ended June 30				
	2010	2011	2012	2013	2014
Beds Available	159	159	159	159	159
Days Available	58,035	58,035	58,194	58,035	58,035
Percentage Occupancy	99.48%	99.65%	99.62%	99.44%	99.60%
Inpatient Days	57,733	57,829	57,972	57,711	57,801