

This Document is Dated as of October 26, 2011.

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 Ending 6/30/11**

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, 2011**

	Page
A. Good Shepherd Rehabilitation Network and Controlled Entities	
Management Discussion and Analysis	1
Balance Sheet – Obligated Group and Consolidated	9
Statement of Operations – Obligated Group and Consolidated	11
Statement of Cash Flows – Consolidated	12
B. Good Shepherd Rehabilitation Network Obligated Group	
Selected Financial Ratios	13
C. Other Updates to Appendix A to the Official Statement	
The Good Shepherd Rehabilitation Hospital - Utilization of Services	14
The Good Shepherd Home Long-Term Care Facility, Inc. – Utilization	15

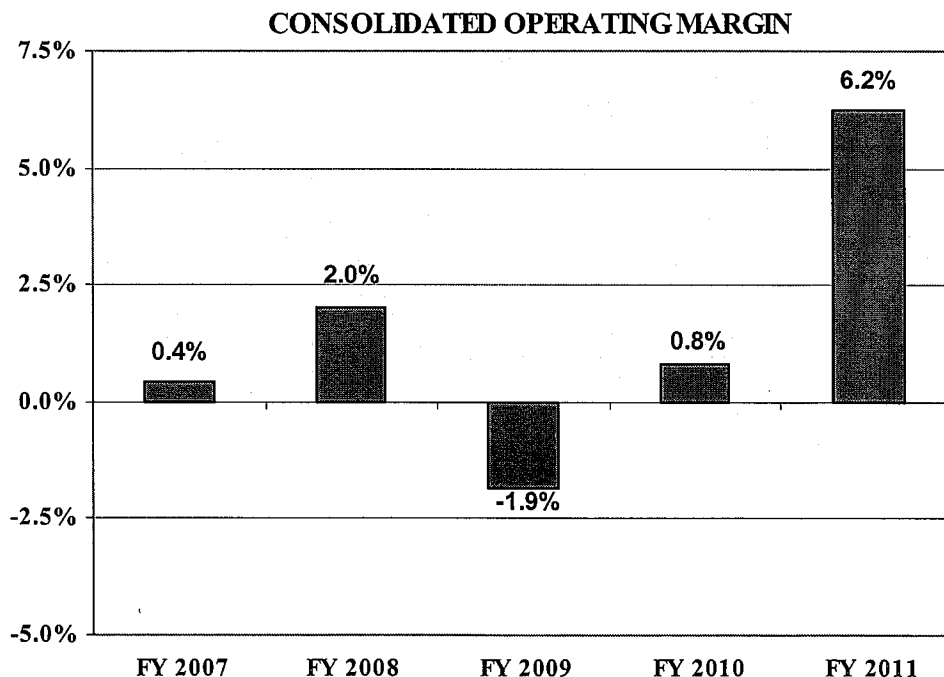
Good Shepherd Rehabilitation Network and Controlled Entities
Management Discussion and Analysis
As of and for the Twelve Month Period Ended June 30, 2011

Introduction

***SPECIAL NOTE CONCERNING FORWARD-LOOKING STATEMENTS:** Certain of the discussions included in this 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.*

This Management Discussion and Analysis compares financial and volume data on an annual basis for Good Shepherd Rehabilitation Network and Controlled Entities (Good Shepherd). Certain matters are discussed and graphically presented in order to compare the current and prior year quarters.

The Consolidated operating results of Good Shepherd Rehabilitation Network (GSRN) had a positive Operating Margin for a second year in a row. The audit report results show an operating gain of \$8.0 million, or a 6.2% margin, compared to a profit of \$0.9 million, or a 0.8% margin in FY 10. This includes a \$6.8 million equity share of the profits generated by Good Shepherd Penn Partners (GSPP).

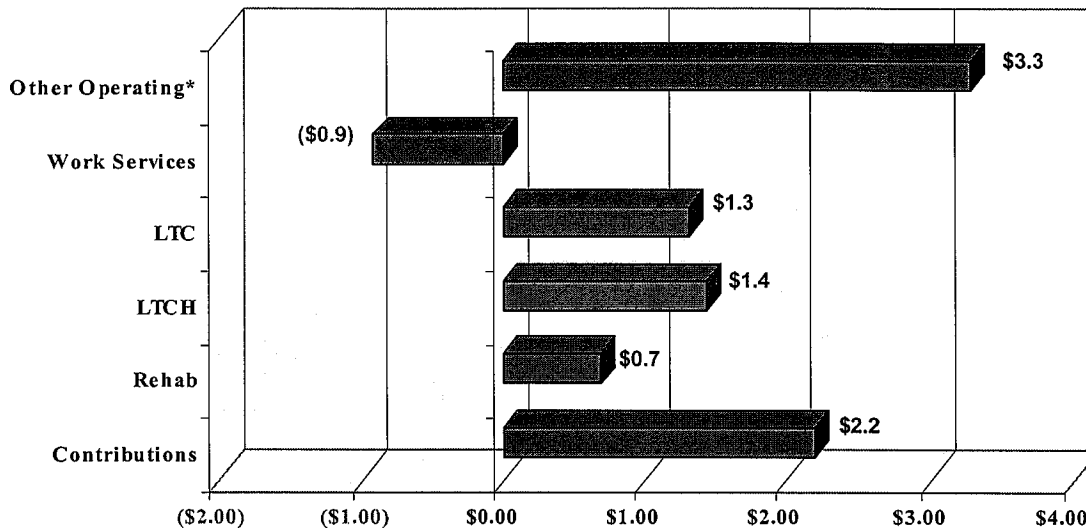


Performance at GSRN (Lehigh Valley operations) had a significant turnaround during the last five months of the year. Through the first seven month GSRN was operating at a loss of \$1.0 million. The year ended at a profit of \$2.2 million or a swing of \$3.2 million in the last five months. The primary reason for this improvement was increased inpatient utilization in Allentown, Pocono, and the Pediatrics unit in

Bethlehem. On average monthly rehab admissions grew 17% in the last five months which resulted in significant improvement in the financial performance during that time period.

The components of Good Shepherd's operating margin, for the fiscal year ended June 30, 2011, are delineated within the following summary:

COMPONENTS OF FYTD OPERATING MARGIN (In Millions)



*Other Operating includes Corporate, Institutional Advancement, and the Profit from Unconsolidated Affiliate

The Statement of Operations has some notable changes from last year in both revenue and expenses. Revenue increased 10.3%, or \$12 million, during the year primarily related to inpatient rehab and GSPP. This is the second year in a row of 10% growth in operating revenue. GSPP generated a profit of \$9.7 million in FY 11 which is an increase of \$5.7 million from prior year. The amount of GSPP's profit included at 70% in the GSRN Operating Revenue is \$6.8 million. Patient Service Revenues increased 8% in FY 11 as growth in revenue occurred in the Allentown Rehab Hospital, the Pediatrics Rehab Unit, and a full year of operations at several new outpatient sites that opened in the prior year, and the addition of a new site in Souderton this year.

Despite the significant growth in admissions expenses only grew by 4.3% during the year. Salaries increased at a rate of 8.2% which takes into account the additional staffing costs necessary for the utilization growth as well as the annual performance increase which averaged 2.8%. There was also a significant decrease in Bad Debts of \$1 million as much more emphasis was placed on the revenue cycle and point of service collections.

Reviewing performance from a cash flow perspective; cash flow from operations (defined as earnings before interest, depreciation and amortization (EBIDA)) produced a 13% cash flow margin, or \$16.5 million compared to 11% last year, or \$12 million. This EBIDA calculation removes the GSPP revenue and replaces it with the dividend of \$1.1 million paid to GSRN.

The Balance Sheet remained very strong as Unrestricted Day's Cash on Hand ended the year at 579 days which is an improvement of 97 days from FY 10. The Debt to Capitalization ratio was reduced to 39% from 47% during the year. The 11% growth in Accounts Receivable is reflective of the growth in revenue during the year. Accrued expenses grew from prior year as it relates to the timing of the salary accrual on

June 30th. The defined benefit pension plan continues to be funded in excess of the ERISA requirements although the Balance Sheet recognizes a pension liability of \$7.3 million which measures the difference between plan assets and actuarially determined benefit obligations.

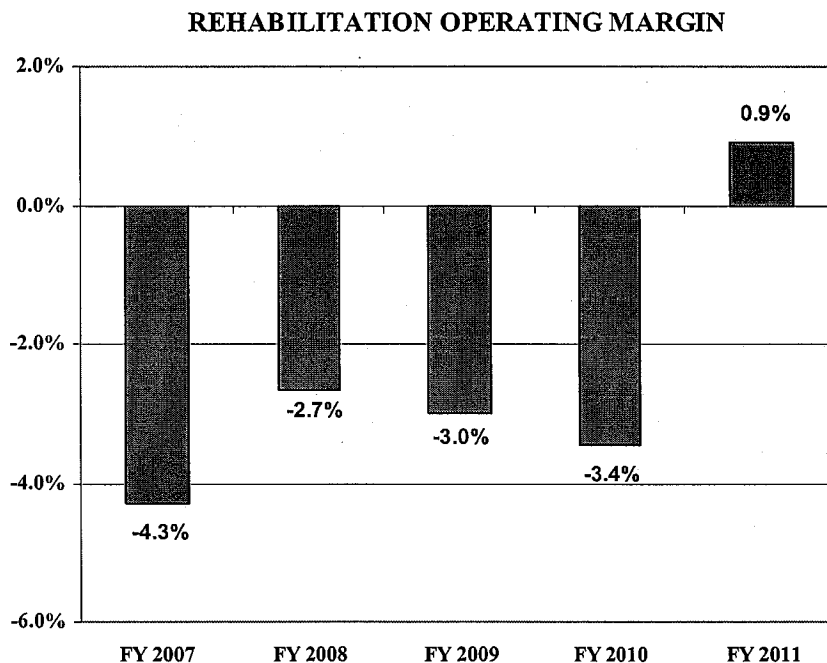
Standard and Poor's annual surveillance review maintained the GSRN rating as an "A" rating and continued their outlook perspective as negative.

In terms of the rehab hospital patient utilization, total cases increased by 6% during the year. The 6% is significant considering admissions were 2% below last year thru January. The LTCH admissions were flat with prior year as management continues to address the 25% Rule. Outpatient visits grew by 5% as a new satellite was added and the impact of a full year of business from the late FY 10 acquisition of Core PT. The Long Term Care division remained at near full capacity at both locations. Work Services continued to be impacted by the downturn in the economy and experienced flat revenues compared to prior year.

Divisional Review

Rehabilitation

The rehabilitation services division includes all of the adult and pediatric inpatient and outpatient rehabilitation sites, the Psychology, Physiatry and Developmental Pediatrics physicians, the Fitness Center and the Imaging Center service lines. Operating margin comparisons, for the current and prior year quarters, appear as follows:



Total admissions increased 112 cases, or 6%, from last year but, as noted above, admissions were on pace to be 2% less than prior year in January. There was a 17% growth in admissions in the second half of the year. As a result of the increased utilization four (4) acute rehab beds were added to the license in Allentown.

In total, the division experienced a profit of \$688,000 compared to an operating loss of \$2.3 million in FY10. The most significant improvement was within the inpatient Rehab Hospital business. Allentown,

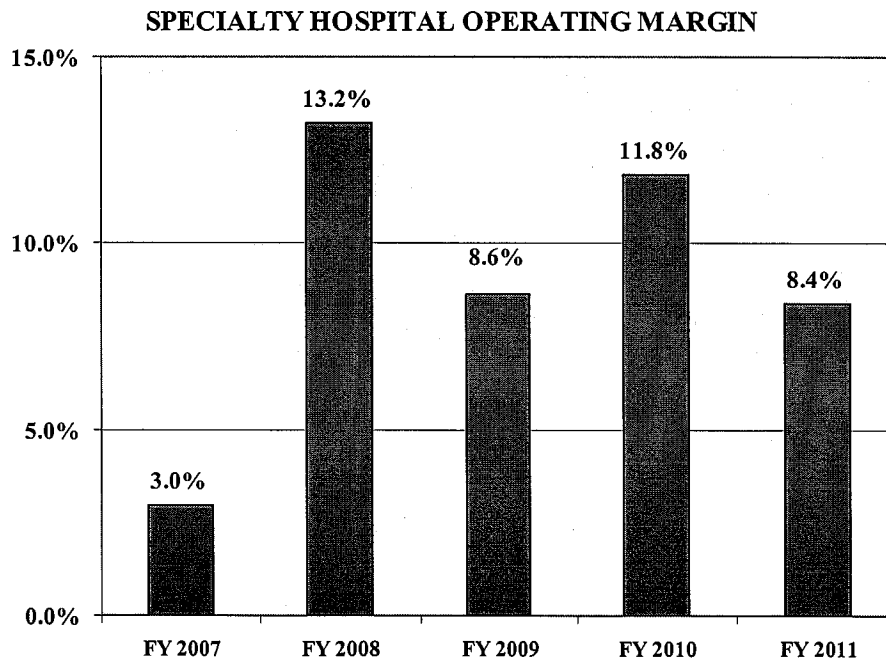
Pocono, and Peds combined for a profit of \$2.4 million in FY 11 which is a 6.3% margin. The division also experienced a one-time settlement of \$686,000 under Act 49 where the state and the hospital community developed a new MA payment system. The division also includes the Physician group; the groups losses decreased by \$500,000 from prior year.

The outpatient business produced less of a margin than last year primarily because of fee reductions instituted by Medicare for multiple procedures, and limitations on the number of approved therapy visits for Capital Blue Cross subscribers. Additionally the outpatient Pediatrics business incurred start-up costs associated with the expansion of the program on the first floor of the H&TC which negatively impacted the margin.

Specialty Hospital

The long term acute care hospital division experienced a \$608,000 decrease in performance from year to year. In FY 11 the Specialty Hospital reported a profit of \$1.4 million, or 8.4%. This is a decrease in profitability of 3.4% from prior year. Patient volume and revenue was relatively flat from year to year while expenses grew by 4%.

Management continues to operate under the Medicare 25% Rule. FY 10 was the first fiscal year operating under the 25% Rule. This rule has a penalty for all cases that exceed 25% of admissions from a single hospital. Lehigh Valley Cedar Crest is the main referral source and management was able to operate within the limits. There was only one case in excess of the 25% limit from LVH-CC.

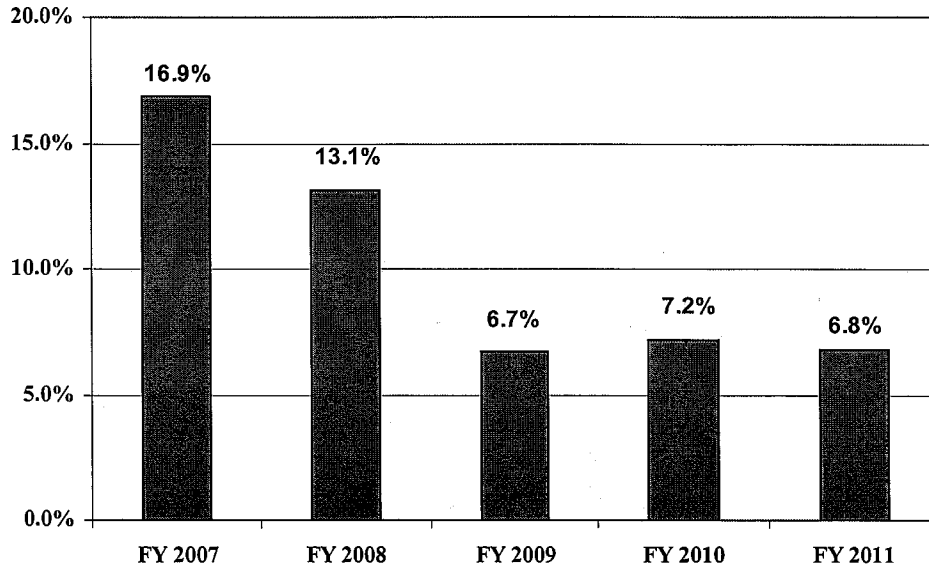


Long Term Care

The Long Term Care division continues to operate at almost 100% capacity at the two sites. There is a continued decline in the MA rates paid to Peer Group 13 (PG13) which impacted profitability in the LTC division in FY11; the margin dropped to 6.8% from 7.2% in the prior year. The margin would have been lower in FY 11 but was improved for several reasons including management initiating a cost reduction initiative, and the receipt of a \$450,000 settlement from DPW as a result of a civil action against the Commonwealth because DPW failed to distribute additional settlement matching funds to the nursing

facilities under the American Reinvestment and Recovery Act (ARRA). Management has spent considerable time negotiating with DPW on a conceptual rate agreement for the division that will eliminate PG13 and incorporate per diem payments that will not be diluted on a go-forward basis. There was agreement to implement the new rate structure on 10/1/2010. There have been many stalls by DPW since this conceptual agreement and the agreement is expected to be signed by January.

LONG TERM CARE OPERATING MARGIN

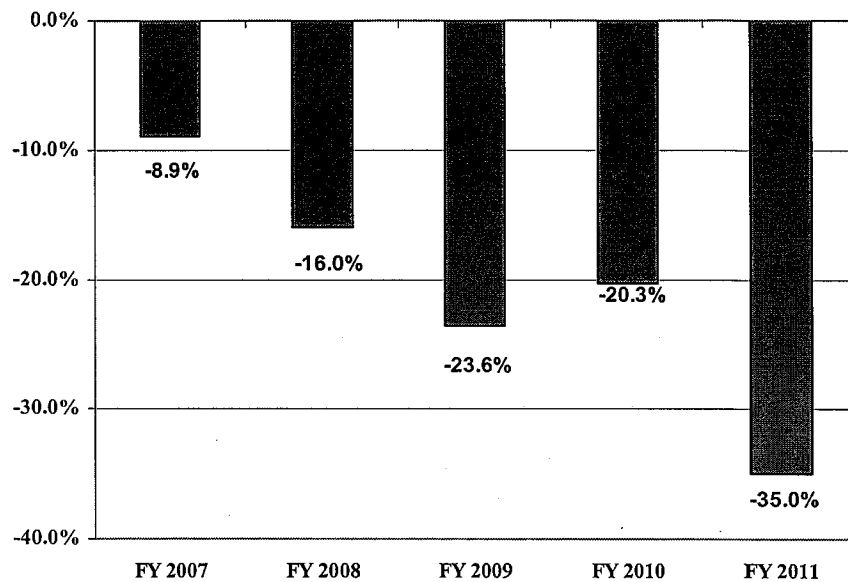


Work Services

The Work Services division is comprised of three lines of business; Production, Vocational Services, and Clubhouse. In total, operating performance from year to year was flat. In FY 11 there was a division loss of \$565,000 compared to a FY 10 loss of \$600,000. In addition the former RePlace division services building and the adjacent land parcel were sold during the year at a book loss of \$366,000. Cash proceeds from the sales were \$1.2 million.

Within the divisions there were very little variations in margin. Production services reported flat revenue of \$1.6 million and a margin loss of \$360,000 which was slightly less than the prior year loss. Vocational Service revenue increased about 10% from prior year to \$983,000 but the loss increased by \$52,000 to \$201,000. The Clubhouse, through the Lehigh County contract, continues to generate a small profit.

WORK SERVICES OPERATING MARGIN



Balance Sheet

Balance Sheet strength increased in FY 11 as the Investments market value improved by about 26% since last year. Investments increased by \$\$39 million from \$148 million to \$187 million. The Investments line on the Balance Sheet is comprised of several categories as noted below:

	FY 11	FY 10
Unrestricted Investments	\$169,733,758	\$132,665,195
Temporarily Restricted	2,735,077	1,165,859
Permanently Restricted	14,547,213	14,226,923
Investments	\$187,016,048	\$148,057,977

From a liquidity position there was major growth prevalent in the Unrestricted Investments category. In addition to the increased performance of the capital markets during the fiscal year (there was a 24% return on the investment pool in FY 11) and increased cash flow from operations, management made a conscious decision to fund the unrestricted investment portfolio in order to continue to grow cash for strategic purposes. Other sources of unrestricted cash during the year included the \$1.2 million from the sale of the RePlace building and land, and the receipt of GSPP's first dividend of \$1.1 million.

During the year \$3.8 million was transferred from operating cash flows to the investment pool over a five month period, and \$1.0 million was taken from the operating cash account to fund the second real estate manager, Cornerstone Patriot Fund.

Accounts receivable increased 11% while net patient service revenue increased 8% resulting in a slight increase in days in accounts receivable to 47 days from 45. The revenue cycle continues to function at an acceptable level given the higher dollar co-pays and deductibles that are presently in employer health plan

benefits. Management successfully instituted a renewed emphasis on point of service collections and the collection of patient demographics during the registration process.

A review of the capital position also looks very favorable as the Debt-to-Capitalization ratio dropped to 39.3% from 47.2% last year. A lower ratio is significant in terms of having the ability for future financing of the strategic plan. Long term debt decreased by \$2.8 million pertaining to the principal payments on outstanding bonds. More importantly Unrestricted Net Assets increased \$46 million or 35% from prior year. This was driven by \$18 million attributed to the Revenue in Excess of Expenses, plus a \$20 million increase in unrealized gains from the investment pool, and a \$6 million reduction in the accrued unfunded pension liability.

The Accrued Pension Liability decreased during the fiscal year from \$13 million to \$7 million. The primary reason for the smaller liability is from higher performing assets in the plan investments, plan contributions of \$2.8 million, and a small increase in the discount rate used to present value projected benefit obligations (PBO) from 5.5% to 5.6%. (The discount rate is based on the Citigroup Pension Liability Index which is an accepted industry index for actuarial reporting. Typically a 1% change in the discount rate is worth about a 15% to 20% change in the PBO. The pension plan assets increased to \$48 million in FY 11 from \$39 million last year. The pension plan is fully funded by ERISA standards.

Some of the more significant Balance Sheet ratios were impacted by the positive swing in operating performance and the increase in market value of the investments and net assets. The table below notes the ratio changes.

Consolidated Financial Ratios

	FY 11	FY 10
UR Days Cash	603	482
UR Cash to Debt	153%	117%
Debt to Capital	39%	47%

Bond Covenants

Good Shepherd Rehabilitation Network and Controlled Entities, through the Obligated Group, as defined, is required to meet certain financial covenants under their various Long-Term Debt Agreements. One of the covenants requires the Obligated Group to maintain a Debt Service Coverage ratio of 1.25. The calculation compares Maximum Annual Debt Service to Revenue in Excess of Expenses, adjusted for Depreciation, Amortization and Interest Expense. The calculation also provides that certain items, such as the Loss on Extinguishment of Debt and Unrealized Losses on Securities are excluded from the Debt Service Coverage calculation. Management interpreted two matters with respect to the Debt Service Coverage calculation. Management excluded the Equity in (Loss) on Investment in Unconsolidated Subsidiary from the calculation because GSPP is not a member of the Obligated Group. Also, unrealized gains and losses relating to an alternative investments (Walter Scott Global) are required to be included as part of Revenue in Excess of Expenses, per recent accounting guidance. Since Unrealized Losses on Securities represent a specific exclusion from the Debt Service Coverage calculation, they were excluded. All debt covenants associated with the Master Trust Indenture and the Wells Fargo Direct Pay Letter of Credit for FY 11 have been comfortably achieved.

Outlook

There has been an overall improvement in the consolidated performance of GSRN in FY 11. Both Margins and Cash increased at both operations primarily related to increased inpatient utilization at both sites. The Lehigh Valley operation on its own generated a 2.3% profit margin. The power of relationship management has certainly been the driving force.

Management anticipates the momentum initiated in January with inpatient utilization will carry over into FY 12 and performance will remain positive. The FY 12 budget anticipates a consolidated margin of 4.6%. The challenge will be to maintain the increased inpatient utilization at both sites and provide the anticipated salary increases and market adjustments to the workforce while preparing for the scheduled Medicare cuts within the PPACA or the new deficit reduction team. The Medicare environment at both locations will add many challenges during the current year as well as in future years as the healthcare reform bill has scheduled cuts to inpatient Medicare rates from 2010 through 2019. In addition Quality Reporting will begin to impact the post-acute care industry and management is positioned very favorably for reporting and compliance. The two inpatient services at both GSRN and GSPP are highly dependent on the level of occupancy at the referring hospitals. This referral base has also had its challenges with census volatility and that risk is still a concern.

The outpatient division has also experienced its share of payment challenges from Medicare and Capital Blue Cross. Management has been working to minimize those impacts thru a more efficient operation and continued organic growth.

Management is in the process of reviewing the feasibility of refunding \$39 million of Series a 2008 and Series B 2007 Bonds. The financing strategy is to allow for a longer term than the current direct pay Letter of Credit on the Series A 2008 bonds and the Standby Bond Purchase Agreement for the Series B 2007 Bonds. Both credit facilities are currently for three year terms. By refunding, both bond issues will be purchased directly by a bank and will be held for a seven year term and have less market volatility.

GSRN is in the beginning stages of preparing a strategic plan for the future of healthcare in the Lehigh Valley and at GSPP. Management is in the process of preparing to address the Board of Trustees in the Spring of 2012 with the results of a planning process that will be developed during the year. The plan will incorporate how changes in the healthcare industry will impact the delivery and financing of post-acute care services in the future and how Good Shepherd will identify and articulate the concept, vision, goals, and market strategy for the organization to be better positioned for those changes.

Good Shepherd Rehabilitation Network and Controlled Entities
Obligated Group and Consolidated Balance Sheet
As of June 30, 2011 and 2010

	<u>Obligated Group</u>		<u>Consolidated</u>	
	<u>Audited as of 06/30/11</u>	<u>Audited as of 06/30/10</u>	<u>Audited as of 06/30/11</u>	<u>Audited as of 06/30/10</u>
<u>Assets</u>				
CURRENT ASSETS:				
Cash and cash equivalents	1,954,527	1,062,939	2,238,160	1,712,346
Resident funds	151,327	160,607	151,327	160,607
Short Term Investments	1,904,994	2,129,123	1,904,994	2,129,123
Assets whose use is limited	-8,810	0	2,661,909	2,322,051
Accounts receivable, patients	12,014,127	10,428,670	14,896,106	13,383,228
Other receivables	469,309	689,069	851,214	928,273
Amount due from affiliates	1,627,692	1,159,720	1,627,692	1,159,720
Estimated third-party payor settlements	714,122	201,883	714,122	201,883
Inventories of drugs and supplies	457,572	519,517	457,572	519,517
Prepaid expenses and other current assets	1,250,803	1,301,974	1,338,240	1,407,225
	<u>20,535,663</u>	<u>17,653,502</u>	<u>26,841,336</u>	<u>23,923,973</u>
Total current assets				
ASSETS WHOSE USE IS LIMITED	10,802,598	10,302,559	10,802,598	10,302,559
ASSETS WHOSE USE IS LIMITED: Board Designated	2,700,000	2,850,000	2,700,000	2,850,000
INVESTMENTS				
Unrestricted	171,358,758	133,790,195	169,733,758	132,665,195
Temporarily Restricted	2,735,077	1,165,859	2,735,077	1,165,859
Permanently restricted	14,547,213	14,226,923	14,547,213	14,226,923
	<u>188,641,048</u>	<u>149,182,977</u>	<u>187,016,048</u>	<u>148,057,977</u>
Total investments				
INVESTMENTS IN AND OTHER ASSETS PERTAINING TO UNCONSOLIDATED SUBSIDIARY	43,122,014	37,465,050	43,122,014	37,465,050
PROPERTY AND EQUIPMENT, Net	67,818,400	73,739,702	70,601,903	76,839,357
BENEFICIAL INTEREST IN:				
Perpetual trusts	10,657,064	9,202,965	10,657,064	9,202,965
Charitable remainder trusts	11,471,487	10,018,441	11,471,487	10,018,441
PLEDGES RECEIVABLE, Net	1,349,315	1,852,278	1,349,315	1,852,278
DEFERRED FINANCING COSTS, Net	3,035,307	3,157,009	3,035,307	3,157,009
OTHER NON-CURRENT ASSETS	892,846	921,721	916,127	943,732
	<u>361,025,742</u>	<u>316,346,204</u>	<u>368,513,199</u>	<u>324,613,341</u>
TOTAL				

Good Shepherd Rehabilitation Network and Controlled Entities
Obligated Group and Consolidated Balance Sheet
As of June 30, 2011 and 2010

	<u>Obligated Group</u>		<u>Consolidated</u>	
	<u>Audited as of 06/30/11</u>	<u>Audited as of 06/30/10</u>	<u>Audited as of 06/30/11</u>	<u>Audited as of 06/30/10</u>
<u>Liabilities and Net Assets</u>				
CURRENT LIABILITIES				
Demand note payable	972,000	648,000	972,000	648,000
Current portion of long-term debt	2,875,000	2,775,000	2,875,000	2,775,000
Accounts payable, trade	3,379,830	3,743,949	4,948,921	5,037,461
Estimated third-party payor settlements	890,563	882,792	1,550,258	1,520,548
Advance from third party payor	277,900	277,900	277,900	277,900
Accrued expenses	7,912,414	5,551,012	8,143,883	5,758,853
Resident funds	151,327	160,607	151,327	160,607
Amount due to affiliates	7,924,160	5,600,227	0	0
Total current liabilities	<u>24,383,194</u>	<u>19,639,487</u>	<u>18,919,289</u>	<u>16,178,369</u>
LONG-TERM DEBT:				
Revenue bonds	114,132,178	116,981,001	114,132,178	116,981,001
Mortgages payable	0	0	1,675,500	1,675,500
Total long-term debt	<u>114,132,178</u>	<u>116,981,001</u>	<u>115,807,678</u>	<u>118,656,501</u>
DERIVATIVE FINANCIAL INSTRUMENTS	3,972,277	4,682,439	3,972,277	4,682,439
ACCRUED PENSION COST	7,283,946	13,088,985	7,283,946	13,088,985
OTHER LIABILITIES	7,004,398	5,813,065	7,479,555	6,183,442
Total liabilities	<u>156,775,993</u>	<u>160,204,977</u>	<u>153,462,745</u>	<u>158,789,736</u>
NET ASSETS				
Unrestricted	167,805,483	123,004,062	178,606,188	132,686,440
Temporarily restricted	9,906,476	8,315,625	9,906,476	8,315,625
Permanently restricted	26,537,790	24,821,540	26,537,790	24,821,540
Total net assets	<u>204,249,749</u>	<u>156,141,227</u>	<u>215,050,454</u>	<u>165,823,605</u>
TOTAL	<u>361,025,742</u>	<u>316,346,204</u>	<u>368,513,199</u>	<u>324,613,341</u>

Good Shepherd Rehabilitation Network and Controlled Entities
Obligated Group and Consolidated Statement of Operations
For the Twelve Month Periods Ended June 30, 2011 and 2010

	<u>Obligated Group</u>		<u>Consolidated</u>	
	Audited Period Ending 06/30/11	Audited Period Ending 06/30/10	Audited Period Ending 06/30/11	Audited Period Ending 06/30/10
UNRESTRICTED REVENUE, GAINS, AND OTHER SUPPORT:				
Net patient service revenues	89,590,799	81,955,968	106,696,603	99,051,085
Other operating revenues	4,927,280	4,754,794	5,472,855	5,111,567
Professional services revenue	11,160,616	10,775,067	5,850,836	5,837,918
Contributions	2,202,413	2,280,688	2,202,413	2,280,688
Equity in (loss) on investment in unconsolidated subsidiary	6,764,521	2,731,508	6,764,521	2,731,508
Gains (losses) on disposal of property and equipment	(362,953)	(237,581)	(362,953)	(237,716)
Net assets released from restrictions for operations	1,646,495	1,504,981	1,647,470	1,508,568
Total unrestricted revenues, gains, and other support	115,929,171	103,765,425	128,271,745	116,283,618
EXPENSES:				
Salaries and wages	55,627,700	51,272,405	61,207,061	56,559,890
Supplies and other expenses	22,031,700	21,747,390	26,625,741	25,914,163
Employee benefits	15,769,540	15,151,997	16,166,177	15,542,064
Depreciation and amortization	7,976,296	7,908,630	8,425,973	8,361,705
Interest	5,695,715	5,807,788	5,695,715	5,807,788
Professional fees	1,371,477	1,415,763	1,678,954	1,669,668
Provision for doubtful collections	583,894	1,269,289	480,948	1,493,817
Total	109,056,322	104,573,262	120,280,569	115,349,095
OPERATING INCOME (LOSS)	6,872,849	(807,837)	7,991,176	934,523
OTHER INCOME (EXPENSE):				
Investment (Loss) Income	5,180,502	3,727,840	5,180,502	3,727,840
Unrealized Gain / Loss Alternative Investment	4,493,878	1,780,338	4,493,878	1,780,338
Ineffectiveness of Derivative Financial Instrument	616,905	254,553	616,905	254,553
REVENUE IN EXCESS OF EXPENSES	17,164,134	4,954,894	18,282,461	6,697,254
CHANGE IN NET UNREALIZED GAINS AND LOSSES ON INVESTMENTS OTHER THAN TRADING SECURITIES	20,388,385	6,631,025	20,388,385	6,631,025
CHANGE IN FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS	93,257	(1,589,695)	93,257	(1,589,695)
PENSION LIABILITY ADJUSTMENT	5,805,039	(4,591,485)	5,805,039	(4,591,485)
PENSION LIABILITY ADJUSTMENT - UNCONSOLIDATED AFFILIATE	369,660	(332,957)	369,660	(332,957)
NET ASSETS RELEASED FROM RESTRICTIONS FOR PURCHASE OF PROPERTY AND EQUIPMENT	439,164	677,301	439,164	677,301
OTHER CHANGES	541,782	(118,329)	541,782	(118,329)
(DECREASE) INCREASE IN UNRESTRICTED NET ASSETS BEFORE EFFECT OF ADOPTION OF FASB STATEMENT No. 158	44,801,421	5,630,754	45,919,748	7,373,114
EFFECT OF ADOPTION OF FASB STATEMENT NO. 158	-	-	-	-
(DECREASE) INCREASE IN UNRESTRICTED NET ASSETS	44,801,421	5,630,754	45,919,748	7,373,114

Good Shepherd Rehabilitation Network and Controlled Entities
Consolidated Statement of Cash Flows
For the Twelve Month Periods Ended June 30, 2011 and 2010

	Audited Period Ending 06/30/11	Audited Period Ending 06/30/10
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase (decrease) in net assets	\$ 49,226,849	\$ 9,867,032
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation and amortization	8,425,973	8,361,705
Loss on disposal of property and equipment	362,953	237,716
Provision for doubtful collections	480,948	1,493,817
Other changes in unrestricted net assets	-	-
Net realized and unrealized (gains) losses on investments	(27,181,803)	(8,873,705)
Restricted contributions and investment income	(1,602,069)	(2,704,339)
Change in fair value of derivative financial instruments	(710,162)	1,335,142
Ineffectiveness of derivative financial instruments	-	-
Valuation adjustments - permanently and temporarily restricted net assets	(2,406,470)	(1,589,540)
Equity in (gain) loss of unconsolidated subsidiary	(6,764,521)	(2,731,508)
Pension liability adjustment - The Good Shepherd Rehabilitation Hospital	(5,805,039)	4,591,485
Pension liability adjustment - unconsolidated subsidiary	(369,660)	332,957
Changes in assets and liabilities:		
Accounts receivable, patients	(1,993,826)	(2,501,588)
Other receivables	77,059	40,721
Estimated third-party payor settlements	(482,529)	686,629
Inventories of drugs and supplies	61,945	(112,398)
Prepaid expenses and other current assets	67,655	(129,908)
Accounts payable, trade	(88,540)	149,038
Accrued expenses and other liabilities	<u>3,192,098</u>	<u>1,154,813</u>
Net cash provided by operating activities	<u>14,490,861</u>	<u>9,608,069</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Increase in investments	(12,202,554)	(4,448,651)
Decrease (increase) in investment in and other assets pertaining to unconsolidated subsidiary	1,009,245	(6,864)
Proceeds from sale of property and equipment	1,167,584	38,272
Purchase of property and equipment	(3,490,972)	(4,706,248)
Purchase of other assets	<u>(51,270)</u>	<u>(247,474)</u>
Net cash used in investing activities	<u>(13,567,967)</u>	<u>(9,370,965)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from (repayment of) demand note payable	324,000	(1,538,000)
Restricted contributions and investment income	2,086,634	2,185,869
Repayment of long-term debt	(2,775,000)	(2,665,000)
Decrease in annuities payable and trusts	<u>(32,714)</u>	<u>(11,734)</u>
Net cash (used in) provided by financing activities	<u>(397,080)</u>	<u>(2,028,865)</u>
DECREASE IN CASH AND CASH EQUIVALENTS	525,814	(1,791,761)
CASH AND CASH EQUIVALENTS, BEGINNING	<u>1,712,346</u>	<u>3,504,107</u>
CASH AND CASH EQUIVALENTS, ENDING	<u>\$ 2,238,160</u>	<u>\$ 1,712,346</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION,		
Cash paid for interest (net of amounts capitalized)	<u>\$ 5,706,004</u>	<u>\$ 5,812,631</u>

Good Shepherd Rehabilitation Network Obligated Group
Selected Financial Ratios

		Fiscal Year Ended June 30				
		2007	2008	2009	2010	2011
Operating Cash Flow Margin	(1)	13.7%	12.1%	10.8%	12.4%	17.7%
Long-Term Debt to Capitalization	(2)	29.5%	44.4%	50.5%	48.7%	40.5%
Debt Service Coverage	(3)	6.33	3.93	2.02	1.75	2.39
Operating Margin Ratio	(4)	2.4%	0.0%	-3.3%	-0.8%	5.9%
Return on Equity Ratio	(5)	12.4%	12.6%	-3.0%	4.0%	10.2%
Cushion Ratio	(6)	29.6	16.9	16.0	17.0	21.9
Days Cash on Hand	(7)	704	676	521	527	639
Days in Accounts Receivable	(8)	55	53	46	45	47
Obligated Group % of Total Assets	(9)	97.5%	97.6%	97.5%	97.5%	98.0%
Obligated Group % of NPSR	(10)	81.5%	80.2%	81.7%	82.7%	84.0%
Obligated Group % of Total Expenses	(11)	89.3%	88.9%	90.0%	90.7%	90.7%
Cash to Debt	(12)	2.16	1.23	1.04	1.17	1.54
Debt to Operating Cash Flow	(13)	5.88	11.39	11.82	9.06	5.56

(1) Defined as the sum of Operating Income (Loss) before Abandonment of Capital Project, 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 Adjusted for Interest Expense, Depreciation and Amortization Expense, Loss on Investment in Unconsolidated Subsidiary, Loss on Extinguishment of Debt and Unrealized Gains and Losses on Alternative Investments divided by Maximum Annual Debt Service.

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

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

(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 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 and Investments 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, 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 Hospitals:

<u>Inpatient Utilization</u>	Fiscal Year Ended June 30				
	2007	2008	2009	2010	2011
Number of Licensed Beds	82	82	82	98	102 *
Average Beds in Service	82	82	82	98	102 *
Admissions	1,449	1,571	1,738	1,796	1,908
Patient Days	18,415	20,905	22,386	24,834	27,473
Percent Occupancy	61.53%	69.66%	74.79%	69.43%	76.01% *
Average Length of Stay	12.7	13.3	12.9	13.7	14.4

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

<u>Outpatient Visits</u>	Fiscal Year Ended June 30				
	2007	2008	2009	2010	2011
Hospital	71,805	70,594	78,139	81,221	81,479
Satellites	89,286	91,305	105,311	111,854	122,070
Contracted Services	28,594	22,194	21,145	22,835	20,242
Total	<u>189,685</u>	<u>184,093</u>	<u>204,595</u>	<u>215,910</u>	<u>223,791</u>

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

<u>Payor Mix</u>	Fiscal Year Ended June 30				
	2007	2008	2009	2010	2011
Medicare	38.0%	37.9%	39.0%	34.9%	32.4%
Medical Assistance	11.4%	12.0%	11.1%	13.6%	14.6%
Blue Cross	12.2%	13.6%	10.4%	10.0%	10.5%
Commercial/Auto	10.3%	7.7%	7.3%	7.4%	7.7%
Managed Care	17.3%	18.4%	23.0%	25.9%	26.8%
Workers' Compensation	5.1%	4.3%	3.9%	3.5%	3.6%
Self Pay	0.7%	0.6%	0.6%	0.5%	0.5%
Other	5.1%	5.4%	4.7%	4.2%	3.9%

* Fiscal Year 2011 included the addition of 4 licensed beds at the Allentown Rehab Hospital. The beds were licensed and placed in service March 29, 2011.

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

	Fiscal Year Ended June 30				
	2007	2008	2009	2010	2011
Beds Available	159	159	159	159	159
Days Available	58,035	58,194	58,035	58,035	58,035
Percentage Occupancy	99.67%	99.55%	99.59%	99.48%	99.65%
Inpatient Days	57,841	57,934	57,795	57,733	57,829