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Shepherd Center, Inc. and Subsidiaries
(A Not-for-Profit Organization)

**Consolidated Financial Statements and
Compliance Reports**

March 31, 2020 and 2019



Shepherd Center, Inc. and Subsidiaries

(A Not-for-Profit Organization)

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Independent Auditor's Report

To the Board of Directors of
Shepherd Center, Inc. and Subsidiaries

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Shepherd Center, Inc. and Subsidiaries (the Center) (a not-for-profit organization), which comprise the consolidated statements of financial position as of March 31, 2020 and 2019 and the related consolidated statements of operations, changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Shepherd Center, Inc. and Subsidiaries as of March 31, 2020 and 2019 and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards for the year ended March 31, 2020, as required by *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 11, 2020, on our consideration of the Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Center's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Center's internal control over financial reporting and compliance.

Bennett Thacker LLP

June 11, 2020

Shepherd Center, Inc. and Subsidiaries
(A Not-for-Profit Organization)

Consolidated Statements of Financial Position
March 31, 2020 and 2019

	2020	2019
Assets		
Current assets:		
Cash and cash equivalents	\$ 33,657,460	\$ 19,750,149
Patient accounts receivable, less allowance for doubtful accounts of \$3,297,250 in 2020 and \$2,734,358 in 2019	97,075,124	64,902,919
Current portion of contributions receivable	1,507,653	3,379,315
Other current assets	<u>12,680,720</u>	<u>8,798,451</u>
Total current assets	144,920,957	96,830,834
Investments	261,716,960	299,462,211
Assets limited as to use	3,108,978	3,113,800
Property and equipment, at cost less accumulated depreciation	134,181,602	134,021,448
Contributions receivable, less current portion and discount of \$471,937 in 2020 and \$186,974 in 2019	3,647,154	809,026
Other assets	<u>15,939,178</u>	<u>11,148,678</u>
Total assets	<u>\$ 563,514,829</u>	<u>\$ 545,385,997</u>
Liabilities and Net Assets		
Current liabilities:		
Current portion of annuities payable	\$ 419,791	\$ 432,203
Current portion of long-term debt	2,300,000	600,000
Accounts payable	6,336,826	4,301,782
Accrued compensation and expenses	20,480,290	19,929,898
Deferred revenue and other liabilities	<u>1,965,004</u>	<u>516,086</u>
Total current liabilities	<u>31,501,911</u>	<u>25,779,969</u>
Annuities payable, less current portion	5,272,059	5,358,474
Long-term debt, less current portion and unamortized bond issuance costs	<u>48,101,129</u>	<u>50,360,772</u>
Total liabilities	<u>84,875,099</u>	<u>81,499,215</u>
Net assets:		
Without donor restrictions	362,359,510	345,823,133
With donor restrictions	<u>116,280,220</u>	<u>118,063,649</u>
Total net assets	<u>478,639,730</u>	<u>463,886,782</u>
Total liabilities and net assets	<u>\$ 563,514,829</u>	<u>\$ 545,385,997</u>

See accompanying notes to consolidated financial statements.

Shepherd Center, Inc. and Subsidiaries
(A Not-for-Profit Organization)

Consolidated Statements of Operations
For the Years Ended March 31, 2020 and 2019

	2020	2019
Revenues, gain and other support without donor restrictions:		
Patient service revenue, net of contractual allowances and discounts	\$ 266,269,378	\$ 238,500,512
Other revenue	26,526,701	24,114,068
Investment income	5,910,249	3,877,421
Unrealized gain(loss) on investments	<u>(15,326,933)</u>	<u>-</u>
Total revenues, gains and other support without donor restrictions, net	<u>283,379,395</u>	<u>266,492,001</u>
Expenses:		
Salaries	114,109,751	106,081,519
Payroll taxes and employee benefits	26,835,354	25,082,118
Patient, pharmacy and office supplies	72,025,648	66,262,032
Purchased services	35,963,340	29,933,109
Depreciation and amortization	11,853,307	9,952,149
Interest	1,171,743	1,162,586
Other	<u>10,453,981</u>	<u>8,326,261</u>
Total expenses	<u>272,413,124</u>	<u>246,799,774</u>
Excess of revenues, gains and other support over expenses	10,966,271	19,692,227
Unrealized gain(loss) on investments	-	5,186,453
Contributions of property and equipment	41,664	120,431
Net assets released from restrictions, used for purchase of property and equipment	<u>5,528,442</u>	<u>1,723,831</u>
Increase in net assets without donor restrictions	<u>\$ 16,536,377</u>	<u>\$ 26,722,942</u>

See accompanying notes to consolidated financial statements.

Shepherd Center, Inc. and Subsidiaries
(A Not-for-Profit Organization)

Consolidated Statements of Changes in Net Assets
For the Years Ended March 31, 2020 and 2019

	2020	2019
Net assets without donor restrictions:		
Excess of revenues, gains and other support over expenses	\$ 10,966,271	\$ 19,692,227
Unrealized gain(loss) on investments	-	5,186,453
Contributions of property and equipment	41,664	120,431
Net assets released from restrictions, used for purchase of property and equipment	<u>5,528,442</u>	<u>1,723,831</u>
Increase in net assets without donor restrictions	<u>16,536,377</u>	<u>26,722,942</u>
Net assets with donor restrictions:		
Contributions	19,664,755	14,960,151
Investment income	5,150,527	2,583,571
Unrealized gain(loss) on investments	(12,960,176)	3,354,489
Change in charitable gift annuities	(511,020)	(372,394)
Net assets released from restrictions, used for operations	(7,599,073)	(7,015,170)
Net assets released from restrictions, used for purchase of property and equipment	<u>(5,528,442)</u>	<u>(1,723,831)</u>
Increase (decrease) in net assets with donor restrictions	<u>(1,783,429)</u>	<u>11,786,816</u>
Increase in net assets	14,752,948	38,509,758
Net assets, beginning of year	<u>463,886,782</u>	<u>425,377,024</u>
Net assets, end of year	<u>\$ 478,639,730</u>	<u>\$ 463,886,782</u>

See accompanying notes to consolidated financial statements.

Shepherd Center, Inc. and Subsidiaries
(A Not-for-Profit Organization)

Consolidated Statements of Cash Flows
For the Years Ended March 31, 2020 and 2019

	2020	2019
Cash flows from operating activities:		
Change in net assets	\$ 14,752,948	\$ 38,509,758
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Net unrealized loss (gain) on investments	28,287,109	(8,540,942)
Contribution of investments	(4,377,957)	(435,519)
Restricted contributions	(15,286,798)	(14,524,632)
Net realized gains on investments	(5,942,327)	(1,606,586)
Provision for doubtful accounts	2,219,072	1,422,048
Discount on contributions receivable	(303,620)	(74,345)
Depreciation and amortization	11,853,307	9,952,149
Gain on disposal of property and equipment	(2,384)	(1,008)
Actuarial change in annuity payable	375,299	372,394
Non-cash interest expense	40,357	40,356
Changes in operating asset and liabilities:		
Patient accounts receivable	(34,391,277)	(6,174,604)
Contributions receivable	(662,846)	(1,703,139)
Other assets	(4,056,269)	(507,178)
Accounts payable	2,035,044	(142,486)
Accrued compensation and expenses	550,392	1,518,176
Deferred revenue	<u>1,448,918</u>	<u>(1,274,900)</u>
Net cash (used in) provided by operating activities:	<u>(3,461,032)</u>	<u>16,829,542</u>
Cash flows from investing activities:		
Purchases of property and equipment	(11,716,074)	(28,781,291)
Capitalized internal use software costs	(4,950,806)	(8,838,690)
Proceeds from disposals of property and equipment	39,303	-
Purchases of investments	(40,366,933)	(19,918,265)
Proceeds from sale of investments	<u>60,150,181</u>	<u>10,569,941</u>
Net cash provided by (used in) investing activities:	<u>3,155,671</u>	<u>(46,968,305)</u>
Cash flows from financing activities:		
Proceeds from restricted contributions	15,286,798	14,524,632
Payment of long-term debt	(600,000)	-
Payment of annuities	<u>(474,126)</u>	<u>(432,928)</u>
Net cash provided by financing activities:	<u>14,212,672</u>	<u>14,091,704</u>
Net increase (decrease) in cash and cash equivalents	13,907,311	(16,047,059)
Cash and cash equivalents at beginning of year	<u>19,750,149</u>	<u>35,797,208</u>
Cash and cash equivalents at end of year	<u>\$ 33,657,460</u>	<u>\$ 19,750,149</u>
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	<u>\$ 1,037,837</u>	<u>\$ 1,095,637</u>

See accompanying notes to consolidated financial statements.

Shepherd Center, Inc. and Subsidiaries

(A Not-for-Profit Organization)

Notes to Consolidated Financial Statements

March 31, 2020 and 2019

Note 1: Description of Organization and Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Shepherd Center, Inc. (Shepherd) and its wholly owned subsidiaries, SSC Affiliates, Inc. (SSC) and Shepherd Center Foundation, Inc. (Foundation) (collectively, the Center). All significant intercompany accounts and transactions have been eliminated.

Description of Organization

Shepherd is a private not-for-profit hospital in Atlanta providing acute and rehabilitative care primarily to patients with traumatic spinal cord injuries and disease, acquired brain injury, multiple sclerosis and other neuromuscular disease. Shepherd was incorporated under the laws of the state of Georgia on April 21, 1975. SSC conducts a pharmacy and medical supply sales practice at the Center's premises. SSC was incorporated under the laws of the state of Georgia on November 16, 1990. Foundation raises funding for Shepherd by seeking potential donors and conducting fundraising activities in the community. Foundation was incorporated under the laws of the state of Georgia on May 26, 2004 and remained dormant until April 1, 2005.

Use of Estimates in Consolidated Financial Statements

The preparation of consolidated financial statements in conformity with generally accepted accounting principles (GAAP) in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Net Patient Service Revenue

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*, which outlines a five-step model for recognizing revenue and supersedes most existing revenue recognition guidance, including industry-specific guidance. The core principle of the new standard is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which it expects to be entitled in exchange for those goods or services. Additionally, the new standard supersedes previous industry-specific guidance on presenting the provision for bad debts as a deduction from patient service revenue. Subsequent to the adoption of this ASU, any amount of bad debt expense recognized must be presented as an operating expense, which has been reflected in the accompanying consolidated statements of operations for the years ending March 31, 2020 and 2019. The Center adopted the standard on April 1, 2019, and as a result of the new requirements, other than the change in presentation of bad debt expense, management has determined that the new standard resulted in no material change to the Center's revenue recognition methodology. Other than the financial statement presentation of bad debt expense on the accompanying consolidated statements of operations, prior periods have not been adjusted and no cumulative effective adjustment was required or recorded.

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, after contractual adjustments. Patient accounts receivable include charges for amounts due from Medicare, Medicaid, pending Medicaid benefits, other third-party payors and patients (see Note 14). Contractual adjustments represent the differences between amounts billed as patient service revenue and amounts contracted with third-party payors and are accrued on an estimated basis in the period in which the related services are rendered and adjusted in future periods as final settlements are determined. Contractual adjustments are included in the determination of net patient service revenue as reported in the accompanying consolidated statements of operations before the provision for doubtful accounts.

The Center grants credit without collateral to its patients, most of whom are insured under third-party payor agreements. Patient accounts receivable are reported at their net realizable value from third-party payors, patients and others for services rendered. Allowances are provided for third-party payors based on estimated reimbursement rates. Allowances are also provided for doubtful accounts based on an estimate of uncollectible accounts. Write-off of uncollectible accounts is determined on a case-by-case basis after a review of the circumstances surrounding the individual patient accounts.

Charity Care

The Center provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Center does not pursue collection of amounts determined to qualify as charity care, such amounts are not reported as patient service revenue or patient accounts receivable (see Note 11).

Cash and Cash Equivalents

Cash and cash equivalents consist of cash in banks and highly liquid temporary investments with initial maturities of ninety days or less. The Center routinely invests its surplus operating funds in money market accounts and highly liquid U.S. government and agency obligations.

Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the consolidated statements of financial position. Investment income or loss (including realized gains and losses on investments, interest and dividends and unrealized gains (losses) on marketable equity securities) is reported net of external and direct internal investment expenses and is included in the excess of revenues, gains and other support over expenses unless the income or loss is restricted by donor or law. Unrealized gains and losses on all other investments are excluded from the excess of revenues, gains and other support over expenses.

Property and Equipment

Property and equipment acquisitions are recorded at cost, net of accumulated depreciation. Depreciation is provided over the estimated useful life of each class of depreciable assets and is computed using the straight-line method. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. A summary of the estimated useful lives of the various asset classes is as follows:

Land improvements	5 to 15 years
Building	5 to 40 years
Building services equipment	5 to 27 years
Fixed equipment	5 to 20 years
Major movable equipment	3 to 20 years

Gifts of long-lived assets such as land, buildings, or equipment are reported as support without donor restrictions, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as support with donor restrictions. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Impairment of Long-Lived Assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. When indicators of impairment are present, management evaluates the carrying amount of such assets in relation to the operating performance and future estimated undiscounted net cash flows expected to be generated by the assets or underlying operations. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. The assessment of the recoverability of assets will be impacted if estimated future operating cash flows are not achieved. In the opinion of management, no long-lived assets were impaired as of March 31, 2020 or 2019.

Inventory

Inventories of pharmaceuticals, supplies and equipment are valued at the lower of cost (as principally determined on the first-in, first-out method) or market.

Other Assets

Other assets primarily consists of costs incurred related to the development and integration of internal use software pursuant to a right of use contract with an unrelated healthcare provider. The costs are amortized over the related contract period. The amortizable life is continually monitored for any situation where the estimated useful life of the capitalized costs would be shorter than the amortization period.

Deferred Certificate and Bond Issuance Costs

Certificate and bond issuance costs were paid to a financial institution for structuring financing arrangements (see Note 7). These issuance costs are being amortized over the related debt term of 30 years. Interest expense includes amortization of certificate and bond issuance costs of \$40,356 in both 2020 and 2019.

The unamortized portions of the certificate and bond issuance costs are presented as a reduction to long-term debt in the accompanying consolidated statements of financial position. The unamortized bond issuance costs totaled \$198,871 and \$239,228 at March 31, 2020 and 2019, respectively.

Fair Value of Financial Instruments

The following methods and assumptions were used by the Center in estimating the fair value of its financial instruments:

Cash and cash equivalents: The carrying amount reported in the consolidated statements of financial position for cash and cash equivalents approximates its fair value.

Investments: Fair value, which are the amounts reported in the consolidated statements of financial position, are based on quoted market prices, if available, or estimated using quoted market prices for similar securities.

Long-term debt: The fair value of the Center's long-term debt is estimated to approximate its carrying value as a result of the debt's variable interest rate.

Net Assets

To ensure observance of limitations and restrictions placed on the use of resources available to the Center, the resources are classified for accounting and reporting purposes into categories established according to their nature and purpose. The assets, liabilities, and net assets of the Center are reported as follows:

- *Net Assets Without Donor Restrictions* – Net assets available for use in general operations and not subject to donor-imposed restrictions.
- *Net Assets With Donor Restrictions* – Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Endowment Funds

The Center's endowment funds consist of funds established for a variety of purposes (see Note 8). The endowment funds include only donor-restricted endowments. As required by GAAP, net assets associated with these endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law Related to Endowment Funds

The Center's Board of Directors has interpreted Georgia's adoption of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the purchasing power of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. Because of this, the Center classifies the original value of gifts (initial or subsequent) donated, as well as any gains or other net income generated and potentially available for expenditure, as net assets with donor restrictions in accordance with the purpose established by the donor or until appropriated by the Board of Directors for endowments whose use is without donor restrictions.

Investment and Spending Policies of Endowment Funds

The Center has established prudent investment and spending policies related to the management of endowment funds and related amounts available for expenditure. These policies have been established and are continually reviewed and updated by the Center's Finance & Investment Committee and Board of Directors. With regard to investments, the Committee takes into account the need to preserve the donor principal, the purposes for which the fund was established, overall economic conditions (to include the effects of inflation and deflation), the expected total return from income as well as possible appreciation from investments, and other resources of the Center. The Center from time to time may also employ an outside investment consultant who assists with the overall asset allocation, investment manager selection, and monitoring and reporting of investment results. The Center's policies are set to achieve a return of at least 5% over inflation in an appropriately diversified portfolio over the long-term, and further allows for spending up to 10% of available earnings in a given year if the endowment earnings are greater than 10% of the principal balance. In so doing, the goal is to carefully manage the endowment funds such that the principal is preserved and earnings are available in most years for the appropriate purpose. Other goals of spending less than anticipated earnings are allowing for reasonable inflationary growth and helping to cushion against reasonable downturns in the economy. It is also understood that these assumptions and allocations may be revised from time to time as circumstances dictate, so that the Center may continually manage these assets in a prudent manner in accordance with UPMIFA.

Excess of Revenues over Expenses

The consolidated statements of operations include excess of revenues, gains and other support over expenses. Changes in net assets with donor restrictions, which are excluded from excess of revenues, gains and other support over expenses, consistent with industry practice, include unrealized gains and losses on investments other than trading securities, marketable equity securities, and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets).

Donor-Restricted Contributions

Contributions (including unconditional promises to give, i.e., pledges) are recorded in the year they are received or pledged, with allowances provided for pledges estimated to be uncollectible. Unconditional pledges are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using prevailing interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contributions in the accompanying consolidated statements of changes in net assets. The gifts are reported as contributions with donor restrictions if they are received with donor stipulations or time restrictions that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restrictions are accomplished, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the consolidated statements of operations as net assets released from restrictions.

Contributed Services

A substantial number of volunteers have donated significant amounts of their time to the Center and its various programs; however, these donated services are not reflected in the consolidated financial statements since these services do not meet the criteria for recognition as contributed services.

Income Taxes

Shepherd and Foundation have both been granted tax-exempt status under Section 501(a) of the Internal Revenue Code (the Code) as organizations described in Section 501(c)(3) whereby only unrelated business income, as defined by Section 512(a)(1) of the Code, is subject to federal income tax. Shepherd and Foundation had no significant unrelated business taxable income during 2020 and 2019; accordingly, no provision or benefit for income taxes has been included in the accompanying consolidated financial statements.

SSC is subject to federal and state income taxes.

The provisions of accounting standards for income taxes require that a tax position be recognized or derecognized based on a 'more-likely-than-not' threshold. This applies to positions taken or expected to be taken in a tax return. The Center does not believe its consolidated financial statements include any material uncertain tax positions. The Center is no longer subject to federal or state income tax examinations by tax authorities for calendar years before 2016.

Vacation and Earned Time Off

Vacation and earned time off benefits are accrued as earned by employees. At March 31, 2020 and 2019, the accrual for vacation and earned time off benefits was approximately \$7,044,000 and \$6,403,000, respectively, and is included as a component of accrued compensation and expenses in the accompanying consolidated statements of financial position.

Self-Insurance

The Center has a self-insured health plan for medical coverage provided to employees. The Center has purchased stop-loss insurance in order to limit its exposure for large claims that exceed a certain threshold. This coverage will reimburse the Center for claims incurred in excess of \$250,000 per covered person in calendar year 2020 and 2019. In addition, the Center has a self-insured worker's compensation plan, with losses accrued based on estimates of the aggregate liability for uninsured claims incurred using certain actuarial assumptions followed in the insurance industry. At March 31, 2020 and 2019, the accrual for self-insured plans was approximately \$2,307,000 and \$2,036,000, respectively, and is included as a component of accrued compensation and expenses in the accompanying consolidated statements of financial position.

The Center has a self-insured health plan for dental and short-term disability coverage provided to employees. At March 31, 2020 and 2019, the accrual for the self-insured plans totaled approximately \$391,000 and \$350,000, respectively, and is included as a component of accrued compensation and expenses in the accompanying consolidated statements of financial position.

Insurance Claims and Related Insurance Recoveries

The Center evaluates its exposure to losses arising from claims and, if necessary, recognizes a liability separate from any related anticipated insurance recoveries. The liability, if any, is not presented net of anticipated insurance recoveries. There were no material claims liabilities or related insurance recoveries recorded as of March 31, 2020 and 2019.

New Accounting Pronouncements

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, which updates certain aspects of the recognition, measurement, presentation, and disclosure of financial instruments. The updated guidance requires marketable equity securities to be recorded at fair market value with any changes to be recognized within the Center's performance indicator beginning in 2020.

In February 2016, the FASB issued ASU 2016-02, *Leases*. ASU 2016-02 requires that lease arrangements longer than 12 months result in an entity recognizing an asset and a liability. The updated guidance is effective for annual periods beginning after December 15, 2020, and early adoption is permitted. The Center is currently evaluating the impact of this standard on the consolidated financial statements.

Reclassifications

Certain prior year amounts have been reclassified to conform to current year presentation. The reclassifications had no effect on previously reported results of operations or net assets.

Note 2: Liquidity and Availability

Unrestricted financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, are comprised of the following:

Unrestricted cash, cash equivalents and investments	\$ 178,557,157
Patient accounts receivable, net	97,075,124
Current portion of contributions receivable	<u>1,507,653</u>
	<u>\$ 277,139,934</u>

The Center's investments are highly liquid, typically invested in mutual funds and thus available in a very short timeframe. Given this, the amounts shown above are not limited to simply cash, cash equivalents, or investments with a maturity less than one year. In addition, the Center anticipates collecting sufficient patient service revenue to cover general expenditures not covered by donor-restricted resources. In 2020, the Center generated negative cash flow from operations, primarily as a result of delayed billings caused by the implementation process for a new, technologically advanced patient billing system. As a result of the delays, the Center's accounts receivable grew by over \$30 million; however, management fully expects collection of the recorded amounts, and a return to positive cash flow from operations.

The Center receives significant contributions both with and without donor restrictions to be used in accordance with the associated donor-imposed restrictions. The Center also receives gifts to establish donor-restricted endowments that will exist in perpetuity. Income from donor-restricted endowments is restricted for specific purposes, with the exception of the amounts available for general use. Donor-restricted endowment funds are not available for general expenditure.

Finally, as part of the Center's liquidity management, the Center invests cash in excess of daily requirements in short-term investments and money market funds.

Note 3: Assets Limited as to Use

Assets limited as to use are comprised of a supplemental deferred compensation plan and consisted of mutual funds stated at fair value of \$3,108,978 and \$3,113,800 at March 31, 2020 and 2019, respectively.

Note 4: Cash and Investments

Cash and investments consisted of the following as of March 31, 2020 and 2019:

	2020		2019	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Fair value investments:				
Equity securities	\$ 4,654,288	\$ 5,402,775	\$ 3,435,130	\$ 5,067,867
U.S. Government securities	22,898,740	22,842,651	40,523,608	40,551,730
Corporate bonds	22,750,539	22,810,704	22,110,552	22,130,470
Mutual funds:				
Equity funds	191,984,531	192,431,494	182,054,872	216,265,880
Fixed income funds	<u>21,253,376</u>	<u>18,229,336</u>	<u>18,325,830</u>	<u>15,446,264</u>
	263,541,474	261,716,960	266,449,992	299,462,211
Total cash and cash equivalents:	<u>33,657,460</u>	<u>33,657,460</u>	<u>19,750,149</u>	<u>19,750,149</u>
	<u>\$ 297,198,934</u>	<u>\$ 295,374,420</u>	<u>\$ 286,200,141</u>	<u>\$ 319,212,360</u>

Investment income (without donor restrictions) is comprised of the following for the years ended March 31, 2020 and 2019:

	2020	2019
Investment income:		
Interest and dividend income	\$ 3,097,007	\$ 3,068,865
Net realized gains on the sale of investments	2,813,242	808,556
Unrealized gain(loss) on investments	<u>(15,326,933)</u>	<u>-</u>
	<u>\$ (9,416,684)</u>	<u>\$ 3,877,421</u>
Other changes in net assets without donor restrictions:		
Unrealized gain(loss) on investments	<u>\$ -</u>	<u>\$ 5,186,453</u>

Investment advisory fees are included in investment income and amounted to \$299,942 and \$304,249 in 2020 and 2019, respectively.

Fair Value Measurement

The Center defines fair value as the price that would be received from selling an asset or paid to transfer a liability (i.e., the exit price) in an orderly transaction between market participants at the measurement date.

When determining fair value, the Center uses various valuation approaches. The accounting standards establish a fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Center.

Unobservable inputs reflect the Center's assumptions about the inputs that market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1 - Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Center has the ability to access. Valuation adjustments and block discounts are not applied to Level 1 securities. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these securities does not entail a significant degree of judgment.

Level 2 - Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3 - Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The availability of valuation techniques and observable inputs can vary from security to security and is affected by a wide variety of factors, including the type of security, whether the security is new and not yet established in the marketplace, and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Those estimated values do not necessarily represent the amounts that may be ultimately realized due to the occurrence of future circumstances that cannot be reasonably determined. Because of the inherent uncertainty of valuation, those estimated values may be materially higher or lower than the values that would have been used had a ready market for the securities existed. Accordingly, the degree of judgment exercised by the Center in determining fair value is greatest for securities categorized in Level 3. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement falls in its entirety is determined by the lowest level input that is significant to the fair value measurement.

Fair value is a market-based measure considered from the perspective of a market participant rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, the Center's own assumptions are set to reflect those that market participants would use in pricing the asset or liability at the measurement date. The Center uses prices and inputs that are current as of the measurement date, including during periods of market dislocation. In periods of market dislocation, the ability to observe prices and inputs may be reduced for many securities. This condition could cause a security to be reclassified to a lower level within the fair value hierarchy.

Valuation Techniques

Investments in equity securities, U.S. Government securities, corporate bonds, and mutual funds are valued at quoted market prices.

The Center's investments recorded at fair value have been categorized based upon a fair value hierarchy. The measurements of the fair values of the Center's investments in marketable securities are based on Level 1 inputs as of March 31, 2020 and 2019.

There were no assets classified as Level 2 or 3 at March 31, 2020 and 2019. Additionally, there were no assets transferred in or out of Level 2 or 3 classifications.

Note 5: Contributions Receivable

Contributions receivable, net of discounts, at March 31, 2020 and 2019 are comprised of the following:

	2020	2019
Unconditional promises expected to be collected in:		
Less than one year	\$ 1,507,653	\$ 3,379,315
One to five years	<u>3,647,154</u>	<u>809,026</u>
	<u>\$ 5,154,807</u>	<u>\$ 4,188,341</u>

There was no allowance for unconditional pledges as of March 31, 2020 and 2019.

Certain pledges receivable with due dates extending beyond one year are discounted using 5% as of March 31, 2020 and 2019.

At March 31, 2020 and 2019, three donors accounted for 44% and 81%, respectively, of total contributions receivable.

Note 6: Property and Equipment

A summary of property and equipment at March 31, 2020 and 2019, is as follows:

	2020	2019
Land	\$ 38,092,480	\$ 38,069,819
Land improvements	1,338,047	1,329,111
Building	118,241,771	117,195,118
Building services equipment	57,172,820	56,096,287
Fixed equipment	3,004,937	2,977,306
Major movable equipment	<u>89,936,134</u>	<u>84,028,888</u>
	307,786,189	299,696,529
Less accumulated depreciation and amortization	<u>176,701,687</u>	<u>166,708,026</u>
	131,084,502	132,988,503
Construction in progress	<u>3,097,100</u>	<u>1,032,945</u>
	<u>\$ 134,181,602</u>	<u>\$ 134,021,448</u>

Construction in progress at March 31, 2020, is primarily related to various Center facility projects. These projects have an estimated total remaining cost to complete of approximately \$300,000. Capitalized interest is not significant in either 2020 or 2019.

Depreciation and amortization expense for the years ended March 31, 2020 and 2019 amounted to \$9,945,016 and \$9,952,149, respectively.

Note 7: Long-Term Debt and Line of Credit

Bonds Payable – Series 2009

Under a Trust Indenture, dated February 1, 2005, between Development Authority of Fulton County (Issuer) and a commercial bank (Trustee), Development Authority of Fulton County Revenue Bonds (Shepherd Center, Inc. Project), Series 2005 (2005 Bonds) totaling \$56,000,000 were issued on April 19, 2005. The Issuer loaned the net proceeds of the sale of the Bonds to the Center, pursuant to a Loan Agreement, dated February 1, 2005 between the Issuer and the Center to enable the Center to finance the acquisition, construction and equipping of improvements to the Center.

Under a Trust Indenture, dated November 4, 2009, between Development Authority of Fulton County (Issuer) and a commercial bank (Trustee), Development Authority of Fulton County Refunding Revenue Bonds (Shepherd Center, Inc. Project), Series 2009 (2009 Bonds) totaling \$56,000,000 were issued on November 4, 2009. The Issuer loaned the net proceeds of the sale of the 2009 Bonds to the Center, pursuant to a Loan Agreement, dated November 1, 2009, between the Issuer and the Center to enable the Center to use the proceeds of the sale of the 2009 Bonds for the purpose of refunding the 2005 Bonds.

Outstanding borrowings totaled \$50,600,000 and \$51,200,000 at March 31, 2020 and 2019, respectively, which are presented net of unamortized bond issuance costs of \$198,871 and \$239,228, respectively.

The Bonds bear interest at a variable rate set not to exceed 12% per annum (5.04% at March 31, 2020) as determined by the remarketing agent (see below) and interest is paid monthly. The average interest rate during 2020 and 2019 was 1.56% and 1.53%, respectively. Interest expense, which included remarketing fees, letter of credit fees, and amortization of bond issuance costs, totaled \$1,140,550 and \$1,131,721 for 2020 and 2019, respectively.

The Bonds are redeemable at the option of the Center, in whole or in part, at various redemption prices on any interest payment date and have required escalating principal payments due annually beginning in December 2019 and maturing in September 2035. Fiscal year contractual maturities of the Bonds payable at March 31, 2020, are as follows:

Year Ending March 31,

2021	\$ 2,300,000
2022	2,400,000
2023	2,500,000
2024	2,600,000
2025	2,700,000
Thereafter	<u>38,100,000</u>
	<u>\$ 50,600,000</u>

In connection with the issuance of the 2009 Bonds, the Center obtained an irrevocable letter of credit in the initial amount of \$56,736,439 from a financial institution (Credit Provider). The letter of credit served as a credit enhancement and as security for the bonds. The letter of credit, which is secured by the Center's revenues, was issued on November 4, 2009. On September 2, 2015, the Center obtained a new letter of credit with another financial institution in the initial amount of \$51,873,315 and simultaneously terminated the existing letter of credit. For the years ended March 31, 2020 and 2019, the Center was subject to an annual fee of 0.50% of the letter of credit amount, payable semi-annually in advance. The letter of credit expires September 2, 2020. In April 2020, the letter of credit was extended effective September 2, 2020 and expires on September 2, 2025. The balance at March 31, 2020 and 2019 was \$50,600,000 and \$51,200,000, respectively.

In addition, the Center entered into a remarketing agent agreement with a financial institution. The remarketing agent determines the weekly variable interest rate and remarkets all Bonds redeemed at the option of the Bond holders for an annual fee of 0.08% of the weighted average daily principal amount of Bonds outstanding.

Line of Credit

On October 5, 2015, the Center entered into an unsecured revolving loan agreement with a financial institution that allows for borrowings up to \$15,000,000, which matured on October 1, 2016. The line was extended and matures on April 29, 2021, at which time the balance, if any, plus accrued interest is due. Outstanding borrowings bear interest at one-month LIBOR plus 0.85%. As of March 31, 2020 and 2019, there was no outstanding balance. Interest expense, which included certain legal and commitment fees, totaled \$31,193 and \$30,865 for 2020 and 2019, respectively.

The Center is subject to certain financial and nonfinancial covenants under the various Bond and line of credit agreements. At March 31, 2020, the Center was in compliance with these covenants.

Note 8: Net Assets With Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes at March 31, 2020 and 2019:

	2020	2019
Net Assets With Donor Restrictions:		
Share Initiative	\$ 11,949,802	\$ 8,125,077
Capital Projects and Maintenance	9,152,687	7,846,122
Jesse Crawford Research Fund	4,002,645	4,279,043
Other Miscellaneous Funds	2,805,487	5,000,051
Shepherd Center Fund	2,427,194	2,259,742
Therapeutic Recreation Fund	2,045,721	1,390,662
Housing/Transportation Fund	1,792,771	2,320,585
MS General Fund	1,775,191	1,605,714
MS Rehab and Wellness Fund	1,606,322	2,040,634
Charitable Gift Annuity Program	1,397,514	2,340,465
Andee's Army	1,183,160	1,259,243
SCI Research Program	920,748	993,465
Animal Therapy Fund	881,835	-
Chaplaincy Fund	819,755	-
Assistive Technology Fund	706,887	360,092
Transition Support	585,357	626,771
Patient Assistance	191,642	-
CCC Peer Mentoring	189,694	-
SCI Program	180,491	-
Acquired Brain Injury Fund	174,161	195,409
Prevention Fund	-	47,289
	<u>44,789,064</u>	<u>40,690,364</u>

	2020	2019
Net Assets With Donor Restrictions - Endowment Principal:		
Charity Care	8,054,200	8,034,070
Recreation Therapy	6,965,464	6,963,779
Anniversary Fund	5,258,876	5,225,280
Patient Equipment	4,650,721	4,650,721
Assistive Technology	3,267,087	3,267,087
Research	2,723,890	2,713,690
Housing/Transportation	2,380,937	2,380,937
Professional Development	2,160,517	2,160,517
MS Research	1,960,111	1,960,111
Capital Projects and Maintenance	1,684,084	1,684,084
Other Miscellaneous Funds	1,518,006	1,502,506
Vocational Services	1,374,207	1,372,704
Noble Learning Resource Center	1,208,704	1,208,704
Injury Prevention Program	709,161	709,161
Advocacy	512,509	512,509
Wishing Wall	106,017	106,017
	<u>44,534,491</u>	<u>44,451,877</u>

Net Assets With Donor Restrictions - Endowment Earnings:		
Patient Equipment	4,618,037	5,296,378
Charity Care	4,557,078	5,806,367
Anniversary Fund	4,131,166	4,764,586
Recreation Therapy	2,679,285	3,556,618
Professional Development	1,792,456	2,117,415
Assistive Technology	1,737,459	2,194,994
Capital Projects and Maintenance	1,476,706	1,689,425
Research	1,174,283	1,443,333
Other Miscellaneous Funds	1,117,451	1,314,731
MS Research	1,004,970	1,243,501
Housing/Transportation	930,208	1,232,182
Vocational Services	586,698	769,141
Noble Learning Resource Center	521,184	682,337
Injury Prevention Program	332,409	431,229
Advocacy	219,735	287,865
Wishing Wall	77,540	91,306
	<u>26,956,665</u>	<u>32,921,408</u>
	<u>\$ 116,280,220</u>	<u>\$ 118,063,649</u>

Changes in endowment net assets for the year ended March 31, 2020, are as follows:

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
Beginning of the year	\$ -	\$ 77,373,285	\$ 77,373,285
Contributions	-	82,611	82,611
Investment income	-	2,623,217	2,623,217
Unrealized losses	-	(7,332,297)	(7,332,297)
Expenditures	-	(1,255,660)	(1,255,660)
End of the year	<u>\$ -</u>	<u>\$ 71,491,156</u>	<u>\$ 71,491,156</u>

Changes in endowment net assets for the year ended March 31, 2019, are as follows:

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
Beginning of the year	\$ -	\$ 74,995,784	\$ 74,995,784
Contributions	-	240,985	240,985
Investment income	-	1,545,312	1,545,312
Unrealized gains	-	2,406,922	2,406,922
Expenditures	-	(1,815,718)	(1,815,718)
End of the year	<u>\$ -</u>	<u>\$ 77,373,285</u>	<u>\$ 77,373,285</u>

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level of the donor's original gift. In accordance with GAAP, deficiencies of this nature are reported as net assets with donor restrictions.

During 2020 and 2019, net assets were released from donor restrictions by incurring expenses, purchasing equipment or completing other capital projects satisfying the restricted purposes in the amounts of \$13,127,515 and \$8,739,001, respectively. The releases generally related to the purposes listed above.

Note 9: Net Patient Service Revenue

The Center has agreements with third-party payors that provide for payments to the Center at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Services rendered to Medicare program beneficiaries are paid based on prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors.

Medicaid inpatient services are paid on a prospective payment system. Outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology. The Center is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the Center and audits thereof by the Medicaid fiscal intermediary.

Patients identified as low-income and that have not been approved for Medicaid benefits are classified as “Medicaid Pending.” The Center assists the patients in obtaining these benefits from the Georgia Department of Medical Assistance.

Revenue from the Medicare and Medicaid programs account for approximately 17% and 4%, respectively, of the Center’s gross patient revenue for 2020, and approximately 16% and 6%, respectively, for 2019. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

The Center also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Center under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates. With respect to reserves for these agreements, the Center typically reserves a percentage of relevant revenues. The Center has historically provided such reserves in recognition of the complexity of relevant reimbursement regulations, the volatility of related settlement processes, and an increasingly provocative healthcare regulatory environment and believes that such policy provides the Center’s routine exposures in this area consistent with industry-specific accounting principles and practices. In any event, the Center’s estimates in this area may differ from actual experience, and those differences may be material.

Note 10: Functional Expenses

The consolidated financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Accordingly, certain costs have been allocated among the programs and supporting services benefited based on what management believes are reasonable methodologies, such as headcount and estimations of time spent within various departments. Expenses that are allocated include food service expense, Shepherd Share bonus, and payroll taxes and benefits. Food service expense is allocated based on the number of patient meals versus employee meals served. The Shepherd Share bonus and payroll taxes and benefits are allocated in each functional area based on salary expense.

Expenses related to providing these services for the year ended March 31, 2020 are as follows:

	Health Care Services	Administrative Services	Facilities and Other Expenses	Research	Fundraising	Total
Salaries	\$ 83,370,035	\$ 22,306,837	\$ 3,057,592	\$ 3,232,882	\$ 2,142,405	\$ 114,109,751
Payroll taxes and employee benefits	19,839,501	5,007,325	733,460	741,544	513,524	26,835,354
Patient, pharmacy and office supplies	68,988,725	2,324,219	547,582	35,879	129,243	72,025,648
Purchased services	14,404,794	14,794,749	3,603,064	1,931,052	1,229,681	35,963,340
Depreciation and amortization	-	1,636,888	10,216,419	-	-	11,853,307
Interest	1,355	-	1,170,388	-	-	1,171,743
Other	4,146,159	5,303,254	416,772	102,110	485,686	10,453,981
Community funded service expense reclassification	(66,535)	-	66,535	-	-	-
Total expenses	<u>\$ 190,684,034</u>	<u>\$ 51,373,272</u>	<u>\$ 19,811,812</u>	<u>\$ 6,043,467</u>	<u>\$ 4,500,539</u>	<u>\$ 272,413,124</u>

Expenses related to providing these services for the year ended March 31, 2019 are as follows:

	Health Care Services	Administrative Services	Facilities and Other Expenses	Research	Fundraising	Total
Salaries	\$ 78,020,666	\$ 20,466,321	\$ 2,889,355	\$ 3,179,577	\$ 1,525,600	\$ 106,081,519
Payroll taxes and employee benefits	18,447,362	4,820,120	702,136	751,785	360,715	25,082,118
Patient, pharmacy and office supplies	63,008,780	2,409,857	645,165	72,743	125,487	66,262,032
Purchased services	15,990,639	8,569,493	3,624,601	1,058,013	690,363	29,933,109
Depreciation and amortization	-	-	9,952,149	-	-	9,952,149
Interest	-	-	1,162,586	-	-	1,162,586
Other	2,873,361	4,774,705	315,777	92,872	269,546	8,326,261
Community funded service expense reclassification	<u>(112,816)</u>	<u>-</u>	<u>112,816</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenses	<u>\$ 178,227,992</u>	<u>\$ 41,040,496</u>	<u>\$ 19,404,585</u>	<u>\$ 5,154,990</u>	<u>\$ 2,971,711</u>	<u>\$ 246,799,774</u>

Note 11: Charity Care

The Center maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy and the estimated cost of those services and supplies. The following information measures the Center's charity care provided during the years ended March 31, 2020 and 2019:

	2020	2019
Charges foregone, based on established rates	<u>\$ 16,601,017</u>	<u>\$ 14,631,569</u>
Estimated costs and expenses incurred to provide charity care	<u>\$ 6,865,439</u>	<u>\$ 5,355,103</u>

The Center determined estimated costs and expenses incurred to provide charity care by applying the Medicare and Medicaid ratio of costs to charges percentages to charges foregone related to identified charity patients.

In addition to charity care, the Center provides many other services not typically paid for by insurance or government payors. During the years ended March 31, 2020 and 2019, the Center incurred \$11,982,946 and \$11,072,893, respectively, in expenses supporting programs including, but not limited to, recreation therapy, patient equipment, assistive technology, housing, vocational services, research, transition support, the Noble Learning Resource Center, professional development, injury prevention and advocacy.

Note 12: Benefit Plan

The Center provides a defined contribution plan for substantially all employees. The amount of employer contribution is determined by the Board of Directors annually. Employees are one hundred percent vested in employer contributions after three full years of service. Amounts charged to expense for the plan were \$3,071,071 and \$2,895,901 in 2020 and 2019, respectively.

Note 13: Commitments and Contingencies

Industry

The health care industry is subject to laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Over the past several years, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the Center is in compliance with fraud and abuse statutes as well as other applicable government laws and regulations. The Center has established an Ethics in Business program and has a dedicated compliance officer in order to help ensure compliance with applicable laws and regulations.

Operating Leases

The Center leases various equipment and facilities under noncancelable lease agreements expiring at various dates through January 2023. Total rental expense in 2020 and 2019 was \$1,327,339 and \$995,086, respectively. Management expects that in the normal course of business, leases that expire will be renewed or replaced by other leases.

Future minimum rental payments under all noncancelable operating leases are as follows as of March 31, 2020:

Year Ending March 31,

2021	\$ 392,608
2022	343,297
2023	<u>239,585</u>
	<u>\$ 975,490</u>

Total rent expense includes month-to-month rental expense as well as contingent rental expense of approximately \$870,000 and \$540,000 for 2020 and 2019, respectively.

Litigation

The Center, at times, is involved in litigation arising in the ordinary course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the Center's financial position, change in net assets or cash flows.

Note 14: Concentrations of Credit Risk

The Center grants credit without collateral to its patients, most of whom participate under third-party payor agreements (see Note 9). The mix of receivables from patients and third-party payors at March 31, 2020 and 2019, is as follows:

	2020	2019
Medicare	6%	3%
Medicaid	2%	6%
Commercial	72%	72%
Workers' Compensation	20%	19%
Other	0%	0%
	<u>100%</u>	<u>100%</u>

The mix of revenue for the years ended March 31, 2020 and 2019 is as follows:

	2020	2019
Medicare	17%	16%
Medicaid	4%	6%
Commercial	63%	63%
Workers' Compensation	14%	13%
Other	2%	2%
	<u>100%</u>	<u>100%</u>

At March 31, 2020 and 2019, the Center has cash and cash equivalent balances in major financial institutions which exceed federal depository insurance limits. Management believes that credit risk related to these deposits is minimal.

Investment securities are exposed to various risks such as interest rate, market and credit. Market values of securities fluctuate based on the magnitude of changing market conditions; significant changes in market conditions could materially affect portfolio value in the near term.

Note 15: Related Party Transactions

Shepherd Center Auxiliary (the Auxiliary) is a non-profit organization that sponsors several events which raise contributions on behalf of the Center for various purposes. In 2020 and 2019, the Auxiliary raised \$1,067 and \$65,971, respectively.

Contributions from Shepherd board members totaled approximately \$972,000 and \$471,000 in 2020 and 2019, respectively. Contributions from Foundation board members totaled approximately \$4,276,000 and \$5,019,000 in 2020 and 2019, respectively.

Note 16: Gift Annuities

The Center enters into agreements with donors in which the donors contribute Annuity Gifts to the Center in exchange for an annuity to be paid to the donor or their designee for a specified period of time. The assets received for an annuity are recorded at fair value at the date of the gift. The liability associated with Annuity Gifts is recorded at present value based on Internal Revenue Service mortality tables and prevailing interest rates. The difference constitutes an increase to net assets with donor restrictions. At March 31, 2020 and 2019, the liability associated with received Annuity Gifts was estimated to be \$5,691,850 and \$5,790,678, respectively, and is shown as annuities payable in the accompanying consolidated financial statements.

Note 17: Other Current Assets

Other current assets as of March 31, 2020 and 2019 consists of the following:

	2020	2019
Inventory (see Note 1)	\$ 5,059,205	\$ 3,820,504
Prepaid expenses	3,598,686	3,539,929
Grant and research receivables	2,585,157	1,115,538
Other receivables	<u>1,437,672</u>	<u>322,480</u>
	<u>\$ 12,680,720</u>	<u>\$ 8,798,451</u>

Note 18: Other Revenue

Other revenue for the years ended March 31, 2020 and 2019 consists of the following:

	2020	2019
Net assets released from restrictions, used for operations (see Note 1)	\$ 7,599,073	\$ 7,015,170
Grants income	4,602,912	3,816,871
Retail sales, net	4,455,526	4,502,286
Contributions without donor restrictions	3,510,864	5,012,456
Other	2,983,993	1,549,447
Clinical trials	1,841,146	773,264
Cafeteria sales	<u>1,533,187</u>	<u>1,444,574</u>
	<u>\$ 26,526,701</u>	<u>\$ 24,114,068</u>

Note 19: Subsequent Events

The Center has evaluated subsequent events between the consolidated statement of financial position date of March 31, 2020 and the report date, the date the consolidated financial statements were issued, and has concluded all subsequent events requiring recognition or disclosure have been reflected in these consolidated financial statements.

COVID-19 Disruption

In March 2020, the World Health Organization officially designated COVID-19 as a pandemic, and as a result, businesses across the country and the world have had to take steps to protect their employees, and employees of companies with whom they do business. The associated business disruption has ranged from limited to significant, depending on the nature of the business being impacted. Management is presently unable to predict what short-term and long-term impact this level of disruption will have on the Center, and there can be no assurances that a significant impact to the business will not take place. There have been no adjustments to these consolidated financial statements as a result of this uncertainty.

* * * * *

Supplemental Information

Shepherd Center, Inc. and Subsidiaries
(A Not-For-Profit Organization)

Schedule of Expenditures of Federal Awards
For the Year Ended March 31, 2020

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Provided to Subrecipients	Federal Expenditures
Research and Development Cluster				
Department of Health and Human Services				
Administration for Community Living				
Program - ACL National Institute on Disability, Independent Living, and Rehabilitation Research				
Direct Awards:				
Research Spinal Cord Injury Model Systems	93.433		\$ 13,174	\$ 467,734
Disability and Rehab Research Projects Health and Function	93.433		6,250	42,302
Field Initiated Projects Research	93.433		-	52,237
Rehab Rehabilitation Engineering Research Centers	93.433		78,854	223,388
LiveWell Rehabilitation Engineering Research Centers	93.433		<u>569,385</u>	<u>1,151,822</u>
Total Direct Awards			<u>667,663</u>	<u>1,937,483</u>
Pass-through Awards from:				
<i>Duke University</i>				
LiveWell Rehabilitation Engineering Research Centers	93.433	2036528	6,000	7,055
<i>Georgia Board of Regents, Georgia Institute of Technology</i>				
RERC on Wireless Inclusive Technology	93.433	RH434-G3	-	45,947
<i>Kessler Foundation</i>				
Improving Quality of Personal Care Assistance Services for People with SCI through Online Education	93.433	489-01	-	<u>23,236</u>
Total Pass-through Awards			<u>6,000</u>	<u>76,238</u>
Total ACL National Institute on Disability, Independent Living, and Rehabilitation Research			<u>673,663</u>	<u>2,013,721</u>
National Institutes of Health Programs				
Program - Child Health and Human Development Extramural Research				
Direct Awards:				
National Institute of Child Health and Human Development				
Child Health and Human Development Extramural Research	93.865		-	8,630
Dose-Response Effects of Whole Body Vibration on Spasticity and Walking in SCI	93.865		<u>20,620</u>	<u>358,519</u>
Total Direct Awards			<u>20,620</u>	<u>367,149</u>
Pass-through Award from:				
<i>Medical University of South Carolina</i>				
Child Health & Human Development Extramural Research	93.865	MUSC-18-031-8D222	-	<u>27,216</u>
Total Child Health and Human Development Extramural Research			<u>20,620</u>	<u>394,365</u>
Total Department of Health and Human Services			<u>694,283</u>	<u>2,408,086</u>
Department of Defense (DOD)				
Department of Army				
Program - Military Medical Research and Development				
Direct Award:				
Reactivating Neural Circuits with Clinically Accessible Stimulation to Restore Hand Function in Persons with Tetraplegia	12.420		<u>7,621</u>	<u>407,047</u>
Pass-through Award from:				
<i>Rehabilitation Institute of Chicago</i>				
Evaluating the Utilization and Efficiency of Wearable Exoskeletons for SCI Rehabilitation;	12.420	6170	-	<u>25,029</u>
Total Military Medical Research and Development			<u>-</u>	<u>25,029</u>
Total Department of Defense			<u>7,621</u>	<u>432,076</u>
Total Research & Development Cluster			<u>\$ 701,904</u>	<u>\$ 2,840,162</u>

Shepherd Center, Inc. and Subsidiaries
(A Not-For-Profit Organization)

Schedule of Expenditures of Federal Awards (Continued)
For the Year Ended March 31, 2020

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Provided to Subrecipients	Federal Expenditures
Social Security Administration				
Program - Social Security - Work Incentives Planning and Assistance Program				
Direct Award:				
Benefits Planning, Assistance and Outreach Program for Disabled				
Georgians	96.008		\$ -	\$ 277,205
Total Social Security Administration			-	277,205
Department of Health and Human Services				
Program - Medical Library Assistance				
Pass-through Award from:				
<i>University of Maryland, Baltimore</i>				
University of MD SE Medical Library	93.879	1600679	-	14
Total Department of Health and Human Services			-	14
Total Expenditures of Federal Awards			\$ 701,904	\$ 3,117,381

See independent auditor's report and accompanying notes to schedule of expenditures of federal awards.

Shepherd Center, Inc. and Subsidiaries
(A Not-for-Profit Organization)

Notes to Schedule of Expenditures of Federal Awards
For the Year Ended March 31, 2020

Note A: Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Shepherd Center, Inc. and Subsidiaries (the Center) under programs of the Federal Government for the year ended March 31, 2020. The information in this schedule is presented in accordance with the requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Center, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Center.

Note B: Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note C: Federal Pass-through Funds

The Center is the subrecipient of federal funds, which have been subject to testing and are reported as expenditures and listed as federal pass-through funds in the accompanying schedule. Federal awards other than these are considered direct.

Note D: Indirect Cost Rate

The Center has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.



Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Directors of
Shepherd Center, Inc.

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Shepherd Center, Inc. and Subsidiaries (the Center) (a not-for-profit organization), which comprise the consolidated statement of financial position as of March 31, 2020, and the related consolidated statements of operations, changes in net assets, and cash flows for the year then ended, and the related notes to the consolidated financial statements and have issued our report thereon dated June 11, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Center's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Center's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Center's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Center's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Bennett Urusha LLP

June 11, 2020



Independent Auditor's Report on Compliance for the Major Federal Program and on Internal Control Over Compliance Required by the Uniform Guidance

To the Board of Directors of
Shepherd Center, Inc.

Report on Compliance for the Major Federal Program

We have audited Shepherd Center, Inc. and Subsidiaries' (the Center) (a not-for-profit organization) compliance with the types of compliance requirements described in the *Office of Management and Budget Compliance Supplement* that could have a direct and material effect on the Center's major federal program for the year ended March 31, 2020. The Center's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Center's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Center's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for its major federal program. However, our audit does not provide a legal determination of the Center's compliance.

Opinion on the Major Federal Program

In our opinion, the Center complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended March 31, 2020.

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Report on Internal Control Over Compliance

Management of the Center is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Center's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Center's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Bennett Musker LLP

June 11, 2020

Shepherd Center, Inc. and Subsidiaries
(A Not-for-Profit Organization)

Schedule of Findings and Questioned Costs
For the Year Ended March 31, 2020

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditor’s report issued: Unmodified.

Internal control over financial reporting:

Material weaknesses identified? No.

Significant deficiencies identified? None reported.

Noncompliance material to financial statements noted? No.

Federal Awards

Internal control over major programs:

Material weaknesses identified? No.

Significant deficiencies identified? None reported.

Type of auditor’s report issued on compliance for all major programs: Unmodified.

Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)? No.

Identification of major federal program:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
93.433, 12.420, 93.865	Research and Development Cluster

Dollar threshold used to distinguish between type A and type B programs: \$750,000.

Auditee qualified as low-risk auditee? Yes.

Section II – Financial Statement Findings

No matters were reported.

Section III – Federal Award Findings and Questioned Costs

No matters were reported.

Shepherd Center, Inc. and Subsidiaries
(A Not-for-Profit Organization)

Schedule of Prior Audit Findings
For the Year Ended March 31, 2020

Findings from the year ended March 31, 2019:

None.