# Terms and Conditions

Your access to and use of the information in this e-mail is subject to the following terms and conditions and all applicable laws. By accessing, browsing or copying the information contained herein, you accept, without limitation or qualification, the terms and conditions.

1. The information contained in this e-mail is confidential and intended only for the use of the management of Shepherd Center, Inc. and Subsidiaries (the Company) and should not be altered. This email was created June 19, 2019 and Bennett Thrasher LLP will maintain a duplicate copy pursuant to our data retention policies. Additional copies may be requested by reference to its unique identification number 09817.

2. With regard to the electronic dissemination of consolidated financial statements, including financial statements published electronically on your (or any other) Internet website, you understand that electronic sites are a means to distribute information and, therefore, we are not required to read the information contained in those sites or to consider the consistency of other information in the electronic site with the original document.

3. If you intend to publish the information in this e-mail on the Internet, the information should be published in its entirety and we recommend that “distinct boundaries” should be established around the information so that users are warned whenever they enter or leave pages containing information copied from this e-mail using the following language:

   Entry Warning:

   "You are now accessing the Company’s 2019 and 2018 consolidated financial statements and auditors’ report. An audit does not provide assurance on the maintenance and integrity of this website or whether changes may have occurred to the consolidated financial statements or auditors’ report since first published. These matters are the responsibility of management, but no control procedures can provide absolute assurance in this area."

   Leave Warning:

   “You are now leaving the Company’s 2019 and 2018 consolidated financial statements and auditors’ report.”

4. You are not permitted to copy or distribute this information if you are not the intended recipient named above or the agent of the intended recipient authorized to receive this information. If you received this communication in error, please notify us immediately by telephone collect and delete this e-mail.

Bennett Thrasher LLP
Riverwood 200
3300 Riverwood Parkway
Suite 700
Atlanta, Georgia 30339

General: 770-396-2200
Fax: 770-390-0394

# Shepherd Center, Inc. and Subsidiaries

**(A Not-for-Profit Organization)**

## Consolidated Financial Statements and Compliance Reports

## March 31, 2019 and 2018

BENNETT THRASHER LLP
Better Together

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

## Table of Contents
## March 31, 2019 and 2018

Page

## 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, 2019 and 2018 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.


Riverwood 200 3300 Riverwood Parkway Suite 700 Atlanta, GA 30339 **phone** 770.396.2200 **fax** 770.390.0394
**www.btcpa.net**

***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, 2019 and 2018 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, 2019, 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 14, 2019, 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 Thrasher LLP

June 14, 2019

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

### Consolidated Statements of Financial Position
### March 31, 2019 and 2018

| | 2019 | 2018 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 19,750,149 | $ 35,797,208 |
| Patient accounts receivable, less allowance for doubtful accounts of $2,734,358 in 2019 and $2,413,719 in 2018 | 64,902,919 | 60,150,363 |
| Current portion of contributions receivable | 3,379,315 | 2,218,106 |
| Other current assets | 8,798,451 | 8,251,383 |
| Total current assets | 96,830,834 | 106,417,060 |
| Investments | 299,462,211 | 279,872,039 |
| Assets limited as to use | 3,113,800 | 2,772,601 |
| Property and equipment, at cost less accumulated depreciation | 134,021,448 | 115,191,298 |
| Contributions receivable, less current portion and discount of $186,974 in 2019 and $112,629 in 2018 | 809,026 | 192,751 |
| Other assets | 11,148,678 | 2,349,878 |
| Total assets | $ 545,385,997 | $ 506,795,627 |
| **Liabilities and Net Assets** | | |
| Current liabilities: | | |
| Current portion of annuities payable | $ 432,203 | $ 433,168 |
| Current portion of long-term debt | 600,000 | - |
| Accounts payable | 4,301,782 | 4,444,268 |
| Accrued compensation and expenses | 19,929,898 | 18,411,722 |
| Deferred revenue | 516,086 | 1,790,986 |
| Total current liabilities | 25,779,969 | 25,080,144 |
| Annuities payable, less current portion | 5,358,474 | 5,418,043 |
| Long-term debt, less current portion and unamortized bond issuance costs | 50,360,772 | 50,920,416 |
| Total liabilities | 81,499,215 | 81,418,603 |
| Net assets: | | |
| Without donor restrictions | 345,823,133 | 319,100,191 |
| With donor restrictions | 118,063,649 | 106,276,833 |
| Total net assets | 463,886,782 | 425,377,024 |
| Total liabilities and net assets | $ 545,385,997 | $ 506,795,627 |

*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, 2019 and 2018

| | 2019 | 2018 |
|---|---|---|
| Revenues, gains and other support without donor restrictions: | | |
| Patient service revenue, net of contractual allowances and discounts | $ 238,500,512 | $ 223,846,728 |
| Provision for doubtful accounts | (1,422,048) | (661,264) |
| Net patient service revenue, less provision for doubtful accounts | 237,078,464 | 223,185,464 |
| Other revenue | 24,114,068 | 22,830,171 |
| Investment income | 3,877,421 | 3,184,553 |
| Total revenues, gains, and other support without donor restrictions, net | 265,069,953 | 249,200,188 |
| Expenses: | | |
| Salaries | 106,081,519 | 101,222,219 |
| Payroll taxes and employee benefits | 25,082,118 | 20,174,483 |
| Patient, pharmacy and office supplies | 66,262,032 | 54,888,759 |
| Purchased services | 29,933,109 | 26,585,857 |
| Depreciation and amortization | 9,952,149 | 11,390,326 |
| Interest | 1,162,586 | 929,541 |
| Other | 6,904,213 | 6,917,381 |
| Total expenses | 245,377,726 | 222,108,566 |
| Excess of revenues, gains and other support over expenses | 19,692,227 | 27,091,622 |
| Change in net unrealized gain on investments | 5,186,453 | 13,778,229 |
| Contributions of property and equipment | 120,431 | 107,876 |
| Net assets released from restrictions, used for purchase of property and equipment | 1,723,831 | 3,140,139 |
| Increase in net assets without donor restrictions | $ 26,722,942 | $ 44,117,866 |

*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, 2019 and 2018

| | 2019 | 2018 |
|---|---|---|
| Net assets without donor restrictions: | | |
| Excess of revenues, gains and other support over expenses | $ 19,692,227 | $ 27,091,622 |
| Change in net unrealized gain on investments | 5,186,453 | 13,778,229 |
| Contributions of property and equipment | 120,431 | 107,876 |
| Net assets released from restrictions, used for purchase of property and equipment | 1,723,831 | 3,140,139 |
| Increase in net assets without donor restrictions | 26,722,942 | 44,117,866 |
| Net assets with donor restrictions: | | |
| Contributions | 14,960,151 | 12,203,121 |
| Investment income | 2,583,571 | 2,446,641 |
| Change in net unrealized gain on investments | 3,354,489 | 8,574,913 |
| Change in charitable gift annuities | (372,394) | (380,032) |
| Net assets released from restrictions, used for operations | (7,015,170) | (7,006,861) |
| Net assets released from restrictions, used for purchase of property and equipment | (1,723,831) | (3,140,139) |
| Increase in net assets with donor restrictions | 11,786,816 | 12,697,643 |
| Increase in net assets | 38,509,758 | 56,815,509 |
| Net assets, beginning of year | 425,377,024 | 368,561,515 |
| Net assets, end of year | $ 463,886,782 | $ 425,377,024 |

*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, 2019 and 2018

| | 2019 | 2018 |
|---|---|---|
| Cash flows from operating activities: | | |
| Change in net assets | $ 38,509,758 | $ 56,815,509 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Net unrealized gain on investments | (8,540,942) | (22,353,142) |
| Contribution of investments | (435,519) | (3,234,631) |
| Restricted contributions | (14,524,632) | (8,968,490) |
| Net realized gains on investments | (1,606,586) | (1,691,971) |
| Provision for doubtful accounts | 1,422,048 | 661,264 |
| Discount on contributions receivable | (74,345) | (45,595) |
| Depreciation and amortization | 9,952,149 | 11,390,326 |
| Gain on disposal of property and equipment | (1,008) | (8,371) |
| Actuarial change in annuity payable | 372,394 | 380,032 |
| Non-cash interest expense | 40,356 | 56,067 |
| Changes in operating assets and liabilities: | | |
| Patient accounts receivable | (6,174,604) | (5,406,140) |
| Contributions receivable | (1,703,139) | (208,982) |
| Estimated third-party payor settlements | - | 64,003 |
| Other assets | (507,178) | (404,044) |
| Accounts payable | (142,486) | 302,883 |
| Accrued compensation and expenses | 1,518,176 | 1,875,751 |
| Deferred revenue | (1,274,900) | 1,456,503 |
| Net cash provided by operating activities | 16,829,542 | 30,680,972 |
| Cash flows from investing activities: | | |
| Purchases of property and equipment | (28,781,291) | (5,865,643) |
| Capitalized internal use software costs | (8,838,690) | (1,928,097) |
| Proceeds from disposals of property and equipment | - | 8,371 |
| Purchases of investments | (19,918,265) | (54,991,081) |
| Proceeds from sale of investments | 10,569,941 | 34,070,764 |
| Net cash used in investing activities | (46,968,305) | (28,705,686) |
| Cash flows from financing activities: | | |
| Proceeds from restricted contributions | 14,524,632 | 8,968,490 |
| Payment of long-term debt | - | (2,300,000) |
| Payment of annuities | (432,928) | (433,168) |
| Net cash provided by financing activities | 14,091,704 | 6,235,322 |
| Net (decrease) increase in cash and cash equivalents | (16,047,059) | 8,210,608 |
| Cash and cash equivalents at beginning of year | 35,797,208 | 27,586,600 |
| Cash and cash equivalents at end of year | $ 19,750,149 | $ 35,797,208 |
| **Supplemental Disclosure of Cash Flow Information** | | |
| Cash paid for interest | $ 1,095,637 | $ 841,764 |

*See accompanying notes to consolidated financial statements.*

## 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

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 net 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) 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 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, 2019 or 2018.

**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 2019 and $56,067 in 2018.

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 $239,228 and $279,584 at March 31, 2019 and 2018, 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 without 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 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 2019 and 2018; 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 2015.

**Vacation and Earned Time Off**

Vacation and earned time off benefits are accrued as earned by employees. At March 31, 2019 and 2018, the accrual for vacation and earned time off benefits was approximately $6,403,000 and $5,584,000, 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 $275,000 and $250,000 per covered person in calendar year 2019 and 2018, respectively. 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, 2019 and 2018, the accrual for self-insured plans was approximately $2,036,000 and $1,811,000, 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, 2019 and 2018, the accrual for the self-insured plans totaled approximately $350,000 and $236,000, 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, 2019 and 2018.

### New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue with Contracts from Customers*. ASU 2014-09 supersedes the current revenue recognition guidance, including industry specific guidance. The guidance introduces a five-step model to achieve its core principal of the entity recognizing revenue to depict the transfer of goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The updated guidance is effective for annual periods beginning after December 15, 2018. The Center is currently evaluating the impact of this standard on its consolidated financial statements.

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, 2019, and early adoption is permitted. The Center is currently evaluating the impact of this standard on the consolidated financial statements.

In August 2016, the FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 changes presentation and disclosure requirements for not-for-profit entities to provide more relevant information about resources to donors, grantors, creditors, and other users. This includes qualitative and quantitative requirements in the following areas: net asset classes, investment returns, expenses, liquidity and availability of resources and presentation of operating cash flows. The effects of adoption of the new standard have been implemented into these 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 | $ 199,546,375 |
| Patient accounts receivable, net | 64,902,919 |
| Current portion of contributions receivable | 3,379,315 |
| | $ 267,828,609 |

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. Refer to the statements of cash flows which identify the sources and uses of the Center's cash and shows positive cash generated from operations for fiscal years 2019 and 2018.

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 $3,113,800 and $2,772,601 at March 31, 2019 and 2018, respectively.

## Note 4: Cash and Investments

Cash and investments consisted of the following as of March 31, 2019 and 2018:

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | Cost | Fair Value | Cost | Fair Value |
| Fair value investments: | | | | |
| Equity securities | $ 3,435,130 | $ 5,067,867 | $ 3,617,235 | $ 5,074,522 |
| U.S. Government securities | 40,523,608 | 40,551,730 | 17,428,225 | 16,983,973 |
| Corporate bonds | 22,110,552 | 22,130,470 | 20,261,271 | 21,352,320 |
| Mutual funds: | | | | |
| Equity funds | 182,054,872 | 216,265,880 | 140,779,884 | 203,551,583 |
| Fixed income funds | 18,325,830 | 15,446,264 | 31,144,937 | 32,909,641 |
| | 266,449,992 | 299,462,211 | 213,231,552 | 279,872,039 |
| Total cash and cash equivalents: | 19,750,149 | 19,750,149 | 35,797,208 | 35,797,208 |
| | $ 286,200,141 | $ 319,212,360 | $ 249,028,760 | $ 315,669,247 |

Investment income (without donor restrictions) is comprised of the following for the years ended March 31, 2019 and 2018:

| | 2019 | 2018 |
|---|---|---|
| Investment income: | | |
| Interest and dividend income | $ 3,068,865 | $ 2,425,164 |
| Net realized gains on the sale of investments | 808,556 | 759,389 |
| | $ 3,877,421 | $ 3,184,553 |
| Other changes in net assets without donor restrictions: | | |
| Change in net unrealized gains on investments | $ 5,186,453 | $ 13,778,229 |

Investment advisory fees are included in investment income and amounted to $304,249 and $307,736 in 2019 and 2018, 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, 2019 and 2018.

There were no assets classified as Level 2 or 3 at March 31, 2019 and 2018. 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, 2019 and 2018 are comprised of the following:

| | 2019 | 2018 |
|---|---|---|
| Unconditional promises expected to be collected in: | | |
| Less than one year | $ 3,379,315 | $ 2,218,106 |
| One to five years | 809,026 | 192,751 |
| | $ 4,188,341 | $ 2,410,857 |

There was no allowance for unconditional pledges as of March 31, 2019 and 2018.

Certain pledges receivable with due dates extending beyond one year are discounted using 5% as of March 31, 2019 and 2018.

At March 31, 2019 and 2018, three donors accounted for 81% and 84%, respectively, of total contributions receivable.

## Note 6: Property and Equipment

A summary of property and equipment at March 31, 2019 and 2018, is as follows:

| | 2019 | 2018 |
|---|---|---|
| Land | $ 38,069,819 | $ 17,425,654 |
| Land improvements | 1,329,111 | 1,287,154 |
| Building | 117,195,118 | 114,430,553 |
| Building services equipment | 56,096,287 | 54,090,365 |
| Fixed equipment | 2,977,306 | 2,955,847 |
| Major movable equipment | 84,028,888 | 78,594,557 |
| | 299,696,529 | 268,784,130 |
| Less accumulated depreciation and amortization | 166,708,026 | 156,796,299 |
| | 132,988,503 | 111,987,831 |
| Construction in progress | 1,032,945 | 3,203,467 |
| | $ 134,021,448 | $ 115,191,298 |

Construction in progress at March 31, 2019, is primarily related to various Center facility projects. These projects have an estimated total remaining cost to complete of approximately $4 million. Capitalized interest is not significant in either 2019 or 2018.

Depreciation and amortization expense for the years ended March 31, 2019 and 2018 amounted to $9,952,149 and $11,390,326, 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 $51,200,000 at March 31, 2019 and 2018, respectively, which are presented net of unamortized bond issuance costs of $239,228 and $279,584, respectively.

The Bonds bear interest at a variable rate set not to exceed 12% per annum (1.56% at March 31, 2019) as determined by the remarketing agent (see below) and interest is paid monthly. The average interest rate during 2019 and 2018 was 1.53% and 1.03%, respectively. Interest expense, which included remarketing fees, letter of credit fees, and amortization of bond issuance costs, totaled $1,131,721 and $864,209 for 2019 and 2018, 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, 2019, are as follows:

| Year Ending March 31, | |
|---|---|
| 2020 | $ 600,000 |
| 2021 | 2,300,000 |
| 2022 | 2,400,000 |
| 2023 | 2,500,000 |
| 2024 | 2,600,000 |
| Thereafter | 40,800,000 |
| | $ 51,200,000 |

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, 2019 and 2018, 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. The balance at March 31, 2019 and 2018 was $51,200,000 and $51,492,528, 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 loan was extended and matures on October 31, 2019, at which time the balance plus accrued interest is due. Outstanding borrowings bear interest at one-month LIBOR plus 0.85%. As of March 31, 2019 and 2018, there was no outstanding balance. Interest expense, which included certain legal and commitment fees, totaled $30,865 and $27,407 for 2019 and 2018, respectively.

The Center is subject to certain financial and nonfinancial covenants under the various Bond and line of credit agreements. At March 31, 2019, 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, 2019 and 2018:

| | 2019 | 2018 |
|---|---|---|
| Net Assets With Donor Restrictions: | | |
| Share Initiative | $ 8,125,077 | $ 6,178,111 |
| Capital Projects and Maintenance | 7,846,122 | 3,854,593 |
| Other Miscellaneous Funds | 5,000,051 | 3,507,310 |
| Jesse Crawford Research Fund | 4,279,043 | 4,203,402 |
| Charitable Gift Annuity Program | 2,340,465 | 2,372,405 |
| Housing/Transportation Fund | 2,320,585 | 2,681,336 |
| Shepherd Center Fund | 2,259,742 | 2,140,151 |
| MS Rehab and Wellness Fund | 2,040,634 | 1,644,475 |
| MS General Fund | 1,605,714 | 620,265 |
| Therapeutic Recreation Fund | 1,390,662 | 594,387 |
| Andee's Army | 1,259,243 | 1,349,153 |
| SCI Research Program | 993,465 | 946,526 |
| Transition Support | 626,771 | 512,752 |
| Assistive Technology Fund | 360,092 | 306,434 |
| Acquired Brain Injury Fund | 195,409 | 262,814 |
| Prevention Fund | 47,289 | 106,935 |
| | 40,690,364 | 31,281,049 |

| | 2019 | 2018 |
|---|---|---|
| Net Assets With Donor Restrictions - Endowment Principal: | | |
| Charity Care | 8,034,070 | 8,023,916 |
| Recreation Therapy | 6,963,779 | 6,751,773 |
| Anniversary Fund | 5,225,280 | 5,225,280 |
| Patient Equipment | 4,650,721 | 4,650,721 |
| Assistive Technology | 3,267,087 | 3,267,087 |
| Research | 2,713,690 | 2,698,015 |
| 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 | 1,502,506 | 1,499,505 |
| Vocational Services | 1,372,704 | 1,372,557 |
| 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 |
| | 44,451,877 | 44,210,894 |
| Net Assets With Donor Restrictions - Endowment Earnings: | | |
| Charity Care | 5,806,367 | 5,679,032 |
| Patient Equipment | 5,296,378 | 4,869,706 |
| Anniversary Fund | 4,764,586 | 4,261,200 |
| Recreation Therapy | 3,556,618 | 3,377,546 |
| Assistive Technology | 2,194,994 | 1,989,269 |
| Professional Development | 2,117,415 | 1,969,347 |
| Capital Projects and Maintenance | 1,689,425 | 1,519,436 |
| Research | 1,443,333 | 1,375,898 |
| Other Miscellaneous Funds | 1,314,731 | 1,200,565 |
| MS Research | 1,243,501 | 1,204,254 |
| Housing/Transportation | 1,232,182 | 1,171,144 |
| Vocational Services | 769,141 | 736,787 |
| Noble Learning Resource Center | 682,337 | 654,087 |
| Injury Prevention Program | 431,229 | 416,135 |
| Advocacy | 287,865 | 275,816 |
| Wishing Wall | 91,306 | 84,668 |
| | 32,921,408 | 30,784,890 |
| | $ 118,063,649 | $ 106,276,833 |

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 | $ - | $ 77,373,285 | $ 77,373,285 |

Changes in endowment net assets for the year ended March 31, 2018, are as follows:

| | Net Assets Without Donor Restrictions | Net Assets With Donor Restrictions | Total |
|---|---|---|---|
| Beginning of the year | $ - | $ 68,590,655 | $ 68,590,655 |
| Contributions | - | 163,808 | 163,808 |
| Investment income | - | 1,433,997 | 1,433,997 |
| Unrealized gains | - | 6,495,692 | 6,495,692 |
| Expenditures | - | (1,688,368) | (1,688,368) |
| End of the year | $ - | $ 74,995,784 | $ 74,995,784 |

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 2019 and 2018, 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 $8,739,001 and $10,147,000, 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 16% and 6%, respectively, of the Center's gross patient revenue for 2019, and approximately 17% and 7%, respectively, for 2018. 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, 2019 are as follows:

| | Health Care Services | Administrative Services | Facilities and Other Expenses | Research | Fundraising | Total |
|---|---|---|---|---|---|---|
| Salaries | $ 78,020,666 | $18,792,130 | $ 4,563,546 | $3,179,577 | $1,525,600 | $ 106,081,519 |
| Payroll taxes and employee benefits | 18,447,362 | 4,443,243 | 1,079,013 | 751,785 | 360,715 | 25,082,118 |
| Patient, pharmacy and office supplies | 63,008,780 | 1,982,775 | 1,072,247 | 72,743 | 125,487 | 66,262,032 |
| Purchased services | 15,990,639 | 5,838,879 | 6,355,215 | 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 | 1,451,313 | 4,705,934 | 384,548 | 92,872 | 269,546 | 6,904,213 |
| Community funded service expense reclassification | (112,816) | - | 112,816 | - | - | - |
| Total expenses | $176,805,944 | $35,762,961 | $ 24,682,120 | $5,154,990 | $2,971,711 | $ 245,377,726 |

**Expenses related to providing these services for the year ended March 31, 2018 are as follows:**

| | Health Care Services | Administrative Services | Facilities and Other Expenses | Research | Fundraising | Total |
|---|---|---|---|---|---|---|
| Salaries | $ 75,355,047 | $17,325,923 | $ 3,919,360 | $3,313,520 | $1,308,369 | $ 101,222,219 |
| Payroll taxes and employee benefits | 15,018,927 | 3,453,209 | 781,164 | 660,414 | 260,769 | 20,174,483 |
| Patient, pharmacy and office supplies | 52,124,737 | 1,794,639 | 764,995 | 42,474 | 161,914 | 54,888,759 |
| Purchased services | 14,120,749 | 5,631,696 | 5,976,766 | 563,694 | 292,952 | 26,585,857 |
| Depreciation and amortization | - | - | 11,390,326 | - | - | 11,390,326 |
| Interest | - | - | 929,541 | - | - | 929,541 |
| Other | 1,679,594 | 4,584,618 | 339,638 | 81,008 | 232,523 | 6,917,381 |
| Community funded service expense reclassification | (124,238) | - | 124,238 | - | - | - |
| Total expenses | $158,174,816 | $32,790,085 | $ 24,226,028 | $4,661,110 | $2,256,527 | $ 222,108,566 |

## 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, 2019 and 2018:

| | **2019** | **2018** |
|---|---|---|
| Charges foregone, based on established rates | $ 14,631,569 | $11,898,330 |
| Estimated costs and expenses incurred to provide charity care | $ 5,355,103 | $ 4,384,892 |

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, 2019 and 2018, the Center incurred $11,072,893 and $10,279,283, 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 $2,895,901 and $2,674,785 in 2019 and 2018, 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 2019 and 2018 was $995,086 and $1,066,661, 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, 2019:

| Year Ending March 31, | |
|---|---|
| 2020 | $ 394,948 |
| 2021 | 392,608 |
| 2022 | 343,297 |
| 2023 | 239,585 |
| | $ 1,370,438 |

Total rent expense includes month-to-month rental expense as well as contingent rental expense of approximately $540,000 and $470,000 for 2019 and 2018, 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, 2019 and 2018, is as follows:

| | 2019 | 2018 |
|---|---|---|
| Medicare | 10% | 7% |
| Medicaid and Pending Medicaid Benefits | 5% | 9% |
| Other third-party payors | 85% | 83% |
| Patients | 0% | 1% |
| | 100% | 100% |

At March 31, 2019 and 2018, 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 2019 and 2018, the Auxiliary raised $65,971 and $190, respectively.

Contributions from Shepherd board members totaled approximately $471,000 and $1,321,000 in 2019 and 2018, respectively. Contributions from Foundation board members totaled approximately $5,019,000 and $656,000 in 2019 and 2018, 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, 2019 and 2018, the liability associated with received Annuity Gifts was estimated to be $5,790,678 and $5,851,211, 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, 2019 and 2018 consists of the following:

| | 2019 | 2018 |
|---|---|---|
| Inventory (see Note 1) | $ 3,820,504 | $ 3,507,229 |
| Prepaid expenses | 3,539,929 | 3,114,809 |
| Grant and research receivables | 1,115,538 | 1,503,538 |
| Other receivables | 322,480 | 125,807 |
| | $ 8,798,451 | $ 8,251,383 |

## Note 18: Other Revenue

Other revenue for the years ended March 31, 2019 and 2018 consists of the following:

| | 2019 | 2018 |
|---|---|---|
| Net assets released from restrictions, used for operations (see Note 1) | $ 7,015,170 | $ 7,006,861 |
| Contributions without donor restrictions | 5,012,456 | 4,079,908 |
| Retail sales, net | 4,502,286 | 4,243,638 |
| Grants income | 3,816,871 | 3,023,102 |
| Other | 1,549,447 | 1,944,129 |
| Cafeteria sales | 1,444,574 | 1,449,715 |
| Clinical trials | 773,264 | 1,082,818 |
| | $ 24,114,068 | $ 22,830,171 |

## Note 19: Subsequent Events

The Center has evaluated subsequent events between the consolidated statement of financial position date of March 31, 2019 and the report date, the date the consolidated financial statements were issued, and has concluded there were no subsequent events requiring recognition or disclosure in these consolidated financial statements.

* * * * *

**Supplemental Information**

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

**Schedule of Expenditures of Federal Awards**
**For the Year Ended March 31, 2019**

| 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 | | $ - | $ 454,561 |
| LiveWell Rehabilitation Engineering Research Centers | 93.433 | | - | 184,695 |
| Total Direct Awards | | | - | 639,256 |
| Pass-through Awards from: | | | | |
| *Duke University* | | | | |
| LiveWell Rehabilitation Engineering Research Centers | 93.433 | 2036528 | - | 255,902 |
| *Georgia Board of Regents, Georgia Institute of Technology* | | | | |
| RERC on Wireless Inclusive Technology | 93.433 | RH434-G3 | - | 65,221 |
| *Medical University of South Carolina* | | | | |
| Rehabilitation and Research Training Center on Employment of Individuals with Physical Disabilities | 93.433 | MUSC13-087 | - | 15,750 |
| *Kessler Foundation* | | | | |
| Improving Quality of Personal Care Assistance Services for People with SCI through Online Education | 93.433 | 489-01 | - | 37,293 |
| Total Pass-through Awards | | | - | 374,166 |
| **Total ACL National Institute on Disability, Independent Living, and Rehabilitation Research** | | | - | 1,013,422 |
| **National Institutes of Health Programs** | | | | |
| **Program - Child Health and Human Development Extramural Research** | | | | |
| Direct Award: | | | | |
| National Institute of Child Health and Human Development | | | | |
| Dose-Response Effects of Whole Body Vibration on Spasticity and Walking in SCI | | | - | 358,336 |
| Pass-through Awards from: | | | | |
| *Medical University of South Carolina* | | | | |
| NICHHD Child Health & Human Development Extramural Research | 93.865 | MUSC-18-031-8D222 | - | 26,844 |
| *Craig Hospital* | | | | |
| Craig/Galveston SCI Rehab | 93.865 | 17-079 | - | 1,473 |
| Total Pass-through Awards | | | - | 28,317 |
| **Total Child Health and Human Development Extramural Research** | | | - | 386,653 |
| **Program - Medical Library Assistance** | | | | |
| Pass-through Award from: | | | | |
| *University of Maryland, Baltimore* | | | | |
| University of MD SE Medical Library | 93.879 | 1600679 | - | 1,651 |
| **Total Medical Library Assistance** | | | - | 1,651 |
| ***Total Department of Health and Human Services*** | | | $ - | $ 1,401,726 |
| **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 | | $ - | $ 502,185 |
| Pass-through Award from: | | | | |
| *Rehabilitation Institute of Chicago* | | | | |
| Evaluating the Utilization and Efficiency of Wearable Exoskeletons for SCI Rehabilitation; Award No. W81XWH-17-1-0157; | 12.420 | 6170 | - | 43,630 |
| **Total Military Medical Research and Development** | | | - | 545,815 |
| ***Total Department of Defense*** | | | $ - | $ 545,815 |
| ***Total Research & Development Cluster*** | | | $ - | $ 1,947,541 |

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

**Schedule of Expenditures of Federal Awards**
**For the Year Ended March 31, 2019**

| 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 | | $ - | $ 296,778 |
| ***Total Social Security Administration*** | | | $ - | $ 296,778 |
| **Department of Transportation** | | | | |
| **National Highway Traffic Safety Administration** | | | | |
| **Program - State and Community Highway Safety** | | | | |
| Direct Award: | | | | |
| Governor's Office of Highway Safety | | | | |
| How to Teach Your Teen How to Drive: a New App for Parents | 20.600 | | $ - | $ 62,369 |
| ***Total Department of Transportation*** | | | $ - | $ 62,369 |
| *Total Expenditures of Federal Awards* | | | $ - | $ 2,306,688 |

*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, 2019

### 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, 2019. 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.

*See independent auditor's report and accompanying notes to consolidated financial statements.*

**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 statement of financial position as of March 31, 2019, and the related statements of operations and changes in net assets, and cash flows for the year then ended, and related notes to the consolidated financial statements and have issued our report thereon dated June 14, 2019.

**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.

**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 Thrasher LLP

June 14, 2019

## Independent Auditor's Report on Compliance for Each 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 Each 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, 2019. 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 the requirements of laws, regulations, contracts, and grants 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 Each 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, 2019.

**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 Thrasher LLP

June 14, 2019

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

## Schedule of Findings and Questioned Costs
## For the Year Ended March 31, 2019

### Section I – Summary of Auditor's Results

**Financial Statements**

Type of auditor's report issued: Unqualified.

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: Unqualified.

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

Identification of major program:

| CFDA Number | Name of Federal Program |
|---|---|
| 93.433, 12.420, 93.865, 93.879 | 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, 2019

Findings from the year ended March 31, 2018:

None.