

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 16, 2021 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 2021 and 2020 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 2021 and 2020 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

March 31, 2021 and 2020



Shepherd Center, Inc. and Subsidiaries

(A Not-for-Profit Organization)

Table of Contents

March 31, 2021 and 2020

	Page
Independent Auditor's Report	2
Audited Consolidated Financial Statements:	
Consolidated Statements of Financial Position	4
Consolidated Statements of Operations	5
Consolidated Statements of Changes in Net Assets	6
Consolidated Statements of Cash Flows	7
Notes to Consolidated Financial Statements	8



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, 2021 and 2020 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 accounting 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.

BETTER TOGETHER

A Limited Liability Partnership of Certified Public Accountants & Consultants

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, 2021 and 2020 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.

Bennett Musker LLP

June 14, 2021

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

Consolidated Statements of Financial Position
March 31, 2021 and 2020

	2021	2020
Assets		
Current assets:		
Cash and cash equivalents	\$ 52,540,023	\$ 33,657,460
Patient accounts receivable, less allowance for doubtful accounts of \$2,117,629 in 2021 and \$3,297,250 in 2020	81,950,829	97,075,124
Current portion of contributions receivable	22,398,777	1,507,653
Other current assets	<u>11,080,135</u>	<u>12,680,720</u>
Total current assets	167,969,764	144,920,957
Investments	392,284,816	261,716,960
Assets limited as to use	3,790,102	3,108,978
Property and equipment, at cost less accumulated depreciation	134,030,392	134,181,602
Contributions receivable, less current portion and discount of \$10,425,342 in 2021 and \$471,937 in 2020	60,150,452	3,647,154
Other assets	<u>16,246,975</u>	<u>15,939,178</u>
Total assets	<u>\$ 774,472,501</u>	<u>\$ 563,514,829</u>
Liabilities and Net Assets		
Current liabilities:		
Current portion of annuities payable	\$ 492,791	\$ 419,791
Current portion of long-term debt	2,400,000	2,300,000
Accounts payable	4,897,203	6,336,826
Accrued compensation and expenses	26,138,841	20,480,290
Deferred revenue and other liabilities	<u>8,185,656</u>	<u>1,965,004</u>
Total current liabilities	<u>42,114,491</u>	<u>31,501,911</u>
Annuities payable, less current portion	5,367,213	5,272,059
Long-term debt, less current portion and unamortized bond issuance costs	<u>45,725,226</u>	<u>48,101,129</u>
Total liabilities	<u>93,206,930</u>	<u>84,875,099</u>
Net assets:		
Without donor restrictions	431,447,371	362,359,510
With donor restrictions	<u>249,818,200</u>	<u>116,280,220</u>
Total net assets	<u>681,265,571</u>	<u>478,639,730</u>
Total liabilities and net assets	<u>\$ 774,472,501</u>	<u>\$ 563,514,829</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, 2021 and 2020

	2021	2020
Revenues, gains and other support without donor restrictions:		
Patient service revenue, net of contractual allowances and discounts	\$ 249,688,660	\$ 266,269,378
Other revenue	30,273,190	26,526,701
Investment income including realized gain on investments	16,008,415	5,910,249
Unrealized gain (loss) on investments	<u>52,202,106</u>	<u>(15,326,933)</u>
Total revenues, gains and other support without donor restrictions, net	<u>348,172,371</u>	<u>283,379,395</u>
Expenses:		
Salaries	120,908,535	114,109,751
Payroll taxes and employee benefits	29,040,591	26,835,354
Patient, pharmacy and office supplies	76,497,530	72,025,648
Purchased services	31,943,373	35,963,340
Depreciation and amortization	12,019,507	11,853,307
Interest	639,656	1,171,743
Other	<u>10,060,530</u>	<u>10,453,981</u>
Total expenses	<u>281,109,722</u>	<u>272,413,124</u>
Excess of revenues, gains and other support over expenses	67,062,649	10,966,271
Contributions of property and equipment	2,602	41,664
Net assets released from restrictions, used for purchase of property and equipment	<u>2,022,610</u>	<u>5,528,442</u>
Increase in net assets without donor restrictions	<u>\$ 69,087,861</u>	<u>\$ 16,536,377</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, 2021 and 2020

	2021	2020
Net assets without donor restrictions:		
Excess of revenues, gains and other support over expenses	\$ 67,062,649	\$ 10,966,271
Contributions of property and equipment	2,602	41,664
Net assets released from restrictions, used for purchase of property and equipment	<u>2,022,610</u>	<u>5,528,442</u>
Increase in net assets without donor restrictions	<u>69,087,861</u>	<u>16,536,377</u>
Net assets with donor restrictions:		
Contributions	91,961,316	19,664,755
Investment income including realized gain on investments	12,391,516	5,150,527
Unrealized gain (loss) on investments	39,952,399	(12,960,176)
Change in charitable gift annuities	(492,981)	(511,020)
Net assets released from restrictions, used for operations	(8,251,660)	(7,599,073)
Net assets released from restrictions, used for purchase of property and equipment	<u>(2,022,610)</u>	<u>(5,528,442)</u>
Increase (decrease) in net assets with donor restrictions	<u>133,537,980</u>	<u>(1,783,429)</u>
Increase in net assets	202,625,841	14,752,948
Net assets, beginning of year	<u>478,639,730</u>	<u>463,886,782</u>
Net assets, end of year	<u>\$ 681,265,571</u>	<u>\$ 478,639,730</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, 2021 and 2020

	2021	2020
Cash flows from operating activities:		
Change in net assets	\$ 202,625,841	\$ 14,752,948
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Net unrealized (gain) loss on investments	(92,154,505)	28,287,109
Non-operating restricted contributions	(91,961,316)	(19,664,755)
Net realized gains on investments	(24,442,161)	(5,942,327)
Bad debt expense	1,633,103	2,219,072
Depreciation and amortization	12,019,507	11,853,307
Gain on disposal of property and equipment	(140,443)	(2,384)
Non-operating interest expense	24,097	40,357
Changes in operating assets and liabilities:		
Patient accounts receivable, net of bad debt expense	13,491,192	(34,391,277)
Other assets	1,600,585	(4,056,269)
Accounts payable and other liabilities	(1,031,383)	2,410,343
Accrued compensation and expenses	5,658,551	550,392
Deferred revenue	<u>6,220,652</u>	<u>1,448,918</u>
Net cash provided by (used in) operating activities	<u>33,543,720</u>	<u>(2,494,566)</u>
Cash flows from investing activities:		
Purchases of property and equipment	(11,397,094)	(11,716,074)
Capitalized internal use software costs	(779,000)	(4,950,806)
Proceeds from disposals of property and equipment	140,443	39,303
Purchases of investments	(73,139,935)	(44,744,890)
Proceeds from sale of investments	<u>58,487,621</u>	<u>60,150,181</u>
Net cash (used in) provided by investing activities	<u>(26,687,965)</u>	<u>(1,222,286)</u>
Cash flows from financing activities:		
Proceeds from restricted contributions	14,566,894	18,698,289
Payment of long-term debt	(2,300,000)	(600,000)
New annuities and payments on annuities, net	<u>(240,086)</u>	<u>(474,126)</u>
Net cash provided by financing activities	<u>12,026,808</u>	<u>17,624,163</u>
Net increase in cash and cash equivalents	18,882,563	13,907,311
Cash and cash equivalents at beginning of year	<u>33,657,460</u>	<u>19,750,149</u>
Cash and cash equivalents at end of year	<u>\$ 52,540,023</u>	<u>\$ 33,657,460</u>
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	<u>\$ 750,584</u>	<u>\$ 1,037,837</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, 2021 and 2020

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 guidance specific to the healthcare industry. 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, 2021 and 2020.

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 15). 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. Deferred revenue represents amounts invoiced or collected prior to having completed performance of service obligations.

Services ordered by a healthcare provider in an episode of care are not separately identifiable and, therefore, have been combined into a single performance obligation for each contract. The Center recognizes revenue as its performance obligations are completed. The performance obligation is satisfied over time as the patient simultaneously receives and consumes the benefits of the healthcare services provided. For inpatient treatment, the Company recognizes revenue equally over the patient stay on a daily basis. For outpatient treatment, the Company recognizes revenue equally over the number of treatments provided in a single episode of care.

As the Center's performance obligations relate to contracts with a duration of one year or less, the Center elected the optional exemption and, therefore, is not required to disclose the transaction price for the remaining performance obligations at the end of the reporting period or when the Company expects to recognize revenue. The Center has minimal unsatisfied performance obligations at the end of the reporting period as patients are typically under no obligation to remain admitted to a facility or program.

Patients and third-party payors are billed within several days of the service being performed or the patient being discharged. Payments are due based on contract terms. As the period between the time of service and time of payment is typically one year or less, the Company elected the practical expedient and did not adjust for the effects of a significant financing component.

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 12).

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. The Center believes it mitigates any risks by depositing cash and investing in cash equivalents with major financial institutions.

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 and are included in the changes in net assets with donor restrictions.

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 costs incurred on borrowed funds during the period of construction of capital assets are capitalized as a component of the costs 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, 2021 or 2020.

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 8). 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 \$24,097 in 2021 and \$40,356 in 2020.

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 \$174,774 and \$198,871 at March 31, 2021 and 2020, 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 9). 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 2021 and 2020; 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 balances of which were not material for the years ended March 31, 2021 and 2020.

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 2017.

Vacation and Earned Time Off

Vacation and earned time off benefits are accrued as earned by employees. At March 31, 2021 and 2020, the accrual for vacation and earned time off benefits was approximately \$8,970,000 and \$7,044,000, 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 2021 and 2020. 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, 2021 and 2020, the accrual for self-insured plans was approximately \$2,649,000 and \$2,307,000, 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, 2021 and 2020, the accrual for the self-insured plans totaled approximately \$354,000 and \$391,000, 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, 2021 and 2020.

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

New Accounting Pronouncements

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, 2021, and early adoption is permitted. The Center is currently evaluating the impact of this standard on the consolidated financial statements.

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 as of March 31, 2021 and 2020:

	2021	2020
Unrestricted cash, cash equivalents and investments	\$ 271,445,867	\$ 178,557,157
Patient accounts receivable, net	<u>81,950,829</u>	<u>97,075,124</u>
	<u>\$ 353,396,696</u>	<u>\$ 275,632,281</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. In 2021, the Center returned 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 \$3,790,102 and \$3,108,978 at March 31, 2021 and 2020, respectively.

Note 4: Cash and Investments

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, 2021 and 2020.

Investments at fair value at March 31, 2021 and 2020 are comprised of the following:

	2021	2020
Fair value investments:		
Equity securities	\$ 6,391,420	\$ 5,402,775
U.S. Government securities	1,874,948	2,046,137
Corporate bonds	55,458,838	43,607,218
Mutual funds:		
Equity funds	308,372,167	192,431,494
Fixed income funds	<u>20,187,443</u>	<u>18,229,336</u>
	392,284,816	261,716,960
Total cash and cash equivalents:	<u>52,540,023</u>	<u>33,657,460</u>
	<u>\$ 444,824,839</u>	<u>\$ 295,374,420</u>

There were no assets classified as Level 2 or 3 at March 31, 2021 and 2020. 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, 2021 and 2020 are comprised of the following:

	2021	2020
Unconditional promises expected to be collected in:		
Less than one year	\$ 22,398,777	\$ 1,507,653
One to five years	<u>60,150,452</u>	<u>3,647,154</u>
	<u>\$ 82,549,229</u>	<u>\$ 5,154,807</u>

There was no allowance for unconditional pledges as of March 31, 2021 and 2020.

Certain pledges receivable with due dates extending beyond one year are discounted using 5% as of March 31, 2021 and 2020.

At March 31, 2021 and 2020, one and three donors accounted for 86% and 44%, respectively, of total contributions receivable.

Note 6: Property and Equipment

A summary of property and equipment at March 31, 2021 and 2020, is as follows:

	2021	2020
Land	\$ 43,650,579	\$ 38,092,480
Land improvements	1,437,047	1,338,047
Building	119,431,858	118,241,771
Building services equipment	58,318,877	57,172,820
Fixed equipment	3,307,912	3,004,937
Major movable equipment	<u>92,422,469</u>	<u>89,936,134</u>
	318,568,742	307,786,189
Less: accumulated depreciation	<u>(186,547,448)</u>	<u>(176,701,687)</u>
	132,021,294	131,084,502
Construction in progress	<u>2,009,098</u>	<u>3,097,100</u>
	<u>\$ 134,030,392</u>	<u>\$ 134,181,602</u>

Construction in progress at March 31, 2021, is primarily related to various Center facility expansion and renovation projects. These projects have an estimated total remaining cost to complete of approximately \$138,500,000. Capitalized interest is not significant in either 2021 or 2020.

Depreciation expense for the years ended March 31, 2021 and 2020 amounted to \$10,010,218 and \$9,945,016, respectively.

Note 7: COVID-19 Relief

In response to the COVID-19 Pandemic, medical facilities that accepted Medicare patients received Provider Relief Funds (PRF) from the Department of Health and Human Services (HHS). The Center received PRF's of \$4,770,031 during 2021, which were recorded as a component of deferred revenue and other liabilities within the accompanying consolidated balance sheets.

During 2021, the Center received \$3,304,741 Medicare advanced payments through the Center for Medicare & Medicaid Services (CMS) Accelerated and Advanced Payments Program (AAP) in response to the COVID-19 Pandemic. Under the AAP, repayments will commence one year after payment was issued and will be paid over an 18 month period. These are recorded as a component of patient accounts receivable within the accompanying consolidated balance sheets.

Note 8: 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 \$48,300,000 and \$50,600,000 at March 31, 2021 and 2020, respectively, which are presented net of unamortized bond issuance costs of \$174,774 and \$198,871, respectively.

The Bonds bear interest at a variable rate set not to exceed 12% per annum (0.12% at March 31, 2021) as determined by the remarketing agent (see below) and interest is paid monthly. The average interest rate during 2021 and 2020 was 0.20% and 1.56%, respectively. Interest expense, which included remarketing fees, letter of credit fees, and amortization of bond issuance costs, totaled \$456,627 and \$1,140,550 for 2021 and 2020, 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, 2021, are as follows:

Year Ending March 31,	
2022	\$ 2,400,000
2023	2,500,000
2024	2,600,000
2025	2,700,000
2026	2,800,000
Thereafter	<u>35,300,000</u>
	<u>\$ 48,300,000</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, 2021 and 2020, 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 was scheduled to expire on 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, 2021 and 2020 was \$48,300,000 and \$50,600,000, 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

During October 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. In April 2020, the line was extended and the maximum borrowing capacity was increased to \$30,000,000. On May 7, 2021, the line was extended and the maximum borrowing capacity was reduced to \$20,000,000.

The line matures on August 31, 2022, at which time the balance, if any, plus accrued interest is due. Outstanding borrowings bear interest at one-month LIBOR plus 1.05%. As of March 31, 2021 and 2020, there was no outstanding balance. Interest expense, which included certain legal and commitment fees, totaled \$183,029 and \$31,193 for 2021 and 2020, respectively.

The Center is subject to certain financial and nonfinancial covenants under the various Bond and line of credit agreements. At March 31, 2021, the Center was in compliance with these covenants.

Note 9: Net Assets With Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes at March 31, 2021 and 2020:

	2021	2020
Net Assets With Donor Restrictions - Non-Endowment:		
Pursuing Possible	\$ 92,395,580	\$ -
Share Initiative	15,005,343	11,949,802
Capital Projects and Maintenance	6,095,147	9,152,687
Jesse Crawford Research Fund	5,535,384	4,002,645
Charitable Gift Annuity Program	4,686,429	1,397,514
Other Miscellaneous Funds	4,028,710	2,805,487
Shepherd Center Fund	3,519,887	2,427,194
Housing/Transportation Fund	2,777,605	1,792,771
Therapeutic Recreation Fund	2,584,974	2,045,721
MS General Fund	2,544,036	1,775,191
MS Rehab and Wellness Fund	1,939,717	1,606,322
Andee's Army	1,671,493	1,183,160
Animal Therapy Fund	1,292,414	881,835
SCI Research Program	1,150,636	920,748
Chaplaincy Fund	1,120,947	819,755
Assistive Technology Fund	988,537	706,887
Transition Support	849,753	585,357
Patient Assistance	570,260	191,642
Acquired Brain Injury Fund	269,693	174,161
SCI Program	251,148	180,491
CCC Peer Mentoring	45,796	189,694
Prevention Fund	44,977	-
Patient Equipment	34,295	-
	<u>149,402,761</u>	<u>44,789,064</u>

	2021	2020
Net Assets With Donor Restrictions - Endowment Principal:		
Charity Care	8,059,309	8,054,200
Recreation Therapy	6,495,480	6,965,464
Anniversary Fund	5,258,876	5,258,876
Patient Equipment	4,650,721	4,650,721
Assistive Technology	3,267,087	3,267,087
Research	2,733,890	2,723,890
Housing/Transportation	2,380,937	2,380,937
Professional Development	2,160,517	2,160,517
Capital Projects and Maintenance	1,684,084	1,684,084
Other Miscellaneous Funds	1,529,189	1,518,006
Vocational Services	1,374,207	1,374,207
MS Research	1,260,111	1,960,111
Noble Learning Resource Center	1,208,704	1,208,704
Injury Prevention Program	709,161	709,161
MS Rehab and Wellness Program	700,000	-
Advocacy	512,509	512,509
Animal Therapy Fund	284,576	-
Chaplaincy	198,110	-
Wishing Wall	106,017	106,017
	<u>44,573,485</u>	<u>44,534,491</u>
Net Assets With Donor Restrictions - Endowment Earnings:		
Charity Care	9,244,224	4,557,078
Anniversary Fund	8,391,171	4,131,166
Patient Equipment	8,320,163	4,618,037
Recreation Therapy	5,896,701	2,679,285
Assistive Technology	3,907,510	1,737,459
Professional Development	3,555,603	1,792,456
Capital Projects and Maintenance	2,910,670	1,476,706
Research	2,658,975	1,174,283
Other Miscellaneous Funds	2,270,575	1,117,451
Housing/Transportation	2,188,232	930,208
MS Research	1,350,721	1,004,970
Vocational Services	1,328,032	586,698
Noble Learning Resource Center	1,174,810	521,184
MS Rehab and Wellness Program	816,272	-
Injury Prevention Program	724,044	332,409
Advocacy	496,498	219,735
Animal Therapy Fund	244,244	-
Chaplaincy	205,015	-
Wishing Wall	158,494	77,540
	<u>55,841,954</u>	<u>26,956,665</u>
	<u>\$ 249,818,200</u>	<u>\$ 116,280,220</u>

Changes in endowment net assets with donor restrictions for the years ended March 31, 2021 and 2020, are as follows:

	<u>2021</u>	<u>2020</u>
Beginning of the year	\$ 71,491,156	\$ 77,373,285
Contributions	38,994	82,611
Investment income	7,333,799	2,623,217
Unrealized losses	24,774,761	(7,332,297)
Expenditures	<u>(3,223,271)</u>	<u>(1,255,660)</u>
End of the year	<u>\$ 100,415,439</u>	<u>\$ 71,491,156</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, should they occur, would be reported as net assets with donor restrictions.

During 2021 and 2020, 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 \$10,274,270 and \$13,127,515, respectively. The releases generally related to the purposes listed above.

Note 10: 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.

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 11: 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, 2021 are as follows:

	Program Expenses		Management & General Expenses			
	Health Care Services	Research	Administrative Services	Facilities and Other Expenses	Fundraising	Total
Salaries	\$ 89,009,123	\$ 3,509,865	\$ 22,480,525	\$ 3,239,509	\$ 2,669,513	\$ 120,908,535
Payroll taxes and employee benefits	21,125,612	841,079	5,643,990	794,735	635,175	29,040,591
Patient, pharmacy and office supplies	73,868,308	19,840	1,851,009	633,600	124,773	76,497,530
Purchased services	12,323,288	2,481,134	12,493,891	3,555,450	1,089,610	31,943,373
Depreciation and amortization	-	-	2,009,289	10,010,218	-	12,019,507
Interest	-	-	-	639,656	-	639,656
Other	3,117,096	247,005	5,753,936	612,103	330,390	10,060,530
Community funded service expense reclassification	(58,815)	-	-	58,815	-	-
Total expenses	\$ 199,384,612	\$ 7,098,923	\$ 50,232,640	\$ 19,544,086	\$ 4,849,461	\$ 281,109,722

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

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

Note 12: 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, 2021 and 2020:

	2021	2020
Charges foregone, based on established rates	<u>\$ 20,411,571</u>	<u>\$ 16,601,017</u>
Estimated costs and expenses incurred to provide charity care	<u>\$ 8,548,213</u>	<u>\$ 6,865,439</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, 2021 and 2020, the Center incurred \$10,599,370 and \$11,982,946, 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 13: 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 \$3,275,242 and \$3,071,071 in 2021 and 2020, respectively.

Note 14: 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 June 2026. Total rental expense in 2021 and 2020 was \$1,341,765 and \$1,327,339, 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, 2021:

Year Ending March 31,

2022	\$	413,877
2023		322,949
2024		83,364
2025		83,364
2026		82,932
Thereafter		<u>12,784</u>
	\$	<u>999,270</u>

Total rent expense includes month-to-month rental expense as well as contingent rental expense of approximately \$950,000 and \$870,000 for 2021 and 2020, 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 15: Concentrations of Credit Risk

The Center grants credit without collateral to its patients, most of whom participate under third-party payor agreements (see Note 10). The mix of receivables from patients and third-party payors at March 31, 2021 and 2020, is as follows:

	2021	2020
Medicare	6%	6%
Medicaid	4%	2%
Commercial	78%	72%
Workers' compensation	11%	20%
Other	1%	0%
	<u>100%</u>	<u>100%</u>

The mix of revenue for the years ended March 31, 2021 and 2020 is as follows:

	2021	2020
Medicare	16%	17%
Medicaid	6%	4%
Commercial	59%	63%
Workers' compensation	13%	14%
Other	6%	2%
	<u>100%</u>	<u>100%</u>

At March 31, 2021 and 2020, 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 16: 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 2021, there were no contributions raised by the Auxiliary. During 2020, the Auxiliary raised \$1,067.

Contributions from Shepherd board members totaled approximately \$2,209,000 and \$972,000 in 2021 and 2020, respectively. Contributions from Foundation board members totaled approximately \$14,674,000 and \$4,276,000 in 2021 and 2020, respectively.

Note 17: 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, 2021 and 2020, the liability associated with received Annuity Gifts was estimated to be \$5,860,004 and \$5,691,850, respectively, and is shown as annuities payable in the accompanying consolidated financial statements.

Note 18: Other Current Assets

Other current assets as of March 31, 2021 and 2020 consists of the following:

	2021	2020
Inventory (see Note 1)	\$ 3,635,208	\$ 5,059,205
Prepaid expenses	4,293,660	3,598,686
Grant and research receivables	2,291,345	2,585,157
Other receivables	<u>859,922</u>	<u>1,437,672</u>
	<u>\$ 11,080,135</u>	<u>\$ 12,680,720</u>

Note 19: Other Revenue

Other revenue for the years ended March 31, 2021 and 2020 consists of the following:

	2021	2020
Contributions without donor restrictions	\$ 8,613,782	\$ 3,510,864
Net assets released from restrictions, used for operations (see Note 1)	8,251,660	7,599,073
Grants income	4,902,384	4,602,912
Retail sales, net	4,045,231	4,455,526
Other	2,507,698	2,983,993
Cafeteria sales	990,302	1,533,187
Clinical trials	<u>962,133</u>	<u>1,841,146</u>
	<u>\$ 30,273,190</u>	<u>\$ 26,526,701</u>

Note 20: Risks and Uncertainties

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. The pandemic is still on-going at the report date and management believes that appropriate measures have been put in place to limit any adverse effects to the Center as a result of this disruption; however, no assurances can be made. There have been no adjustments to these consolidated financial statements as a result of this uncertainty.

Note 21: Subsequent Events

The Center has evaluated subsequent events between the consolidated statement of financial position date of March 31, 2021 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.

* * * * *