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

Consolidated Financial Statements

March 31, 2023 and 2022

BENNETT THRASHER LLP
Better Together

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

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March 31, 2023 and 2022

BENNETT THRASHER LLP

Independent Auditor's Report

To the Members of
Shepherd Center, Inc. and Subsidiaries

Opinion

We have audited the accompanying consolidated financial statements of Shepherd Center, Inc. and Subsidiaries (collectively, the Center), which comprise the consolidated balance sheets as of March 31, 2023 and 2022, 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.

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, 2023 and 2022, and the results of their operations and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Shepherd Center, Inc. and Subsidiaries and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Shepherd Center, Inc. and Subsidiaries ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Shepherd Center, Inc. and Subsidiaries internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Shepherd Center, Inc. and Subsidiaries ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

BENNETT THRASHER LLP

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, 2023, 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 22, 2023 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 22, 2023

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

Consolidated Statements of Financial Position
March 31, 2023 and 2022

	2023	2022
Assets		
Current assets:		
Cash and cash equivalents	$ 77,778,392	$ 99,116,755
Patient accounts receivable, less allowance for doubtful accounts of $2,051,589 in 2023 and $1,864,902 in 2022	80,641,062	70,995,320
Current portion of contributions receivable	66,448,718	49,327,766
Other current assets	13,486,268	13,513,746
Total current assets	238,354,440	232,953,587
Investments	424,024,569	408,981,980
Assets limited as to use	4,155,668	4,145,681
Property and equipment, at cost less accumulated depreciation	150,615,546	129,947,249
Contributions receivable, less current portion and discount of $17,469,400 in 2023 and $13,320,627 in 2022	79,759,393	87,177,672
Other assets	13,913,881	15,505,061
Total assets	$ 910,823,497	$ 878,711,230
Liabilities and Net Assets		
Current liabilities:		
Current portion of long-term debt	$ 2,600,000	$ 2,500,000
Accounts payable	14,839,189	8,608,757
Accrued compensation and expenses	24,024,983	26,032,468
Deferred revenue and other liabilities	826,434	7,226,399
Total current liabilities	42,290,606	44,367,624
Annuities payable	5,695,099	5,769,952
Long-term debt, less current portion and unamortized bond issuance costs	40,700,294	43,237,710
Total liabilities	88,685,999	93,375,286
Net assets:		
Without donor restrictions	463,181,046	457,936,021
With donor restrictions	358,956,452	327,399,923
Total net assets	822,137,498	785,335,944
Total liabilities and net assets	$ 910,823,497	$ 878,711,230

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, 2023 and 2022

	2023	2022
Revenues, gains and other support without donor restrictions:		
Patient service revenue, net of contractual allowances and discounts	$ 254,927,377	$ 243,854,729
Other revenue	38,732,776	63,861,696
Investment income including realized gain on investments	4,218,090	2,551,458
Unrealized (loss) gain on investments	(19,602,368)	8,092,777
Total revenues, gains and other support without donor restrictions, net	278,275,875	318,360,660
Expenses:		
Salaries	131,615,646	128,932,082
Payroll taxes and employee benefits	34,185,290	36,721,105
Patient, pharmacy and office supplies	76,558,225	76,020,694
Purchased services	32,127,249	29,885,900
Depreciation and amortization	11,638,469	12,123,494
Interest	1,258,427	448,866
Other	11,843,064	11,922,973
Total expenses	299,226,370	296,055,114
(Deficit) excess of revenues, gains and other support over expenses	(20,950,495)	22,305,546
Contributions of property and equipment	130,950	61,440
Net assets released from restrictions, used for purchase of property and equipment	26,064,570	4,121,664
Increase in net assets without donor restrictions	$ 5,245,025	$ 26,488,650

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, 2023 and 2022

	2023	2022
Net assets without donor restrictions:		
(Deficit) excess of revenues, gains and other support over expenses	$ (20,950,495)	$ 22,305,546
Contributions of property and equipment	130,950	61,440
Net assets released from restrictions, used for purchase of property and equipment	26,064,570	4,121,664
Increase in net assets without donor restrictions	5,245,025	26,488,650
Net assets with donor restrictions:		
Contributions	80,007,376	87,389,811
Investment income including realized gain on investments	2,715,123	2,762,766
Unrealized (loss) gain on investments	(13,674,639)	3,722,488
Change in charitable gift annuities	(393,519)	(1,118,890)
Net assets released from restrictions, used for operations	(11,033,242)	(11,052,788)
Net assets released from restrictions, used for purchase of property and equipment	(26,064,570)	(4,121,664)
Increase in net assets with donor restrictions	31,556,529	77,581,723
Increase in net assets	36,801,554	104,070,373
Net assets, beginning of year	785,335,944	681,265,571
Net assets, end of year	$ 822,137,498	$ 785,335,944

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, 2023 and 2022

	2023	2022
Cash flows from operating activities:		
Change in net assets	$ 36,801,554	$ 104,070,373
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Net unrealized loss (gain) on investments	33,277,007	(11,815,265)
Non-operating restricted contributions	(80,007,376)	(87,389,811)
Net realized gains on investments	(1,457,105)	(951,353)
Bad debt expense	1,991,444	2,641,688
Depreciation and amortization	11,638,469	12,123,494
Non-operating interest expense	62,584	12,484
Changes in operating assets and liabilities:		
Patient accounts receivable, net of bad debt expense	(11,637,186)	8,313,821
Other assets	(644,874)	(2,608,625)
Accounts payable and other liabilities	6,623,950	2,767,015
Accrued compensation and expenses	(2,007,485)	(106,373)
Deferred revenue	(6,399,965)	(959,257)
Net cash (used in) provided by operating activities	(11,758,983)	26,098,191
Cash flows from investing activities:		
Purchases of property and equipment	(30,043,234)	(7,123,423)
Purchases of investments	(117,147,257)	(46,249,995)
Proceeds from sale of investments	70,274,779	41,963,870
Net cash used in investing activities	(76,915,712)	(11,409,548)
Cash flows from financing activities:		
Proceeds from restricted contributions	70,304,703	33,433,602
Payment of long-term debt	(2,500,000)	(2,400,000)
New annuities and payments on annuities, net	(468,371)	854,487
Net cash provided by financing activities	67,336,332	31,888,089
Net (decrease) increase in cash and cash equivalents	(21,338,363)	46,576,732
Cash and cash equivalents at beginning of year	99,116,755	52,540,023
Cash and cash equivalents at end of year	$ 77,778,392	$ 99,116,755
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	$ 1,076,318	$ 422,976

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 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 Center recognizes revenue equally over the patient stay on a daily basis. For outpatient treatment, the Center recognizes revenue equally over the number of treatments provided in a single episode of care. 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 Center 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, 2023 or 2022.

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 consist 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 $58,136 and $12,484 in 2023 and 2022, respectively.

The unamortized portions of the certificate and bond issuance costs are presented as other assets and a reduction to long-term debt in the accompanying consolidated statements of financial position. The unamortized bond issuance costs totaled $933,636 and $162,290 at March 31, 2023 and 2022, 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 (deficit) excess of revenues, gains and other support over expenses. Changes in net assets with donor restrictions, which are excluded from (deficit) 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 2023 and 2022; 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, 2023 and 2022.

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 2019.

Vacation and Earned Time Off

Vacation and earned time off benefits are accrued as earned by employees. At March 31, 2023 and 2022, the accrual for vacation and earned time off benefits was approximately $8,860,000 and $8,954,000, 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 2023 and 2022. 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, 2023 and 2022, the accrual for self-insured plans was approximately $4,298,000 and $4,092,000, 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, 2023 and 2022, the accrual for the self-insured plans totaled approximately $408,000 and $399,000, 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, 2023 and 2022.

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, 2023 and 2022:

	2023	2022
Unrestricted cash, cash equivalents and investments	$ 283,109,521	$ 311,184,298
Patient accounts receivable, net	80,641,062	70,995,320
	$ 363,750,583	$ 382,179,618

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.

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 $4,155,668 and $4,145,681 at March 31, 2023 and 2022, 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 exchange traded funds, 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, 2023 and 2022.

Investments at fair value at March 31, 2023 and 2022 are comprised of the following:

	2023	2022
Fair value investments:		
Exchange traded funds	$ 5,217,523	$ 6,055,719
U.S. Government securities	61,083,503	1,639,091
Corporate bonds	64,332,599	55,187,520
Mutual funds:		
Equity funds	284,443,270	336,625,669
Fixed income funds	8,947,674	9,473,981
	424,024,569	408,981,980
Total cash and cash equivalents:	77,778,392	99,116,755
	$ 501,802,961	$ 508,098,735

There were no assets classified as Level 2 or 3 at March 31, 2023 and 2022. 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, 2023 and 2022 are comprised of the following:

	2023	2022
Unconditional promises expected to be collected in:		
Less than one year	$ 66,448,718	$ 49,327,766
One to five years	79,759,393	87,177,672
	$ 146,208,111	$ 136,505,438

There was no allowance for unconditional pledges as of March 31, 2023 and 2022.

Certain pledges receivable with due dates extending beyond one year are discounted using 5% as of March 31, 2023 and 2022.

At March 31, 2023 and 2022, two and four donors accounted for 76% and 83%, respectively, of total contributions receivable.

Note 6: Property and Equipment

A summary of property and equipment at March 31, 2023 and 2022, is as follows:

	2023	2022
Land	$ 44,910,980	$ 43,650,579
Land improvements	1,487,223	1,461,355
Building	121,711,295	121,389,314
Building services equipment	59,764,317	59,529,368
Fixed equipment	3,392,759	3,307,912
Major movable equipment	97,415,603	95,052,237
	328,682,177	324,390,765
Less: accumulated depreciation	(205,814,432)	(196,556,337)
	122,867,745	127,834,428
Construction in progress	27,747,801	2,112,821
	$ 150,615,546	$ 129,947,249

Construction in progress at March 31, 2023, is primarily related to various Center facility expansion and renovation projects. These projects have an estimated total remaining cost to complete of approximately $278,300,000 and will be funded by the Pursuing Possible campaign funds and bonds. Capitalized interest is not significant in either 2023 or 2022.

Depreciation expense for the years ended March 31, 2023 and 2022 amounted to $9,365,237 and $10,049,275, 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 PRFs of $6,478,481 during 2022. Usage of PRFs provided to organizations are reportable to the HHS under a predefined schedule released by the HHS based on when organizations receive the funds. The funds received in 2022 were recognized as other income during 2023 when reported to the HHS and are included as a component of other revenue within the accompanying consolidated statements of operations.

During 2022, the Center received $392,424 Medicare advance payments through the Center for Medicare & Medicaid Services (CMS) Accelerated and Advance 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. The funds received in 2022 were repaid during 2023.

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 $43,400,000 and $45,900,000 at March 31, 2023 and 2022, respectively, which are presented net of unamortized bond issuance costs of $149,806 and $162,290, respectively.

The Bonds bear interest at a variable rate set not to exceed 12% per annum (4.53% at March 31, 2023) as determined by the remarketing agent (see below) and interest is paid monthly. The average interest rate during 2023 and 2022 was 1.99% and 0.14%, respectively. Interest expense, which included remarketing fees, letter of credit fees, and amortization of bond issuance costs, totaled $1,173,515 and $368,123 for 2023 and 2022, 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, 2023, are as follows:

Year Ending March 31,	
2024	$ 2,600,000
2025	2,700,000
2026	2,800,000
2027	2,900,000
2028	3,100,000
2029	3,200,000
2030	3,300,000
2031	3,400,000
2032	3,600,000
2033	3,700,000
2034	3,900,000
2035	4,000,000
2036	4,200,000
	$ 43,400,000

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, 2023 and 2022, 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, 2023 and 2022 was $43,400,000 and $45,900,000, 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.

Bonds Payable – Series 2022

Under a Bond Purchase and Loan Agreement (the Loan Agreement), dated December 22, 2022, between Development Authority of Fulton County (Issuer) and a commercial bank (Lender), Development Authority of Fulton County Revenue Bonds (Shepherd Center, Inc. Project), Series 2022 (2022 Bonds) up to $175,000,000 may be issued pursuant to the Loan Agreement. The Loan Agreement will support the Center in financing the construction and equipping of improvements to the Center.

Outstanding borrowings totaled $50,100 at March 31, 2023. The related unamortized bond issuance costs of $783,830 are included as a component of other assets within the accompanying consolidated statements of financial position.

The Bonds bear interest at a variable rate set at the Securities Industry and Financial Markets Association (SIFMA) index rate plus 0.711% (4.68% at March 31, 2023) as determined by the remarketing agent (see below) and interest is paid monthly. The average interest rate during 2023 was 3.69%. Interest expense, which included remarketing fees, letter of credit fees, and amortization of bond issuance costs, totaled $45,652 for 2023.

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 mature in December 2027, at which time the Center would be required to either refinance or repay the bonds in full.

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. On May 7, 2021, the line was extended and the maximum borrowing capacity was changed to $20,000,000.

The line was amended on August 31, 2022 and the maturity date was extended to August 31, 2025, at which time the balance, if any, plus accrued interest is due. Outstanding borrowings bear interest at Adjusted Term Secured Overnight Financing Rate (SOFR), which is defined as the sum of the Term SOFR for the period plus a margin of 0.64%. As of March 31, 2023, and 2022, there was no outstanding balance on the line of credit. Interest expense, which included certain legal and commitment fees, totaled $39,260 and $80,743 for 2023 and 2022, respectively.

The Center is subject to certain financial and nonfinancial covenants under the various Bond and line of credit agreements. At March 31, 2023, the Center was in compliance with these covenants.

Note 9: Net Assets With Donor Restrictions

Net assets with donor restrictions, not included in endowment net assets, are restricted for the following purposes at March 31, 2023 and 2022:

	2023	2022
Net Assets With Donor Restrictions - Non-Endowment:		
Pursuing Possible	$ 205,603,412	$ 166,611,850
Share Initiative	17,588,724	17,761,138
Research	5,749,801	227,992
Jesse Crawford Research Fund	5,019,391	5,520,578
Other Miscellaneous Funds	4,112,104	5,426,962
MS General Fund	3,639,986	2,413,401
Shepherd Center Fund	3,498,255	3,692,229
Housing/Transportation Fund	3,105,594	3,817,927
Charitable Gift Annuity Program	2,775,778	3,838,220
Andee's Army	1,694,393	1,796,374
Capital Projects and Maintenance	1,584,080	4,649,824
MS Rehab and Wellness Fund	1,452,435	1,630,971
Animal Therapy Fund	1,290,658	1,353,646
Assistive Technology Fund	954,626	1,084,733
SCI Research Program	837,344	1,075,623
Chaplaincy Fund	837,082	1,047,647
Transition Support	832,703	886,526
Patient Assistance	820,697	688,747
Vocational Services	775,916	-
Recreation Therapy	479,733	1,796,881
SCI Program	285,042	251,139
Acquired Brain Injury Fund	228,105	208,741
Prevention Fund	40,937	45,017
Patient Equipment	16,141	17,046
MS Research	-	5,185
	$ 263,222,937	$ 225,848,397

Endowment net assets with donor restrictions are restricted for the following purposes at March 31, 2023:

	Endowment Principal	Endowment Earnings	Total Endowment
Charity Care	$ 8,064,309	$ 7,562,763	$ 15,627,072
Anniversary Fund	5,258,875	6,955,390	12,214,265
Patient Equipment	4,650,721	7,713,790	12,364,511
Recreation Therapy	6,508,800	4,750,831	11,259,631
Assistive Technology	5,954,940	3,574,606	9,529,546
Research	3,503,430	2,094,684	5,598,114
Professional Development	2,160,517	3,242,428	5,402,945
Capital Projects and Maintenance	1,684,084	2,859,596	4,543,680
Housing/Transportation	2,380,937	1,764,807	4,145,744
Other Miscellaneous Funds	1,539,269	1,791,688	3,330,957
Vocational Services	1,374,207	1,074,951	2,449,158
MS Research	1,260,111	1,110,619	2,370,730
Noble Learning Resource Center	1,208,704	951,300	2,160,004
MS Rehab and Wellness Program	700,000	691,577	1,391,577
Injury Prevention Program	709,161	588,217	1,297,378
Advocacy	512,509	401,897	914,406
Animal Therapy Fund	308,076	201,819	509,895
Chaplaincy	198,110	166,681	364,791
Wishing Wall	106,016	153,095	259,111
	$ 48,082,776	$ 47,650,739	$ 95,733,515

Endowment net assets with donor restrictions are restricted for the following purposes at March 31, 2022:

	Endowment Principal	Endowment Earnings	Total Endowment
Charity Care	$ 8,063,309	$ 9,119,851	$ 17,183,160
Patient Equipment	4,650,721	8,802,491	13,453,212
Anniversary Fund	5,258,876	8,172,195	13,431,071
Recreation Therapy	6,985,024	6,320,038	13,305,062
Assistive Technology	3,460,475	3,913,461	7,373,936
Research	3,503,430	2,639,104	6,142,534
Professional Development	2,160,517	3,658,668	5,819,185
Capital Projects and Maintenance	1,684,084	3,114,400	4,798,484
Housing/Transportation	2,380,937	2,177,894	4,558,831
Vocational Services	1,374,207	1,319,021	2,693,228
Other Miscellaneous Funds	1,052,319	1,573,943	2,626,262
MS Research	1,260,111	1,347,434	2,607,545
Noble Learning Resource Center	1,208,704	1,166,556	2,375,260
MS Rehab and Wellness Program	700,000	830,583	1,530,583
Injury Prevention Program	709,161	717,504	1,426,665
Advocacy	512,509	493,078	1,005,587
Animal Therapy Fund	294,576	249,811	544,387
Chaplaincy	198,110	203,033	401,143
Wishing Wall	106,016	169,375	275,391
	$ 45,563,086	$ 55,988,440	$ 101,551,526

Changes in endowment net assets with donor restrictions for the years ended March 31, 2023 and 2022, are as follows:

	2023	2022
Beginning of the year	$ 101,551,526	$ 100,415,439
Contributions	2,525,145	989,604
Investment income	1,241,615	1,135,536
Unrealized (loss) gain	(6,482,062)	3,414,516
Expenditures	(3,102,709)	(4,403,569)
End of the year	$ 95,733,515	$ 101,551,526

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 2023 and 2022, 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 $37,097,812 and $15,174,452, 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 and outpatient services 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, 2023 are as follows:

	Program Expenses		Management & General Expenses			
	Health Care Services	Research	Administrative Services	Facilities and Other Expenses	Fundraising	Total
Salaries	$ 95,670,497	$ 4,059,828	$ 25,432,518	$ 3,262,525	$ 3,190,278	$ 131,615,646
Payroll taxes and employee benefits	25,150,799	1,039,198	6,288,069	863,169	844,055	34,185,290
Patient, pharmacy and office supplies	73,409,976	44,039	2,318,877	590,134	195,199	76,558,225
Purchased services	11,765,962	1,517,325	14,510,397	3,362,154	971,411	32,127,249
Depreciation and amortization	-	-	2,273,232	9,365,237	-	11,638,469
Interest	-	-	-	1,258,427	-	1,258,427
Other	3,537,597	187,087	6,776,264	706,883	635,233	11,843,064
Total expenses	$ 209,534,831	$ 6,847,477	$ 57,599,357	$ 19,408,529	$ 5,836,176	$ 299,226,370

Expenses related to providing these services for the year ended March 31, 2022 are as follows:

	Program Expenses		Management & General Expenses			
	Health Care Services	Research	Administrative Services	Facilities and Other Expenses	Fundraising	Total
Salaries	$ 94,963,474	$ 3,655,484	$ 24,196,601	$ 3,181,295	$ 2,935,228	$ 128,932,082
Payroll taxes and employee benefits	27,082,032	1,064,155	6,805,708	914,431	854,779	36,721,105
Patient, pharmacy and office supplies	73,387,013	42,163	1,835,224	619,528	136,766	76,020,694
Purchased services	11,231,537	1,772,467	11,814,480	3,526,729	1,540,687	29,885,900
Depreciation and amortization	-	-	2,074,219	10,049,275	-	12,123,494
Interest	-	-	-	448,866	-	448,866
Other	4,226,090	186,837	6,600,767	647,697	261,582	11,922,973
Total expenses	$ 210,890,146	$ 6,721,106	$ 53,326,999	$ 19,387,821	$ 5,729,042	$ 296,055,114

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, 2023 and 2022:

	2023	2022
Charges foregone, based on established rates	$ 14,216,750	$ 20,262,634
Estimated costs and expenses incurred to provide charity care	$ 5,964,075	$ 8,358,356

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, 2023 and 2022, the Center incurred $14,404,758 and $13,285,370, 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 $4,057,223 and $3,796,257 in 2023 and 2022, 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.

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, 2023 and 2022, is as follows:

	2023	**2022**
Medicare	6%	6%
Medicaid	3%	4%
Commercial	70%	73%
Workers' compensation	21%	17%
Other	0%	0%
	100%	100%

The mix of gross charges for the years ended March 31, 2023 and 2022 is as follows:

	2023	**2022**
Medicare	16%	17%
Medicaid	5%	5%
Commercial	62%	62%
Workers' compensation	12%	11%
Other	5%	5%
	100%	100%

At March 31, 2023 and 2022, 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

Contributions from Shepherd board members totaled approximately $5,673,000 and $3,439,000 in 2023 and 2022, respectively. Contributions from Foundation board members totaled approximately $2,408,000 and $4,461,000 in 2023 and 2022, 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, 2023 and 2022, the liability associated with received Annuity Gifts was estimated to be $5,695,099 and $5,769,952, respectively.

Note 18: Other Current Assets

Other current assets as of March 31, 2023 and 2022 consists of the following:

	2023	2022
Inventory (see Note 1)	$ 5,688,963	$ 6,079,318
Prepaid expenses	5,046,676	4,848,852
Grant and research receivables	2,254,139	2,131,258
Other receivables	496,490	454,318
	$ 13,486,268	$ 13,513,746

Note 19: Other Revenue

Other revenue for the years ended March 31, 2023 and 2022 consists of the following:

	2023	2022
Net assets released from restrictions, used for operations (see Note 1)	$ 11,033,242	$ 11,052,788
Contributions without donor restrictions	8,579,368	34,607,608
Provider relief funds	6,478,481	4,834,531
Grant income	3,991,743	4,113,069
Retail sales, net	3,821,626	4,139,095
Other	2,593,468	2,933,718
Cafeteria sales	1,352,121	1,138,060
Clinical trials	882,727	1,042,827
	$ 38,732,776	$ 63,861,696

Note 20: Subsequent Events

The Center has evaluated subsequent events between the consolidated statement of financial position date of March 31, 2023 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.

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Supplemental Information

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

Schedule of Expenditures of Federal Awards
For the Year Ended March 31, 2023

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Assistance Listing 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		$ 9,208	$ 39,215
Disability and Rehab Research Projects Health and Function	93.433		279,017	461,301
Field Initiated Projects Research	93.433		3,296	121,189
Rehab Rehabilitation Engineering Research Centers	93.433		503,308	826,357
LiveWell Rehabilitation Engineering Research Centers	93.433		3,555	92,465
Georgia Model Brain Injury System (GAMBIS)	93.433		1,698	140,312
Southeastern Regional Spinal Cord Injury Model Systems	93.433		10,148	433,509
Total Direct Awards			810,230	2,114,348
Pass-through Awards from:				
Kessler Foundation				
Improving Quality of Personal Care Assistance Services for People with SCI Through Online Education	93.433	489-01	-	557
Craig Hospital				
Scale Up Trial of Project WOWii to Increase Exercise Among People with Spinal Cord Injury	93.433	2801-Shepherd	-	42,211
Total Pass-through Awards			-	42,768
Total ACL National Institute on Disability, Independent Living, and Rehabilitation Research			810,230	2,157,116
National Institutes of Health				
Program - Child Health and Human Development Extramural Research				
Direct Awards:				
Child Health and Human Development Extramural Research	93.865		-	41,466
Intensive Rehabilitation Research Grant Writing Workshop in the US	93.865		-	24,061
Calibrating Transcutaneous Spinal Stimulation for Spasticity, Pain, an Motor Function of SCI	93.865		16,382	374,424
Total Direct Awards			16,382	439,951
Pass-through Award from:				
Medical University of South Carolina				
Child Health & Human Development Extramural Research	93.865	MUSC18-031-8D222	-	24,458
Emory University				
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	A588427	-	96,119
Total Pass-through Awards			-	120,577
Total Child Health and Human Development Extramural Research			16,382	560,528
Total Department of Health and Human Services			826,612	2,717,644
Total Research & Development Cluster			$ 826,612	$ 2,717,644

Shepherd Center, Inc. and Subsidiaries
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Schedule of Expenditures of Federal Awards (Continued)
For the Year Ended March 31, 2023

Federal Grantor/Pass-through Grantor/Program Title	Assistance Listing Number	Pass-Through Entity Identifying Number	Provided to Subrecipients	Federal Expenditures
Department of Health and Human Services				
Health Resources and Services Administration				
Program - Provider Relief Fund and American Resource Plan Rural Distribution				
Direct Award:				
COVID-19 Provider Relief Funds	93.498		$ -	$ 6,482,125
Total Department of Health and Human Services			-	6,482,125
Department of Agriculture				
National Institute of Food and Agriculture				
Program - Cooperative Extension Service				
Pass-through Award from:				
University of Georgia				
AgrAbility in Georgia	10.500	SUB00002913	-	2,188
AgrAbility in Georgia	10.500	SUB00001818	-	218
Total Department of Agriculture			-	2,406
Total Expenditures of Federal Awards			$ 826,612	$ 9,202,175

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

Shepherd Center, Inc. and Subsidiaries
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Notes to Schedule of Expenditures of Federal Awards
For the Year Ended March 31, 2023

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, 2023. 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: Provider Relief Funds

During the year ended March 31, 2022, the Center was the recipient of funds under the CARES Act Provider Relief Fund program. In accordance with guidance provided in the OMB 2 CFR Part 200 Compliance Supplement (the Compliance Supplement), amounts received prior to December 31, 2021 are reflected, to the extent utilized, in the Schedule for the year ended March 31, 2023.

Note E: Indirect Cost Rate

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

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

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

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), which comprise the consolidated statement of financial position as of March 31, 2023, and the related consolidated statements of operations, changes in net assets, and cash flows for the year then ended, and the related notes to the consolidated financial statements and have issued our report thereon dated June 22, 2023.

Report on 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) as a basis for designing 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 or significant deficiencies may exist that were not identified.

Report on 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 consolidated financial statements. 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 22, 2023

BENNETT THRASHER LLP

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

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

Report on Compliance for the Major Federal Program

Opinion on the Major Federal Program

We have audited Shepherd Center, Inc. and Subsidiaries' (the Center) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Center's major federal program for the year ended March 31, 2023. 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.

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 the major federal program for the year ended March 31, 2023.

Basis for Opinion on the Major Federal Program

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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Center and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for the major federal program. Our audit does not provide a legal determination of the Center's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Center's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Center's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Shepherd Center Inc., and Subsidiariess' compliance with the requirements of the major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Center's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.

- Obtain an understanding of the Center's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the Center's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 Auditor's Responsibilities for the Audit of Compliance Section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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 22, 2023

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

Schedule of Findings and Questioned Costs
For the Year Ended March 31, 2023

Section I – Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified.

Internal control over financial reporting:
Material weaknesses identified? No.
Significant deficiencies identified? None reported.

Noncompliance material to financial statements noted? No.

Federal Awards

Internal control over major programs:
Material weaknesses identified? No.
Significant deficiencies identified? None reported.

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

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

Identification of major federal program:

CFDA Number	Name of Federal Program or Cluster
93.498	COVID-19 Provider Relief Funds

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
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Schedule of Prior Audit Findings
For the Year Ended March 31, 2023

Findings from the year ended March 31, 2022:

None.