SHEPPARD AND ENOCH PRATT FOUNDATION, INC.
AND SUBSIDIARIES

Consolidated Financial Statements and Supplementary Information

June 30, 2023 and 2022

(With Independent Auditors’ Report Thereon)

SHEPPARD AND ENOCH PRATT FOUNDATION, INC.
AND SUBSIDIARIES

Table of Contents

KPMG LLP
750 East Pratt Street, 18th Floor
Baltimore, MD 21202

Independent Auditors' Report

The Board of Trustees
Sheppard and Enoch Pratt Foundation, Inc.:

Opinion

We have audited the consolidated financial statements of Sheppard and Enoch Pratt Foundation, Inc. and its subsidiaries (the Company), which comprise the consolidated balance sheets as of June 30, 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 accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of June 30, 2023 and 2022, and the results of its operations, changes in net assets, and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Company 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.

Emphasis of Matter

As discussed in Note 1(r) to the consolidated financial statements, effective July 1, 2022, the Company adopted new accounting guidance FASB ASU 2016-02, *Leases (Topic 842*). Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with U.S. generally accepted accounting principles, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date that the consolidated financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 GAAS 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 consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated 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 consolidated 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 the Company's 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 consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary information in Schedules 1 through 4 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 audit 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 GAAS. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

KPMG LLP

Baltimore, Maryland
October 27, 2023

SHEPPARD AND ENOCH PRATT FOUNDATION, INC.
AND SUBSIDIARIES

Consolidated Balance Sheets

June 30, 2023 and 2022

Assets		**2023**	**2022**
Current assets:			
Cash	$	66,783,376	69,460,209
Investments limited or restricted as to use		1,007,798	2,280,719
Accounts receivable, net		44,256,366	43,451,051
Prepaid expenses and other current assets		10,152,189	8,457,378
Total current assets		122,199,729	123,649,357
Investments limited or restricted as to use, less current portion		190,127,686	199,704,208
Property and equipment, net		333,781,578	330,959,298
Third-party payor settlements receivable		7,261,077	7,261,077
Right of use assets		18,794,793	—
Other assets		6,264,275	4,884,185
Total assets	$	678,429,138	666,458,125
Liabilities and Net Assets			
Current liabilities:			
Current maturities of long-term debt	$	10,851,758	5,888,185
Current portion of obligations under finance leases		514,647	908,553
Current portion of obligations under operating leases		3,688,980	—
Accounts payable		8,933,382	15,141,301
Accrued salaries, wages, and employee benefits		30,437,866	29,129,268
Accrued pension liabilities		—	9,714,066
Self-insurance liabilities		7,074,413	4,749,043
Other accrued expenses		17,600,782	21,514,320
Total current liabilities		79,101,828	87,044,736
Long-term liabilities:			
Long-term debt, less current portion		157,802,388	168,045,781
Obligations under finance leases, less current portion		5,706,592	2,122,869
Obligations under operating leases, less current portion		16,553,282	—
Self-insurance liabilities, less current portion		4,840,688	5,996,540
Other long-term liabilities		4,839,655	4,109,323
Total liabilities		268,844,433	267,319,249
Net assets:			
Without donor restrictions		383,363,612	371,411,855
With donor restrictions		26,221,093	27,727,021
Total net assets		409,584,705	399,138,876
Total liabilities and net assets	$	678,429,138	666,458,125

See accompanying notes to consolidated financial statements.

SHEPPARD AND ENOCH PRATT FOUNDATION, INC.
AND SUBSIDIARIES

Consolidated Statements of Operations

Years ended June 30, 2023 and 2022

	2023	2022
Revenues, gains, and other support:		
Patient service revenue	$ 185,490,474	153,872,336
Residential and educational service revenue	189,124,643	174,370,944
Net service revenue	374,615,117	328,243,280
Net assets released from restrictions used for operations	2,039,203	534,428
Other operating revenue	80,976,039	71,711,346
Total revenues, gains, and other support	457,630,359	400,489,054
Expenses:		
Salaries and wages	260,542,166	240,210,018
Employee benefits	48,101,709	43,154,745
Expendable supplies	15,147,831	13,579,249
Purchased services	90,496,976	81,553,392
Interest	5,385,508	5,620,016
Repairs and maintenance	7,300,722	8,090,693
Depreciation and amortization	25,956,567	25,184,405
Total expenses	452,931,479	417,392,518
Operating income (loss)	4,698,880	(16,903,464)
Other (expense) income:		
Investment (loss) income	(430,493)	644,421
Realized gains on investments, net	1,289,849	39,236,237
Loss related to pension settlement	(54,220,883)	—
Unrealized gains (losses) on investments, net	7,725,636	(55,399,786)
Other	(1,954,965)	(1,134,476)
Total other (expense) income	(47,590,856)	(16,653,604)
Deficiency of revenues over expenses	(42,891,976)	(33,557,068)
Other changes in net assets:		
Net assets released from restrictions used for purchases of property and equipment	733,368	1,500,000
Pension liability adjustment	50,372,249	(13,076,285)
Capital grants and other	3,738,116	2,555,114
Reclassification	—	(1,293,483)
Increase (decrease) in net assets without donor restrictions	$ 11,951,757	(43,871,722)

See accompanying notes to consolidated financial statements.

SHEPPARD AND ENOCH PRATT FOUNDATION, INC.
AND SUBSIDIARIES

Consolidated Statements of Changes in Net Assets

Years ended June 30, 2023 and 2022

		2023	2022
Net assets without donor restrictions:			
Deficiency of revenues over expenses	$	(42,891,976)	(33,557,068)
Other changes in net assets:			
Net assets released from restrictions used for purchases of property and equipment		733,368	1,500,000
Pension liability adjustment		50,372,249	(13,076,285)
Capital grants and other		3,738,116	2,555,114
Reclassification		—	(1,293,483)
Increase (decrease) in net assets without donor restrictions		11,951,757	(43,871,722)
Net assets with donor restrictions:			
Gifts and grants		905,367	1,796,463
Investment loss		(9,239)	(64,254)
Net realized gains on investments		50,737	1,187,287
Net unrealized gains (losses) on investments		319,777	(1,645,092)
Other changes		1	2,712
Net assets released from restrictions for operations		(2,039,203)	(534,428)
Net assets released from restrictions for purchases of property and equipment		(733,368)	(1,500,000)
Reclassification		—	1,293,483
(Decrease) increase in net assets with donor restrictions		(1,505,928)	536,171
Increase (decrease) in net assets		10,445,829	(43,335,551)
Net assets, beginning of year		399,138,876	442,474,427
Net assets, end of year	$	409,584,705	399,138,876

See accompanying notes to consolidated financial statements.

SHEPPARD AND ENOCH PRATT FOUNDATION, INC.
AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended June 30, 2023 and 2022

		2023	2022
Cash flows from operating activities:			
Increase (decrease) in net assets	$	10,445,829	(43,335,551)
Adjustments to reconcile decrease in net assets to net cash provided by (used in) operating activities:			
Depreciation and amortization		25,956,567	25,184,405
Pension liability adjustment		—	13,076,285
Gifts and grants, net		1,133,836	(1,262,035)
Net realized gains on investments		(1,340,586)	(40,423,524)
Net unrealized (gains) losses on investments		(8,045,413)	57,044,878
Restricted investment losses on restricted net assets		9,239	64,254
Capital grants and other		(3,738,116)	(2,555,114)
Increase in accounts receivable, net		(630,040)	(6,701,967)
Increase in prepaid expenses and other assets		(1,694,813)	(138,317)
Increase in third-party payor settlements receivable		—	(2,354,085)
Decrease in right of use assets, net		868,488	—
Decrease in obligations under operating leases		(561,880)	—
Decrease in accounts payable, accrued expenses and other		(10,637,607)	(831,196)
Increase (decrease) in self-insurance liabilities		1,169,518	(487,355)
Decrease in accrued pension liability		(9,714,066)	(13,024,650)
Net cash provided by (used in) operating activities		3,220,956	(15,743,972)
Cash flows from investing activities:			
Purchases of property and equipment		(23,341,328)	(21,509,372)
Increase (decrease) in others assets and notes receivable		1,426,349	(288,520)
Proceeds from sale of property and equipment		12,700	9,841
Purchases of alternative investments		(26,837,317)	(178,938,651)
Sales of alternative investments		34,771,953	136,756,345
Decrease in investments limited or restricted as to use, net		11,452,409	71,084,654
Acquired cash		226,907	—
Net cash (used in) provided by investing activities		(2,288,327)	7,114,297
Cash flows from financing activities:			
Payment of long-term debt principal		(6,144,343)	(5,505,418)
Payment on finance lease obligations		(908,553)	(815,258)
Capital grants and other		3,738,116	2,555,114
Gifts and grants, net		(966,113)	4,300,782
Net cash (used in) provided by financing activities		(4,280,893)	535,220
Net decrease in cash and cash equivalents		(3,348,264)	(8,094,455)
Cash, beginning of year		78,441,468	86,535,923
Cash, end of year	$	75,093,204	78,441,468
Supplemental disclosure of noncash investing and financing activities:			
Noncash purchases of property and equipment	$	2,858,156	1,538,983
Restricted cash included in investments limited or restricted as to use, net		8,309,828	8,981,259
Hunt Valley lease modification		4,098,370	—

See accompanying notes to consolidated financial statements.

(1) Summary of Significant Accounting Policies

(a) Organization

Sheppard and Enoch Pratt Foundation, Inc. (Foundation or the Company), a not-for-profit, nonstock Company, was organized on June 15, 1984 to engage in activities necessary to provide mental health services to the public through the planning and implementation of programs provided by its various subsidiaries. Subsidiary companies, controlled by Foundation, include Sheppard Pratt Health System, Inc. (Health System), Sheppard Pratt Non-Contracted Services, LLC (Non-Contracted Services), Sheppard Pratt Physicians, P.A. (Physicians), Sheppard Pratt Investment, Inc. (Investment Company), Sheppard Pratt Properties, LLC (Properties), and the community services organizations (Community Services), collectively, comprised of Mosaic Community Services, Inc. (Mosaic), Way Station, Inc. (Way Station), Omni House, Inc. (Omni), Family Services, Inc. (Family Services), Alliance, Inc., and Behavioral Health Partners of Frederick, Inc. (Behavioral Health Partners).

Health System is a not-for-profit, nonstock company that operates two inpatient hospitals, day hospitals, residential and educational services for children and adolescents, and outpatient programs.

Physicians is a not-for-profit professional company of licensed medical professionals organized on July 1, 1985 exclusively to carry out the charitable, educational and scientific purposes of Foundation. The common stock of Physicians is held solely by the President and Chief Executive Officer of the system and subject to the terms of a stock agreement. Under the terms of the agreement, the stockholder is required to consult with Foundation regarding views on any matter with respect to which the stockholder is entitled to vote, and the stockholder may not transfer shares (by sale or gift) without the permission of Foundation. The stock agreement does not allow for the stockholder to receive dividends or any other benefit for having held the stock. If the stockholder ceases to be employed by Foundation, Health System, or Physicians, Physicians shall require the stockholders to sell and transfer all of the stock such stockholder owns to a person designated by Foundation. The purchase price for each share of stock of the Company is $1 per share.

Investment Company is a not-for-profit, nonstock company that manages the investments of the organization.

On March 31, 2020, Foundation formed Sheppard Pratt Non-Contracted Services, LLC. The sole member of the company is Sheppard Pratt Health System, Inc., and its established purpose is to provide non-insured services on behalf of Sheppard Pratt Health System and its affiliates.

On July 1, 2022, the organization acquired Omni House, Inc. a community based residential and outpatient service provider. The sole member of the company is Way Station, Inc.

Mosaic, Alliance, Way Station, Omni House, Family Services and Behavioral Health Partners are not-for-profit, nonstock Maryland companies that provide residential, rehabilitation, vocational, and outpatient mental health services across the state of Maryland.

On April 1, 2022, the Health System formed Sheppard Pratt Assurance Company, LLC, incorporated in the Cayman Islands. The sole member of the company is Sheppard Pratt Health System, Inc. and it’s established purpose is to provide insurance services for Sheppard Pratt.

(b) Basis of Presentation

The consolidated financial statements are prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles (U.S. GAAP). All majority-owned and affiliated member entities are consolidated. All entities where Foundation exercises significant influence but for which it does not have control are accounted for under the equity method. All other entities are accounted for under the cost method. All significant intercompany accounts and transactions have been eliminated.

Net assets, revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. The net assets of Foundation and changes therein are classified and reported as follows:

Net assets without donor restrictions – Net assets that are not subject to donor-imposed stipulations. Board-designated funds are included within this category of net assets.

Net assets with donor restrictions – Net assets whose use by Foundation has been limited by donors to a specific time or purpose. Also included in this category are net assets that have been restricted by donors to be maintained by the Foundation in perpetuity. Generally, donors of assets to be held in perpetuity permit Foundation to use all or part of the income earned on related investments for general or specific purposes.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Contributions with no donor-imposed restrictions are recognized as revenues in the period received as increases in net assets without donor restrictions.

Unconditional promises to give cash and other assets to Foundation with donor-imposed restrictions are reported as increases in net assets at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date condition is met. When the donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets are reclassified as net assets without donor restrictions and reported in the consolidated statements of operations as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as contributions without donor restrictions in the accompanying consolidated financial statements.

Net assets with donor restrictions are available for the purposes of providing indigent care, health and educational programs and the purchase of property and equipment. The income from net assets with donor restrictions that are restricted in perpetuity is expendable to provide health and educational programs.

(c) Charity Care

Foundation provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because Foundation does not pursue collection of amounts determined to qualify for charity care, such amounts are not reported as revenue.

(d) Cash

Cash balances may exceed amounts insured by federal agencies and, therefore, bear risk of loss.

(e) Investments Limited or Restricted as to Use

Investments limited or restricted as to use, primarily recorded at fair value, represent assets that have been designated by the board of trustees for special purposes restricted by donors, and self-insurance trust arrangements. The principal, income and capital appreciation of the Moses Sheppard and Enoch Pratt bequests are legally unrestricted but are classified, for financial reporting purposes, as board-designated and limited as to use. Assets designated by the board of trustees for particular purposes are controlled by the board of trustees, who at their discretion may subsequently use the assets for other purposes.

Investments of board-designated and funds restricted by donors are maintained in a combined investment pool or in a related investment account. Related income and realized and unrealized gains and losses on sales of investments are apportioned on the basis of the shares held by each of the respective funds and in accordance with donor restrictions on the use of investment earnings.

Foundation classifies its investment portfolio as trading securities with unrealized gains and losses included in other (expense) income, which is included in the deficiency of revenues over expenses. Investment income and realized gains and losses from all other investments are reported as other (expense) income, unless the income is restricted by donors, which is reported as previously described above. The investment portfolio is classified as current or noncurrent assets based on management's intention as to use.

Alternative investments represent both subscriptions in private equity venture capital funds and subscriptions in funds-of-funds utilized to diversify the portfolio of Foundation. Annual audited financial statements for these funds are submitted to Foundation and reviewed by management. Foundation's alternative investments are accounted for under the equity method of accounting. The investment balance is equal to Foundation's proportionate interest in the fund's net equity. Individual investment holdings within the investment portfolio may, in turn, include investments in both nonmarketable and market-traded securities. Valuations of these investments are primarily based on financial data supplied by the underlying investee funds. Values may be based on historical cost, appraisals, or other estimates that require varying degrees of judgment. Certain of these investments contain additional capital call requirements, based upon the provisions of the investment agreements.

The investment portfolio includes cash and cash equivalents, which are classified as investments limited or restricted as to use funds on the consolidated balance sheet and the cash equivalent amounts are excluded from the cash balance on the statement of cash flows.

(Continued)

Investment income from unrestricted cash equivalents and the self-insurance trust are reported as other operating revenue since such income is considered to be a part of Foundation's ongoing central operations of providing healthcare services.

(f) Pledges

Pledges, less an allowance for uncollectible amounts, are recorded as receivables in the year the pledge is made unless the pledge carries conditions that have not been met. Conditional pledges are recorded as contributions when the conditions of the pledge have been satisfied. Pledges receivable are recorded at net realizable value, which is calculated using a discount rate of 3% at June 30, 2023 and 2022.

(g) Property and Equipment

Property and equipment acquisitions are recorded at cost (except donated property and equipment that are recorded at their fair market value at the date of receipt). Depreciation is computed on the straight-line method and charged to operations over estimated useful lives ranging from 20 to 40 years for buildings and improvements and 3 to 10 years for furniture, equipment, information systems hardware and software and motor vehicles. Property and equipment under finance lease obligations are amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the property and equipment. Interest costs incurred on borrowed funds during the period of construction are capitalized as a component of the cost of acquiring those assets.

Gifts of long-lived assets such as land, buildings, or equipment are reported as other changes in net assets without donor restrictions, and are excluded from the deficiency of revenues over expenses, 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 restricted support. 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.

(h) Costs of Borrowing

Deferred financing costs and debt premiums, which are a direct deduction to long term debt, are amortized using the effective-interest method and charged to operations as a component of interest expense over the term of the related debt.

(i) Estimated Self-Insurance Liability Claims

The estimated self-insured professional liability claims are reflected as a liability and include actuarially determined estimates of the ultimate costs for both reported claims and claims incurred but not reported. Costs under self-insurance programs for employee health benefits and workers' compensation include estimates for both reported claims and claims incurred but not reported, based on an evaluation of pending claims and past experience. These estimates are based on actuarial analysis of historical trends, claims asserted and reported incidents. Receivables for amounts in excess of self-insurance retention limits are recorded at their net realizable value and are due from highly rated commercial insurance companies.

(j) Pension Benefits

Pension benefits are recorded in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Subtopic 715-30, *Defined Benefit Plans – Pension*, which requires the recognition of the funded status of pension plans within the accompanying consolidated balance sheets.

(k) Patient Service Revenue and Net Patient Accounts Receivable

FASB ASC 606 provides a principles-based framework for recognizing revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Patient service revenue is recognized, over time, as performance obligations are satisfied. Performance obligations are determined based on the nature of the services provided. Revenue for performance obligations satisfied over time is recognized at the estimated net realizable amounts from patients and third-party payors for services rendered.

The Company generates revenues, primarily by providing healthcare services to its patients. Revenues are recognized when control of the promised good or service is transferred to our patients, in an amount that reflects the consideration to which the Company expects to be entitled from patients, third-party payors (including government programs and insurers) and others, in exchange for those goods and services.

Performance obligations are determined based on the nature of the services provided. The majority of the Company's healthcare services represent a bundle of services that are not capable of being distinct and as such, are treated as a single performance obligation satisfied over time as services are rendered. The Company also provides certain ancillary services which are not included in the bundle of services, and as such, are treated as separate performance obligations satisfied at a point in time, if and when those services are rendered.

The Company's estimate of the transaction price includes estimates of price concessions for such items as contractual allowances, charity care, potential adjustments that may arise from payment and other reviews, and uncollectible amounts, which are determined using a portfolio approach as a practical expedient to account for patient contracts as collective groups rather than individually. Estimates for uncollectible amounts are based on the aging of the accounts receivable, historical collection experience for similar payors and patients, current market conditions, and other relevant factors.

Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. Subsequent changes that are determined to be the result of an adverse change in the payor's or patient's ability to pay are recorded as bad debt expense. Implicit price concessions and subsequent changes in the estimated transaction prices for the years ended June 30, 2023 and 2022 were not significant to the consolidated financial statements.

The Company has agreements with third-party payors that provide for payments to Foundation at amounts different from its established rates. Payment arrangements include prospectively determined rates per day, reimbursed costs, discounted charges, and per diem payments. Patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with certain third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Differences between the estimated amounts and final settlements are reported in operations in the year of settlement.

The Company's revenues may be subject to adjustment as a result of examination by government agencies or contractors, and as a result of differing interpretation of government regulations, medical diagnosis, charge coding, medical necessity, or other contract terms. The resolution of these matters, if any, often is not finalized until subsequent to the period during which the services were rendered (note 12).

(l) Residential and Educational Service Revenue

Foundation also operates residential treatment center services for adolescents. Substantially all of the residential treatment centers services are reimbursed by the State of Maryland Medicaid Program on a cost basis subject to annual ceilings. Foundation receives an interim per diem rate during the year and ultimately settles final payment based upon an audited cost report filing.

Foundation provides educational services to special needs children under arrangements with the Maryland State Department of Education (MSDE). On an annual basis, a prospective rate per student is set with MSDE based upon an approved operating budget. Subsequently, as services are provided, invoices are submitted to each student's local school district for payment on a monthly basis.

(m) Other Operating Revenue

Other operating revenue is primarily comprised of grant revenues, which is recognized when funds are released to cover qualified expenses, and business service revenue, which is recognized when earned.

(n) Impairment of Long-Lived Assets

Management regularly evaluates whether events or changes in circumstances have occurred that could indicate an impairment in the value of long-lived assets. In accordance with the provisions of FASB ASC Subtopic 360-10, *Property, Plant, and Equipment – Overall*, if there is an indication that the carrying amount of an asset is not recoverable, Foundation estimates the projected undiscounted cash flows, excluding interest, to determine if an impairment loss should be recognized. The amount of impairment loss is determined by comparing the historical carrying value of the asset to its estimated fair value. Estimated fair value is determined through an evaluation of recent and projected financial performance using standard industry valuation techniques.

In addition to consideration of impairment upon the events or changes in circumstances described above, management regularly evaluates the remaining lives of its long-lived assets. If estimates are changed, the carrying value of affected assets is allocated over the remaining lives.

In estimating the future cash flows for determining whether an asset is impaired and if expected future cash flows used in measuring assets are impaired, Foundation groups its assets at the lowest level for which there are identifiable cash flows independent of other groups of assets. The Company recorded no impairment charges for the years ended June 30, 2023 and 2022, respectively.

(o) Rental Income

Foundation has agreements with various organizations and individual clinicians to rent office space and land. Foundation recognizes the rent under the leases, using the straight-line method, net of an allowance for doubtful accounts, where necessary, in other (expense) income.

(p) Deficiency of Revenues over Expenses

The consolidated statements of operations include a performance indicator, the deficiency of revenues over expenses. Changes in net assets without donor restrictions that are excluded from deficiency of revenues over expenses, consistent with industry practice, include changes in pension liability adjustments, contributions of long-lived assets (including assets acquired using contributions that by donor restriction were to be used for the purposes of acquiring such assets) and grants for capital purposes.

(q) Income Taxes

Foundation and its subsidiaries have been recognized as tax-exempt organizations under Section 501(a) as organizations described in Section 501(c)(3) of the Internal Revenue Code (IRC) and are not subject to income taxes on related income pursuant to Section 501(a) of the IRC.

Investment Company recognizes taxable unrelated business income from alternative investment funds held in a combined investment pool. Investment Company will utilize available losses incurred to offset taxable income as allowed under the related tax regulations.

(r) Leases

Effective July 1, 2022, the Company adopted FASB ASU 2016-02, Leases (Topic 842), the primary impact of which required lessees to recognize right-of-use assets and liabilities for most operating leases and present enhanced annual disclosures on key quantitative and qualitative information. The Company elected the practical expedient package to not reassess at adoption (i) existing contracts for whether they include a lease, (ii) the lease classification of any existing leases or (iii) initial indirect costs for existing leases. The Company did not elect the hindsight transitional practical expedient. Additionally, the Company elected not to recognize the lease assets and liabilities for leases with a term of twelve months or less and account for such leases using existing guidance for operating leases. Comparative periods continue to be reported in accordance with ASC Topic 840, Leases. The adoption had significant impacts relating to the recognition of lease liabilities and right-of-use assets for operating leases greater than one year on the consolidated balance sheet. Upon adoption, the Company recorded \$19,663,281 in operating lease right-of-use (ROU) assets, \$20,738,809 in operating lease liabilities and a reduction of \$1,075,528 in other long-term liabilities on the consolidated balance sheet.

The Company determines if an arrangement contains a lease at inception of the contract. Right-of-use assets represent the right to use the underlying assets for the lease term and the associated lease liabilities represent lease payments arising from the lease. Leases are classified as either operating or

(Continued)

finance, with the classification determining whether the expense is recognized on a straight-line basis (for operating leases) or based on an effective interest method (for finance leases). These assets and liabilities are recognized at commencement date, when all the risks and benefits incidental to ownership have been conveyed, based on the present value of lease payments over the lease term. Lease term is equal to the noncancelable term plus any options to renew that the Company is reasonably certain to renew. The depreciable life of right-of-use assets are limited by the expected lease term unless there is a transfer of title or purchase option that is reasonably certain to be exercised at the inception of the lease. A right-of-use asset and lease liability is not recognized for leases with an initial term of 12 months or less.

(s) Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures 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.

(t) Management's Assessment and Plans

ASU 2014-15, *Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern,* requires management to evaluate an entity's ability to continue as a going concern within one year after the date that the financial statements are issued (or available to be issued, when applicable). Through the date of this report, management determined that there were no conditions or events that raise substantial doubt about the Company's ability to continue as a going concern and the Company will continue to meet its obligations through October 28, 2024.

(u) COVID-19

On March 11, 2020, the World Health Organization designated the Novel Coronavirus (COVID-19) as a global pandemic. The pandemic negatively impacted the global economy, our clients, the communities we serve, our employees, and our suppliers. It has also created significant volatility and disruption of the financial markets. Patient volumes and the related revenue for the Company's health care services were significantly impacted during the first half of 2020 due to state and local policies implemented to contain the spread of COVID-19 and preserve personal protective equipment. However, the Company saw a gradual and steady recovery beginning in the spring of 2020 through the end of the current of the fiscal year as states began to re-open and allow for non-emergency procedures.

In response to COVID-19, the U.S. government enacted the Coronavirus Aid, Relief and Economic Security Act (CARES Act) on March 27, 2020. Subsequent to the CARES act enactment, the Consolidated Appropriations Act 2021 (CAA) was signed into law on December 27, 2020. The CAA extended certain provisions of the CARES Act and provided additional COVID-19 relief.

During the years ending June 30, 2023 and 2022 the Company received $0 and $1,068,874 respectively through the CARES Act Provider Relief Fund. Payments from the Fund are intended to compensate healthcare providers for lost revenue and incremental expenses incurred in response to the COVID-19 pandemic and are not required to be repaid provided the recipients attest to and comply with specific terms and conditions. During the years ending June 30, 2023 and 2022, the Company

(Continued)

recognized $45,448 and $1,023,426 as Other Operating Revenue within the Consolidated Statement of Operations related to such funds.

As a way to increase cash flow to Medicare providers impacted by the COVID-19 pandemic, the CARES Act expanded the Medicare Accelerated and Advance Payment Program. Health Systems were provided with the opportunity to request accelerated payments of up to 100% of the Medicare payment amount for a six-month period. Accelerated payments are interest free for up to 29 months, and the program currently requires CMS to start recouping the payments beginning 12 months after receipt by the provider by withholding future Medicare fee for service payments for claims until the full accelerated payment has been returned. In September 2020, the Company received approximately $3.8 million of accelerated payments which the Company has repaid during the year ended June 30, 2023.

The CARES Act also provided for deferred payment of the employer portion of social security taxes between March 27, 2020 and December 31, 2020 with 50% of the deferred amount due December 31, 2021 and the remaining 50% due December 31, 2022. The company began deferring the employer portion of social security taxes in mid-April 2020. As of June 30, 2023 and 2022, the deferred amount was $0 and $2,157,135 respectively.

(2) Charity Care and Community Services

Foundation maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges forgone for services and supplies furnished under its charity care policy and equivalent service statistics. The estimated cost of charity care provided during the years ended June 30, 2023 and 2022 was $7,437,150 and $4,920,839, respectively.

Foundation provides the community with other healthcare services and programs, including teaching of psychiatric residents, providing programs and facilities for teaching other medical health professionals, providing behavioral health educational programs for the general public, and conducting research to improve treatment of behavioral health problems.

(3) Investments Limited or Restricted as to Use

Investments limited or restricted as to use, stated at fair value, except for the real estate investment, which is recorded at cost and investments in partnerships and alternative investments, which are recorded under the equity method, include the following at June 30:

		2023	2022
Board designated, without restrictions:			
Portion of pooled investments	$	155,963,685	156,582,865
Other investments		18,833,349	27,336,258
Held by trustees:			
Under self-insurance trusts		5,176,358	5,446,098
With donor restrictions:			
Pooled investments		7,854,625	7,718,092
Restricted investments		3,307,467	4,901,614
Total investments limited or restricted as to use		191,135,484	201,984,927
Current portion		1,007,798	2,280,719
Total investments limited or restricted as to use, less current portion	$	190,127,686	199,704,208

Foundation manages a significant component of its investments limited or restricted as to use in a combined investment pool. The combined investment pool has been allocated based on donor restrictions, where applicable, as follows at June 30:

		2023	2022
Board designated, without restrictions	$	155,963,685	156,582,865
With donor restrictions		7,854,625	7,718,092
Total	$	163,818,310	164,300,957

The combined investment pool is comprised of the following at June 30:

		2023	2022
Cash and cash equivalents	$	2,663,000	5,052,040
Corporate bonds		8,976,523	7,583,223
Other (primarily alternative funds under equity method)		152,178,787	151,665,694
Total	$	163,818,310	164,300,957

(Continued)

Other board designated-investments consist of the following at June 30:

		2023	2022
Cash and cash equivalents	$	10,353,209	19,909,222
Mutual funds		4,474,426	4,236,614
Real estate held for future development, at cost		3,022,786	3,022,786
Other		982,928	167,636
Total	$	18,833,349	27,336,258

The funds held by trustees under self-insurance-trusts are comprised of the following at June 30:

		2023	2022
Equity Investments	$	79,795	319,257
Fixed income investments		5,096,563	5,126,841
Total	$	5,176,358	5,446,098

The total investment return, net of investment fees, including the return from the combined investment pool, is summarized as follows for the years ended June 30:

		2023	2022
Investment (losses) income, net:			
Without donor restrictions	$	(430,493)	644,421
With donor restrictions		(9,239)	(64,254)
		(439,732)	580,167
Realized gains on sales of investments, net:			
Without donor restrictions		1,289,849	39,236,237
With donor restrictions		50,737	1,187,287
		1,340,586	40,423,524

		2023	2022
Unrealized gains (losses) on sales of investments, net:			
Without donor restrictions	$	7,725,636	(55,399,786)
With donor restrictions		319,777	(1,645,092)
Total unrealized gains (losses)		8,045,413	(57,044,878)
Total investment income (loss)		8,946,267	(16,041,187)
Investment income on other unrestricted investments and cash and cash equivalents		247,470	600,550
Total investment income (loss)	$	9,193,737	(15,440,637)

(4) Disclosures about Fair Value of Financial Instruments

Foundation accounts for its financial assets and liabilities, in accordance with ASC Subtopic 820-10 as discussed in note 1. ASC Subtopic 820-10 defines fair value, establishes a framework for measuring fair value in accordance with U.S. generally accepted accounting principles, and expands disclosures about fair value measurements. Specifically, the guidance provides for the following:

- Defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, and establishes a framework for measuring fair value;
- Establishes a three-level hierarchy for fair value measurement;
- Requires consideration of Foundation's nonperformance risk when valuing liabilities; and
- Expands disclosures about instruments measured at fair value.

The three level-valuation hierarchy for fair value measurements is based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect Foundation's market assumptions. The three level-valuation hierarchy is defined as follows:

- Level 1 – Quoted prices for identical instruments in active markets;
- Level 2 – Quoted prices for similar instruments in active markets; quoted prices for identical or similar investments in markets that are not active; and model-derived valuations whose significant inputs are observable; and
- Level 3 – Instruments whose significant inputs are unobservable.

The table below presents Foundation's investable assets and liabilities as of June 30, 2023, aggregated by the three level-valuation hierarchy:

		Level 1	Level 2	Level 3	Total
Assets:					
Cash and cash equivalents	$	11,173,400	—	—	11,173,400
Equities:					
Common stocks		18,780	—	—	18,780
Mutual funds		5,334,705	364,484	—	5,699,189
Fixed income:					
Collaterized mortgage obligations		—	6,166	—	6,166
Government issued bonds		—	14,066,920	—	14,066,920
Other financial instruments		—	217	—	217
Total assets	$	16,526,885	14,437,787	—	30,964,672
Liabilities:					
Interest rate swap	$	—	(56,284)	—	(56,284)

The table below presents Foundation's investable assets and liabilities as of June 30, 2022, aggregated by the three-level valuation hierarchy:

		Level 1	Level 2	Level 3	Total
Assets:					
Cash and cash equivalents	$	11,551,716	—	—	11,551,716
Equities:					
Common stocks		15,313	—	—	15,313
Mutual funds		5,141,353	8,545,896	—	13,687,249
Fixed income:					
Collaterized mortgage obligations		—	4,881	—	4,881
Government issued bonds		—	12,705,182	—	12,705,182
Other financial instruments		—	975	—	975
Total assets	$	16,708,382	21,256,934	—	37,965,316
Liabilities:					
Interest rate swap	$	—	(45,821)	—	(45,821)

Foundation did not have transfers between Levels, or Level 3 measurements.

Foundation's Level 1 securities primarily consist of common stock, exchange traded mutual funds, and cash. Foundation determines the estimated fair value for its Level 1 securities using quoted (unadjusted) prices for identical assets or liabilities in active markets.

Foundation's Level 2 securities consist of collateralized mortgage obligations, corporate bonds, government issued bonds, mutual funds, and derivative instruments, which are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active or model derived valuations whose significant inputs are observable. Valuation models require a variety of inputs, including contractual terms, market fixed prices, inputs from forward price yield curves, notional quantities, measures of volatility, and correlations of such inputs.

Investments classified within Level 3 have significant unobservable inputs, as they trade infrequently or not at all. The classification of a financial instrument within Level 3 is based upon the significance of the unobservable inputs to the overall fair value measurement.

The carrying amount of cash and cash equivalents, accounts receivable, third-party payor settlements receivable or payable, other current assets, investments in alternative investments, accounts payable and accrued expenses approximate fair value because of the short term maturity of these instruments. The fair value of Foundation's long-term debt is estimated to approximate the carrying amount because interest rates are variable and determined frequently based on prevailing market conditions. The estimated fair value of the Series 2017 Bond at June 30, 2023 and June 30, 2022 was approximately $156,275,000 and $160,713,000, respectively. Due to the subjective nature of the terms of the Foundation's notes receivable and finance lease obligations, their fair values cannot be estimated.

(5) Donor Restricted Assets

Donor restricted assets consist of the following at June 30:

		2023	2022
Pledges receivable, net of unamortized discount of $129,000 at June 30, 2023 and $158,000 at June 30, 2022	$	2,280,732	2,454,455
Less allowance for uncollectible pledges		72,000	78,000
Net pledges receivable		2,208,732	2,376,455
Other investments (primarily property)		15,059,001	15,107,316
Pooled investments (note 3)		7,854,625	7,718,092
Restricted cash and investments		1,098,735	2,525,158
	$	26,221,093	27,727,021

The net realizable value of the unconditional pledges receivable at June 30, 2023 was calculated using an average discount rate of 3%. The net present value of pledges receivable and the expected collection period at June 30, 2023 are as follows:

2024	$	966,002
2025		689,038
2026		623,440
2027		1,111
2028		1,141
	$	2,280,732

(6) Property and Equipment

Property and equipment at June 30 are summarized as follows:

		2023	2022
Land	$	26,427,925	26,427,925
Land improvements		40,686,819	38,851,260
Buildings and building improvements		478,259,596	486,955,647
Furniture and equipment		100,551,208	84,280,256
Vehicles		11,230,788	10,415,137
CIP		7,495,514	7,885,895
Total		664,651,850	654,816,120
Less accumulated depreciation		330,870,272	323,856,822
	$	333,781,578	330,959,298

Assets under finance lease at June 30, 2023 and 2022 of $10,521,357 and $9,512,732, respectively, were included in buildings and building improvements and furniture and equipment in the table above. Accumulated depreciation of assets under finance leases totaled $5,509,927 and $8,041,331 at June 30, 2023 and 2022, respectively.

Certain land, buildings, improvements, and equipment are pledged as collateral for the debt described in note 8.

Depreciation expense for the years ended June 30, 2023 and 2022 was $25,737,996 and $25,151,133 respectively.

In June 2001, the Health System entered into a 40 year ground lease with MEDCO, whereby MEDCO leases certain parcels of land from Foundation. The base year rental income, included in other operating revenue in the accompanying consolidated statements of operations is $885,500 and increases by 3.00% per annum over the life of the lease. MEDCO has constructed student housing on the leased parcels of land (the MEDCO lease). Unpaid accrued rent bears interest at 12.65% per annum.

(Continued)

The payment of ground rent is subordinate to the payment of debt on the MEDCO loan. Foundation has recorded a reserve on the unpaid accrued rent. As of June 30, 2023 and 2022, Foundation has recorded total ground rent receivable in the accompanying consolidated balance sheets of $18,222,988 and $14,758,527, respectively, with a related reserve of $18,222,988 and $13,309,128, respectively.

(7) Other Assets

The other assets balance is composed of the following at June 30:

	2023	2022
Workers compensation excess insurance receivable	$ 414,979	294,717
Notes receivable and net ground rent	1,449,399	2,925,251
Intangible assets	1,307,000	1,307,000
Goodwill	2,839,111	—
Unemployment trust	717,035	749,703
Other	240,298	278,389
	6,967,822	5,555,060
Less accumulated amortization	(703,547)	(670,875)
	$ 6,264,275	4,884,185

(8) Long-Term Debt and Note Payable

Long-term debt consists of the following at June 30:

	2023	2022
Maryland Health and Higher Educational Facilities Authority (MHHEFA) Revenue Bonds, Series 2017	$ 156,276,000	160,713,000
MHHEFA Revenue Bond – 2013	2,690,443	3,197,815
MHHEFA Revenue Bond – 2014	2,896,363	4,466,541
MHHEFA Revenue Bond – 2016	1,449,000	1,866,000
Bank notes	1,824,746	747,433
Mortgages on real estate	4,086,774	3,678,882
Other debt	37,113	41,023
	169,260,439	174,710,694
Less deferred financing costs	(606,293)	(776,728)
Less current portion	(10,851,758)	(5,888,185)
	$ 157,802,388	168,045,781

In December 2017, Health System, Physicians, Foundation and Investment Company (Obligated Group) acquired new financing to fund a portion of the construction costs of a new hospital in Elkridge, Maryland and other capital improvements and equipment, to refinance certain outstanding indebtedness and to fund transaction related costs. The 2017 Series bonds were issued by the Maryland Health and Higher Educational Facilities Authority (MHHEFA) and purchased by a bank in a direct placement loan arrangement.

The 2017 Series bonds is a tax exempt fixed rate bond with an original principal amount of $178,748,000 bearing a fixed interest rate of 2.88% at June 30, 2023 and 2022. The initial term of the bond provided by the direct placement loan arrangement is 15 years, and the final scheduled maturity of the bonds is June 1, 2048. The Series 2017 bonds are secured by a trust indenture and Obligated Group has granted the bank and MHHEFA a security interest in its revenues. The Series 2017 Bonds require Obligated Group to satisfy certain measures of financial performance as long as the bonds are outstanding.

On May 2, 2013, MHHEFA issued a $7,200,000 bank qualified tax exempt revenue bond (MHHEFA Revenue Bond 2013) for the purpose of reimbursing Way Station for certain capital expenditures associated with the acquisition and development of two properties in Frederick, Maryland, a property in Hagerstown, Maryland, and a property in Columbia, Maryland. The bond was purchased by Capital One Bank, and Way Station was scheduled to make payments to Capital One over 15 years, at a fixed interest rate of 3.11%. Way Station owed $2,690,443 and $3,197,815 as of June 30, 2023 and 2022, respectively. The tax exempt loan is secured by a deed of trust covering six of the Company's properties in Frederick, Hagerstown, and Columbia, Maryland. Way Station's ability to obtain additional borrowings is limited without the bank's consent.

On March 4, 2014, MHHEFA issued a $4,430,000 bank qualified tax exempt revenue bond (MHHEFA Revenue Bond – 2014) for the purpose of refinancing Family Services existing mortgage debt. The bond was purchased by a bank, and Family Services is required to make payments over 25 years at interest rates ranging from 2.75 to 3.40%. As part of the same transaction, the same bank loaned Family Services $1,683,000 in a taxable term bank note that is amortized over 25 years; however, it is due in 10 years, at fixed interest rates that vary from 4.25% in year one to 5.25% in subsequent years. On February 24, 2015, Family Services received a $676,540 term bank loan, bearing an interest rate of 4.70% with a term of nine years. The tax exempt and taxable term bank notes are secured by a deed in trust covering the Company's properties, which require Family Services to satisfy certain measures of financial performance as long as the loans are outstanding.

On September 28, 2016, Mosaic borrowed $4,066,000 variable rate debt (MHHEFA Revenue Bond 2016) via a tax-exempt nonbank qualified direct purchase. The bonds accrue interest at a variable rate at 83% of the 30 Day London Interbank Offered Rate (LIBOR) plus 142 basis points and are being amortized over 10 years and have principal payments beginning November 2016 and terminating October 2026. The loan was amended in May 2023 to reflect the replacement of LIBOR with the Secured Overnight Financing Rate (SOFR) as the benchmark. The loan is secured by collateral, including, but not limited to, gross revenue, fixed assets (excluding buildings), and cash accounts. In conjunction with the refinance, Mosaic entered into a 10-year interest rate swap agreement with a third party under which the Company will make monthly payments at a fixed rate of 0.92% in exchange for payments based on LIBOR. The interest rate swap was recorded as a liability of ($56,284) and ($45,821) as of June 30, 2023 and 2022 respectively.

Community Services have mortgages on multiple properties with a total outstanding balance of $2,407,355 as of June 30, 2023 and $1,893,967 as of June 30, 2022. The interest rates and years of maturity range from 0% to 7.45%, and 2023 to 2038, respectively.

As of June 30, 2023, Sheppard and Enoch Pratt Foundation, Inc. holds a $30 million variable rate line of credit, with no outstanding balances on the line of credit. The available amount on the original line of credit has been reduced by $7.9 million related to letters of credit issued on behalf of the Health System. As of June 30, 2023 and 2022, there were no outstanding balances on the lines of credit.

Repayment of long-term debt, including mandatory sinking fund redemptions, in each of the next five fiscal years is as follows:

2024	$	10,851,758
2025		5,974,976
2026		6,129,269
2027		5,973,632
2028		5,783,807
2029 and thereafter		134,546,997
	$	169,260,439

Interest payments were $5,226,722 and $5,235,738 in 2023 and 2022, respectively.

(9) Pension Plan, Employees' Thrift Plan and Life, Accident and Health Plan

Foundation had a noncontributory defined benefit pension plan (the Plan) that covered eligible employees of Health System and Physicians. The benefits were based on the employees' credited service and average compensation during the five consecutive years, taken from the last 10 years of service before retirement. The funding policy was to contribute annually amounts actuarially determined to provide for benefits attributed to service to date and benefits expected to be earned in the future. Prior service cost was being amortized on a straight-line basis over the estimated term of employment of current employees.

During 2013, the Plan was amended to permanently allow certain vested terminated participants to take a lump-sum payment of Plan benefits not previously available as a lump-sum in lieu of a deferred monthly benefit. This offer is available to terminating participants with a vested benefit value of less than $25,000. Foundation made lump-sum payments of approximately $0 and $51,254 in 2023 and 2022, respectively.

Effective July 1, 2006, Foundation elected to not allow employees hired on or after July 1, 2006 to participate in the defined benefit pension plan. Instead, such employees participate in a defined contribution plan based on their individual company programs. The new employee's thrift plan expense for Sheppard Pratt employees was $2,503,574 and $338,067 in 2023 and 2022, respectively. The retirement benefits for employees hired on or prior to June 30, 2006 under the defined benefit plan remain unchanged through December 31, 2020, when the Foundation elected to freeze the future accrual of benefits relating to the plan. Foundation may provide a discretionary contribution to these employees' thrift plan beginning with January 1, 2021. Foundation contributed to the eligible participants of the thrift plan $2,002,347 and $609,975 in 2023 and 2022, respectively.

During the year ended June 30, 2023, the Foundation entered into a non-participating contract with an insurance company which irrevocably relieved the Foundation of its responsibility for the pension obligation. The Foundation transferred the Plan assets in connection with such transaction. Accordingly, the Foundation applied settlement accounting, which resulted in an expense of approximately $54.2 million in fiscal year 2023 that was recorded in other (expense) income.

ASC Subtopic 715-30, *Defined Benefit Plans-Pension*, requires Foundation to recognize the funded status (i.e., the difference between the fair value of plan assets and the projected benefit obligations) of its pension plan in the accompanying consolidated balance sheets, with a corresponding adjustment to net assets without donor restrictions. The Plan's change in benefit obligations, the change in plan assets, current funded status and the components of net periodic pension cost as of and for the years ended June 30 are as follows:

		2023	2022
Accumulated benefit obligation at the end of the year	$	—	218,875,980
Changes in benefit obligations:			
Projected benefit obligation at the beginning of the year	$	218,875,980	252,701,141
Interest cost		1,026,246	5,498,374
Actuarial loss		9,123,593	(27,545,560)
Actuarial gain due to refund from Midland		(1,421,843)	—
Benefits paid		(1,999,753)	(11,777,975)
Lump sum payments to participants		(74,740,528)	—
Payments to insurance company		(150,863,695)	—
Projected benefit obligation at the end of the year		—	218,875,980
Changes in plan assets:			
Fair value of plan assets at beginning of the year		209,161,914	243,063,360
Actual return on plan assets		3,327,348	(35,123,471)
Contributions to the plan		13,692,871	13,000,000
Benefits paid		(1,999,753)	(11,777,975)
Lump sum payments to participants		(74,740,528)	—
Payments to insurance company		(150,863,695)	—
Refund from insurance company		1,421,843	—
Fair value of plan assets at end of the year		—	209,161,914
Funded status	$	—	(9,714,066)

Net periodic pension expense includes the following components for the years ended June 30:

		2023	2022
Interest cost	$	1,026,246	5,498,374
Expected return on plan assets		(958,530)	(8,111,331)
Amortization of net loss		697,919	1,909,512
Settlement loss		54,220,883	—
Net pension expense	$	54,986,518	(703,445)

The components of net benefit income other than the service cost and the loss related to the pension settlement of $0.8 million and $0.7 million were recorded in other (expense) income in the consolidated statements of operations for the year ended June 30, 2023 and June 30, 2022. The loss related to the pension settlement of $54.2 million during the year ended June 30, 2023 was recorded in other (expense) income in the consolidated statements of operations.

The following table presents the weighted average assumptions used to determine benefit obligations and net periodic benefit expense for the Plan as of June 30, 2022:

	2022
PBO Discount Rate (EOY)	4.18 %
Interest Cost Discount Rate (BOY)	2.21
Expected long-term return on plan assets	3.25

The pension liability adjustment to net assets without donor restrictions represents the change in net unrecognized actuarial losses and unrecognized prior service costs that have not yet been recognized as part of deficiency of revenues over expenses. Those amounts will be subsequently recognized as a component of net periodic pension cost pursuant to Foundation’s historical accounting policy for amortizing such amounts. Such amounts were recognized in other (expense) income during the year ended June 30, 2023 as a result of the settlement accounting.

The following are deferred pension costs that have not yet been recognized in periodic pension expense but instead are included as a component of net assets without donor restrictions, as of June 30, 2022. Unrecognized actuarial losses represent unexpected changes in the projected benefit obligation and plan assets over time, primarily due to changes in assumed discount rates and investment experience. Unrecognized prior service cost is the impact of changes in plan benefits applied retrospectively to employee service previously rendered. Deferred pension costs are amortized into annual pension expense over the average remaining assumed service period for active employees.

		Amounts recognized in net assets without donor restrictions at June 30, 2022
Net actuarial loss	$	49,585,870

(a) Determination of Expected Long-Term Rate of Return

In developing the expected long-term rate of return on assets assumption, Foundation considered the current level of expected returns on risk free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested, and the expectations for future returns of each asset class. The expected return for each asset class was then weighted based on the target allocation to develop the expected long-term rate of return on assets assumption for the portfolio.

(b) Investment Policy and Objectives

The investment policy and objectives are established by the trustees of Foundation. The plan objectives include achieving and maintaining fully funded status and minimizing volatility with reasonable and prudent levels of risk. The investment policy is based on a long-term perspective. An investment advisory firm engaged by Foundation trustees selects investment managers, makes investment decisions in keeping with the Pension Investment Policy Statement developed by the trustees, and reviews fund performance and funding status routinely. The percentage allocation to each asset class may vary depending upon the funded status of the Plan.

Foundation monitors the investment managers’ performance and ensures adequate diversification by asset class to further mitigate the risks associated with the investment program. Management believes that its assets were invested in accordance with its overall investment policies at June 30, 2022.

(c) Plan Assets

In accordance with ASC Subtopic 715-20, *Defined Benefit Plans-General-Disclosures*, nonpublic entities are required to report the fair value of each major category of pension plan asset within the fair value hierarchy. ASC Subtopic 820-10, *Fair Value Measurements-Overall*, provides guidance for the fair value hierarchy, which is a valuation technique that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs. Refer to note 4 for descriptions of each of the three levels within the valuation hierarchy.

The table below presents Foundation's pension plan investable assets as of June 30, 2022 aggregated by the three level valuation hierarchy:

	Level 1	Level 2	Level 3	Total	Reported at NAV[1]
Assets:					
Cash and cash equivalents	$ 65,198,487	—	—	65,198,487	—
Collective trusts – equity	—	143,388,314	—	143,388,314	—
Private equity and real estate funds	—	—	—	—	575,113
Total assets	$ 65,198,487	143,388,314	—	208,586,801	575,113

[1] Investments reported at NAV as the practical expedient for fair value

The majority of the investments held by the plan are Level 2 securities. Foundation has the ability to liquidate the collective trusts on a daily basis.

Foundation's pension plan invests in alternative investments, which were primarily hedge funds of funds and private equity funds. Such investments were carried at their estimated fair value using the practical expedient. Most of the funds have not had changes in the redemption policies during the year ended June 30, 2022, and the policies range primarily from 30 to 90 days. Determination of fair value is performed on a quarterly basis by the general partner(s) of the funds. Because of the inherent uncertainty of valuation, the determined values may differ significantly from the values that would have been used had a ready market for these investments existed.

(d) Contributions

On March 18, 2021, the Foundation approved the termination of the defined pension plan. The plan was terminated effective June 30, 2021 and plan termination distributions were completed during the year ended June 30, 2023.

The Foundation contributed $13.7 million to its pension plan during the year ending June 30, 2023 in anticipation of the pension termination.

(e) Estimated Future Benefit Payments

Foundation maintains a self-insured life, accident and health plan for employees of Health System, Physicians and Way Station, which provides for monthly contributions in amounts sufficient to cover the costs of basic hospital, surgical and diagnostic benefits and administrative expenses. The life, accident, and health plan expense was $20,244,760 in 2023 and $16,051,308 in 2022.

(Continued)

(10) Leases

The Company's leases are primarily for real estate, including schools, residential properties, and corporate and other administrative offices, as well as other various equipment. Real estate lease agreements typically have initial terms of one to fifteen years, and equipment lease agreements typically have initial terms between three and five years.

Real estate leases may include one or more options to renew, with renewals that can extend the lease term from one to ten years. The exercise of lease renewal options is typically at the Company's sole discretion. Renewal options are assessed at the commencement date, modification date and when a reassessment event has occurred. The renewal option is included in the lease term when it is reasonably certain to be exercised.

Certain lease agreements for real estate include variable payments based on actual common area maintenance and other operating expenses. These variable lease payments are recognized in purchased services but are not included in the right of use asset or liability balances. Real estate leases generally include rental escalation clauses that are factored into our determination of lease payments when appropriate.

In determining the present value of lease payments, the Company uses the implicit rate noted within the contract, unless unknown in which case the Company uses a risk-free discount rate. The risk-free discount rate is based upon the published rates of the Treasury bonds that corresponds to the lease term.

The Company elected the practical expedient package to not reassess at adoption (i) existing contracts for whether they include a lease, (ii) the lease classification of any existing leases or (iii) initial indirect costs for existing leases. Additionally, the Company elected not to recognize the lease assets and liabilities for leases with a term of twelve months or less.

The following table presents the components of the right-of-use assets and liabilities related to leases and their classification in the consolidated balance sheet:

		2023
Assets:		
Total operating lease assets	Right of use assets	$ 18,794,793
Finance lease assets	Property and equipment, net	5,011,430
Total leased assets		$ 23,806,223

			2023
Liabilities:			
Operating lease liabilities:			
Current	Current portion of obligations under operating leases	$	3,688,980
Long-term	Obligations under operating leases, less current portion		16,553,282
Total operating lease liabilities			20,242,262
Finance lease liabilities:			
Current	Current portion of obligations under finance leases		514,647
Long-term	Obligations under finance leases, less current portion		5,706,592
Total finance lease liabilities			6,221,239
Total lease liabilities		$	26,463,501

The following table presents the components of lease expense, which is recorded within purchased services in the consolidated statements of operations and changes in net assets for the year ended June 30, 2023:

		2023
Finance lease expense:		
Amortization of ROU assets	$	514,070
Interest on lease liabilities		166,524
Operating lease expense		3,975,895
Variable and short-term lease expense		1,805,543
Total lease expenses	$	6,462,032

The weighted average lease term and discount rate for operating and finance leases as of June 30, 2023 are as follows:

	2023
Weighted average remaining lease term for operating leases (years)	7.5
Weighted average remaining lease term for finance leases (years)	14.2
Weighted average discount rate for operating leases	2.88 %
Weighted average discount rate for finance leases	2.99 %

The following table reconciles the undiscounted cash flows to the operating lease liabilities recorded on the consolidated balance sheet as of June 30, 2023:

		Operating leases	Finance leases
2024	$	4,213,240	686,628
2025		3,954,022	409,479
2026		2,271,345	421,334
2027		2,143,185	433,545
2028		1,887,551	446,121
2029 and thereafter		8,100,062	5,338,878
Total future minimum lease payments		22,569,405	7,735,985
Less amount of lease payments representing interest		(2,327,143)	(1,514,746)
Present value of future minimum lease payments		20,242,262	6,221,239
Less current obligations under leases		(3,688,980)	(514,647)
Long-term lease obligations	$	16,553,282	5,706,592

The following is a schedule of the future minimum lease payments under operating leases as of June 30, 2022 that have initial or remaining lease terms in excess of one year for each of the years ending June 30:

2023	$	2,534,084
2024		2,233,875
2025		1,955,475
2026		1,386,373
2027		1,022,134
Thereafter		3,481,493
Total minimum lease payments	$	12,613,434

The following is a schedule of future minimum lease payments under finance leases as of June 30, 2022:

2023	$	1,049,203
2024		726,696
2025		395,166
2026		407,021
2027		419,231
Thereafter		431,808
Total minimum lease payments		3,429,125
Less amount representing interest		397,703
Present value of net minimum lease payments		3,031,422
Less obligations under finance leases, current portion		908,553
Obligations under finance leases, less current portion	$	2,122,869

(11) Self-insurance-Programs and Litigation

Foundation is from time to time subject to claims and suits arising in the ordinary course of business. In the opinion of management, the ultimate resolution of pending legal proceedings will not have a material effect on the consolidated financial statements. In this regard, Foundation maintains a self-insurance program for professional liability claims, and a related trust fund has been established for the purpose of setting aside assets based on actuarial funding recommendations. Under the trust agreement, the assets can only be used for the payment of professional and general liability claims, related expenses, and the cost of administering the trust. Certain claims made based professional and occurrence based general liability insurance coverages have been purchased to provide protection for claims in excess of the self-insured amounts. The assets of the trust are classified as investments limited as to use in the accompanying consolidated balance sheets in the amount of approximately $79,000 and $319,000 at June 30, 2023 and 2022, respectively. The related claims liabilities of approximately $3,590,000 and $2,995,000 as of June 30, 2023 and 2022, respectively, are recorded in current and long-term self-insurance liabilities on an undiscounted basis and represent estimates for asserted claims and unasserted claims arising from reported incidents and unreported incidents. Management believes that the provision for loss is adequate at June 30, 2023 and 2022; however, the ultimate liability may differ significantly. Management is aware of certain asserted and unasserted legal claims, none of which, in the opinion of management, are expected to result in losses in excess of insurance limits.

Health System and Physicians are also self-insured for unemployment claims and have established a letter of credit arrangement of approximately $987,000 and $1,194,000 for 2023 and 2022, respectively, in accordance with the requirements of the Maryland Department of Employment and Training.

Also, Foundation is self-insured for workers' compensation claims up to $550,000 for both 2023 and 2022. Investments of approximately $5,100,000 and $5,100,000 at both June 30, 2023 and 2022, respectively, are being held in an account at a financial institution to secure the payment of claims. These investments are included in the balance of investments limited or restricted as to use. The related liabilities of approximately $4,659,000 and $4,867,000 as of June 30, 2023 and 2022, respectively, are recorded in current and long-term self-insurance liabilities in the accompanying consolidated balance sheets. Foundation records outstanding losses and loss expenses for workers' compensation liability claims based on the estimates of the amount of reported losses together with a provision for losses incurred but not reported, the recommendations of an independent actuary, and management's judgment using its past experience and industry experience.

Foundation offers employees a self-insured health plan. Foundation maintains an accrual for claims that have been incurred but not reported to the plan administrator. The accrued liability for claims incurred but not reported is based on the historical claim lag period and current payment trends of health insurance claims. The accrued liability for health claims is approximately $3,667,000 and $2,883,000, respectively, as of June 30, 2023 and 2022, and recorded in current self-insurance liabilities in the accompanying consolidated balance sheets.

While management believes that the provision for self-insurance claims is adequate, at June 30, 2023 and 2022, the ultimate liabilities may be significantly different from the estimates.

Sheppard Pratt created Sheppard Pratt Assurance Company for the principal activity of primary professional liability and general liability coverage, to the Company and its subsidiaries, employed physicians, and affiliates. The primary policy for medical professional liability is limited to $3,000,000 each loss event, primary policy for general liability is limited to $1,000,000 for each loss event, subject to an annual aggregate of $3,000,000. The Company issued a policy to cover Excess Umbrella Liability which will provide $25,000,000 limits of liability excess of scheduled underlying coverages. The Excess Umbrella Liability coverage is 100% reinsured with carriers that are A.M. Best rated A- or better.

(12) Rate Setting Matters and Business and Credit Concentrations

Foundation provides healthcare services through its inpatient and outpatient care facilities located throughout Maryland. Foundation grants credit to patients and generally does not require collateral or other security in extending credit; however, it routinely obtains assignment of (or is otherwise entitled to receive) patients' benefits receivable under their health insurance programs, plans or policies (e.g., Medicare, Medicaid, Blue Cross/Blue Shield, health maintenance organizations (HMOs), and commercial insurance policies).

Revenues from contracts with customers by line of business are as follows for the years ended:

	2023	2022
Hospital and physician services	$ 185,490,474	153,872,336
Adolescent residential treatment centers	33,290,973	30,213,317
Special education	54,954,802	53,086,706
Community services	100,878,868	91,070,921
Total revenue from contract with customers	374,615,117	328,243,280
Other nonpatient care	83,015,242	72,245,774
Total operating revenue	$ 457,630,359	400,489,054

The mix of receivables and total net service revenue from patients and third parties as of June 30, 2023 and 2022 was as follows:

	Accounts receivable		Revenue	
	2023	2022	2023	2022
Medicare	8 %	10 %	7 %	6 %
Medicaid	24	39	50	46
Commercial insurers and HMO's	23	14	14	14
Local government	20	18	15	15
Blue Cross/Blue Shield	7	6	9	10
Self-pay and other	18	13	5	9
	100 %	100 %	100 %	100 %

Foundation accepts all patients covered by the Medicare and Medicaid programs. These programs reimburse Foundation at amounts less than charges. The difference between the charges for healthcare services and the related reimbursement amounts for these and other third-party payors are recorded as a reduction of revenues.

Patient charges of the Health System (other than Medicare and Medicaid) are recorded at rates established by the State of Maryland Health Services Cost Review Commission (HSCRC), reviewed on an annual basis and adjusted prospectively giving effect to, among other things, the anticipated impact of inflation on operating expenses, variances between actual volume of patient services and the volume budgeted for such services, and variances between actual unit rates and approved unit rates during the previous rate year. Such rate adjustments are reflected in revenue of Health System in the subsequent rate year, which coincides with Health System's fiscal year.

The Foundation is reimbursed for certain services to their Medicare and Medicaid program beneficiaries based upon cost reimbursement methodologies. The Maryland Medicaid program's inpatient reimbursement methodology is a prospective payment system, which is set at 94% of HSCRC rates. Medicaid outpatient services continue to be reimbursed on a cost report basis. Effective July 1, 2005, the Medicare program changed its reimbursement methodology to a prospective payment system. Health System has received either the final settlement or the notice of final settlement on Medicare cost reports through June 30, 2018, and on Medicaid cost reports for all programs through June 30, 2018. As of June 30, 2023 and 2022, the Company has recorded third-party payor settlements receivable of $7,261,077.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount. Management periodically reviews recorded amounts receivable from or payable to third party payors and may adjust these balances as new information becomes available. In addition, revenue received under certain third party agreements are subject to audit.

During 2023 and 2022, some of Foundation's prior year third party cost reports were audited and settled, or tentatively settled, by third party payors. Adjustments resulting from such audits and management reviews of unaudited years and open claims are reflected as adjustments to revenue in the year the adjustment becomes known. The effect of these adjustments was to increase patient service revenue by approximately $0 and $1,047,000 during the years ended June 30, 2023 and 2022, respectively. Although certain other prior year cost reports submitted to third party payors remain subject to audit and retroactive adjustment, management does not expect any material adverse settlements.

(13) Functional Expenses

Members of Foundation provide healthcare, educational, and residential and psychiatric rehabilitative services to the communities they serve. Expenses related to providing these services, based on management's estimates of expense allocations, are as follows for the years ended June 30, 2023 and 2022:

	2023									
	Program services									
	Healthcare services	Residential services	Education services	Rehabilitation and recovery	Community treatment	Families and communities	Community development	Program services	Supporting services	Total
Salaries and wages	$ 88,348,077	14,205,948	31,874,772	41,723,087	20,360,017	13,717,816	12,670,834	222,900,551	37,641,615	260,542,166
Employee benefits	15,446,462	2,550,539	6,230,949	8,215,533	3,855,701	2,605,523	2,672,456	41,577,163	6,524,546	48,101,709
Expendable supplies	6,549,040	850,745	1,170,625	3,570,437	204,795	759,606	816,745	13,921,993	1,225,838	15,147,831
Purchased services	21,291,569	2,419,907	5,934,089	14,724,859	2,278,079	3,472,474	3,434,113	53,555,090	36,941,886	90,496,976
Interest	4,293,682	501,500	132,494	149,410	19,550	61,685	—	5,158,321	227,187	5,385,508
Repairs and maintenance	3,204,216	406,088	567,584	1,651,683	149,726	60,816	91,707	6,131,820	1,168,902	7,300,722
Depreciation, amortization, and impairment	13,871,529	1,716,495	1,414,099	2,789,820	465,808	190,198	67,711	20,515,660	5,440,907	25,956,567
	$ 153,004,575	22,651,222	47,324,612	72,824,829	27,333,676	20,868,118	19,753,566	363,760,598	89,170,881	452,931,479

	2022									
	Program services									
	Healthcare services	Residential services	Education services	Rehabilitation and recovery	Community treatment	Families and communities	Community development	Program services	Supporting services	Total
Expenses:										
Salaries and wages	$ 91,367,412	12,122,930	28,512,501	37,664,933	16,079,571	10,277,398	11,644,371	207,669,116	32,540,902	240,210,018
Employee benefits	12,329,000	1,772,257	6,071,978	7,068,107	2,760,269	2,723,984	2,372,571	35,098,166	8,056,579	43,154,745
Expendable supplies	6,830,752	257,623	1,016,092	2,787,959	86,345	673,139	653,106	12,305,016	1,274,233	13,579,249
Purchased services	30,592,873	1,237,493	4,870,558	11,499,194	2,186,797	3,531,058	3,630,773	57,548,746	24,004,646	81,553,392
Interest	4,817,805	—	115,798	155,176	7,836	40,404	—	5,137,019	482,997	5,620,016
Repairs and maintenance	157,308	65,053	541,798	1,703,567	188,373	87,144	87,727	2,830,970	5,259,723	8,090,693
Depreciation, amortization, and impairment	10,998,232	232,489	1,680,952	2,655,281	475,773	58,139	60,157	16,161,023	9,023,382	25,184,405
	$ 157,093,382	15,687,845	42,809,677	63,534,217	21,784,964	17,391,266	18,448,705	336,750,056	80,642,462	417,392,518

(14) Certain Significant Risks and Uncertainties

Foundation provides psychiatric healthcare services in the State of Maryland. Foundation and other healthcare providers are subject to certain inherent risks, including the following:

- Dependence on revenues derived from reimbursement by the Federal Medicare and state Medicaid programs
- Regulation of hospital rates by the State of Maryland Health Services Cost Review Commission
- Government regulation, government budgetary constraints and proposed legislative and regulatory changes
- Lawsuits alleging malpractice or other claims

Such inherent risks require the use of certain management estimates in the preparation of Foundation's consolidated financial statements and it is reasonably possible that a change in such estimates may occur.

The Medicare and state Medicaid reimbursement programs represent a substantial portion of Foundation's revenues and Foundation's operations are subject to a variety of other federal, state, and local regulatory requirements. Failure to maintain required regulatory approvals and licenses and/or changes in such regulatory requirements could have a significant adverse effect on Foundation.

Changes in federal and state reimbursement funding mechanisms and related government budgetary constraints could have a significant adverse effect on Foundation.

The healthcare industry is subject to numerous laws and regulations from federal, state, and local governments, and the government has aggressively increased enforcement of Medicare and Medicaid anti-fraud and abuse laws. Foundation's compliance with these laws and regulations is subject to periodic governmental review, which could result in enforcement actions unknown or unasserted at this time. The federal government and many states have aggressively increased enforcement under Medicare and Medicaid anti-fraud and abuse laws and physician self-referral laws (STARK law and regulation). Recent federal initiatives have prompted a national review of federally funded healthcare programs. In addition, the federal government and many states have implemented programs to audit and recover potential overpayments to providers from the Medicare and Medicaid programs.

As a result of recently enacted and pending federal healthcare reform legislation, substantial changes are anticipated in the U.S. healthcare system. Such legislation includes numerous provisions affecting the delivery of healthcare services, the financing of healthcare costs, reimbursement to healthcare providers and the legal obligations of health insurers, providers, and employers. These provisions are currently slated to take effect at specified times over the next decade.

(15) Endowment Net Assets

Foundation's endowments consist of both individual donor restricted funds established for a variety of purposes and funds designated by the Board of Trustees to function as endowments. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor imposed restrictions.

(a) Interpretation of Relevant Law

Foundation has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, Foundation classifies its permanently restricted net assets as (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, Foundation considers the following factors in making a determination to appropriate or accumulate donor restricted endowment funds:

(1) The duration and preservation of the fund

(2) The purposes of Foundation and the donor restricted endowment fund

(3) General economic conditions

(4) The possible effect of inflation and deflation

(5) The expected total return from income and the appreciation of investments

(6) Other resources of Foundation

(7) The investment policies of Foundation

(b) Net Asset Classification by Type of Endowment as of June 30, 2023

	Without donor restrictions	With donor restrictions	Total
Donor-restricted endowment funds	$ —	4,401,987	4,401,987
Board-designated endowment funds	148,129,687	—	148,129,687
	$ 148,129,687	4,401,987	152,531,674

Changes in endowment net assets for the year ended June 30, 2023:

	Without donor restrictions	With donor restrictions	Total
Endowment net assets, beginning of year	$ 146,119,751	4,283,062	150,402,813
Investment return:			
Net investment expense	(388,351)	—	(388,351)
Net depreciation (realized and unrealized gain and losses)	7,616,895	8,925	7,625,820
Total investment return	7,228,544	8,925	7,237,469
Contributions	—	150,000	150,000
Appropriation of endowment assets for expenditure	(5,218,608)	(40,000)	(5,258,608)
	$ 148,129,687	4,401,987	152,531,674

(c) Net Asset Classification by Type of Endowment as of June 30, 2022

	Without donor restrictions	With donor restrictions	Total
Donor-restricted endowment funds	$ —	4,283,062	4,283,062
Board-designated endowment funds	146,119,751	—	146,119,751
	$ 146,119,751	4,283,062	150,402,813

Changes in endowment net assets for the year ended June 30, 2022:

		Without donor restrictions	With donor restrictions	Total
Endowment net assets, beginning of year	$	162,403,030	4,265,617	166,668,647
Investment return:				
Investment income		509,783	—	509,783
Net depreciation (realized and unrealized gain and losses)		(11,468,386)	(83,605)	(11,551,991)
Total investment return		(10,958,603)	(83,605)	(11,042,208)
Contributions		—	101,050	101,050
Appropriation of endowment assets for expenditure		(5,324,676)	—	(5,324,676)
	$	146,119,751	4,283,062	150,402,813

(d) *Funds with Deficiencies*

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or SPMIFA requires Foundation to retain as a fund of perpetual duration as a result of unfavorable market fluctuations. During the years ended June 30, 2023 and 2022, the fair value did not fall below the specified amounts.

(e) *Investment Strategies*

Foundation has adopted policies for corporate investments, including endowment assets that seek to maximize risk-adjusted returns with preservation of principal. Endowment assets include those assets of donor-restricted funds that Foundation must hold in perpetuity or for a donor-specified period(s). The endowment assets are invested in a manner that is intended to hold a mix of investment assets designed to meet the objectives of the account. Foundation expects its endowment funds, over time, to provide an average rate of return that generates earnings to achieve the endowment purpose.

To satisfy its long-term rate-of-return objectives, Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). Foundation employs a diversified asset allocation structure to achieve its long-term return objectives within prudent risk constraints.

Foundation monitors the endowment funds returns and appropriates average returns for use. In establishing this practice, Foundation considered the long-term expected return on its endowment. This is consistent with Foundation’s objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term, as well as to provide additional real growth through new gifts and investment return.

(16) Liquidity

Foundation funds its operations through cash and investments. Foundation maintains a policy of structuring its financial assets to be available as its general expenditures, liabilities, and Sheppard and Enoch Pratt Foundation, Inc has access to variable rate lines of credit in the amount of $30,000,000 less $7,900,000 used for the letters of credit referenced in note 8 to support liquidity.

Foundation's endowment funds consist of donor and board restricted endowments. Donor restricted endowments are restricted for specific purposes and, therefore, are not available for general expenditure. While it is not the intent of Foundation to utilize board restricted endowments to fund operations (other than spending policy), these funds, amounting to approximately $167,600,000, could be available to fund operations if needed. Foundation has an endowment spending rate policy of 4%. Approximately $5,300,000 of appropriations from this endowment will be available within the next 12 months to support liquidity.

The following is a reconciliation of current financial assets as of June 30, 2023 to financial assets available to fund general expenditures for the following fiscal year. General expenditures include all programmatic and supporting operating expenses.

	2023	2022
Financial assets at year end:		
Current assets:		
Cash	$ 66,783,376	69,460,209
Investments limited or restricted as to use	1,007,798	2,280,719
Accounts receivable, net	44,256,366	43,451,051
Prepaid expenses and other current assets	10,152,189	8,457,378
Total current assets	122,199,729	123,649,357
Other:		
Investments	12,608,783	12,586,936
Borrowings available under lines of credit	22,100,000	24,900,000
Subtotal	156,908,512	161,136,293
Less assets unavailable for general expenditures within one year:		
Investments limited or restricted as to use	(1,007,798)	(2,280,719)
Prepaid expenses	(8,370,964)	(6,784,173)
Financial assets available to meet cash needs for general expenditures within one year	$ 147,529,750	152,071,401

(17) Subsequent Events

Foundation has evaluated all events and transactions from the balance sheet date through October 27, 2023, the date at which the consolidated financial statements are available to be issued. The Foundation did not have any material recognizable subsequent events during the period.

SUPPLEMENTARY INFORMATION

SHEPPARD AND ENOCH PRATT FOUNDATION, INC.
AND SUBSIDIARIES

Consolidating Balance Sheet Information

June 30, 2023

	Obligated group								
Assets	**Sheppard Pratt Health System, Inc.**	**Sheppard Pratt Physicians, P.A.**	**Sheppard Pratt Investment, Inc.**	**Sheppard and Enoch Pratt Foundation, Inc.**	**Obligated Group combining eliminations**	**Combined Obligated Group subtotal**	**Sheppard Pratt Properties, LLC**	**Eliminations**	**Subtotal**
Current assets:									
Cash	$ 23,176,245	725,698	—	1,501,794	—	25,403,737	1,548,886	—	26,952,623
Investments limited or restricted as to use	—	—	—	994,982	—	994,982	—	—	994,982
Accounts receivable, net	25,504,447	1,999,635	—	—	—	27,504,082	—	—	27,504,082
Due from affiliates	23,476,743	6,435,279	326	26,642	(6,244,792)	23,694,198	33,836	(3,272,211)	20,455,823
Prepaid expenses and other current assets	7,731,660	—	(19,803)	—	—	7,711,857	—	—	7,711,857
Total current assets	79,889,095	9,160,612	(19,477)	2,523,418	(6,244,792)	85,308,856	1,582,722	(3,272,211)	83,619,367
Investments limited or restricted as to use, less current portion	40,363,393	—	146,976,335	11,769,101	(10,423,246)	188,685,583	—	(11,687,293)	176,998,290
Property and equipment, net	265,243,875	—	—	—	—	265,243,875	13,403,825	—	278,647,700
Third-party payor settlements receivable	7,261,077	—	—	—	—	7,261,077	—	—	7,261,077
Right of use assets	8,551,119	—	—	—	—	8,551,119	—	—	8,551,119
Other assets	603,452	—	1,449,399	—	—	2,052,851	—	—	2,052,851
Total assets	$ 401,912,011	9,160,612	148,406,257	14,292,519	(16,668,038)	557,103,361	14,986,547	(14,959,504)	557,130,404
Liabilities and Net Assets									
Current liabilities:									
Current maturities of long-term debt	$ 4,540,000	—	—	—	—	4,540,000	113,299	—	4,653,299
Current portion of obligations under finance leases	514,647	—	—	—	—	514,647	—	—	514,647
Current portion of obligations under operating leases	1,487,304	—	—	—	—	1,487,304	—	—	1,487,304
Accounts payable	6,281,890	38,145	—	—	—	6,320,035	480	—	6,320,515
Accrued salaries, wages, and employee benefits	18,745,325	2,866,386	—	—	—	21,611,711	—	—	21,611,711
Accrued pension liabilities	—	—	—	—	—	—	—	—	—
Due to affiliates	459,029	6,589,012	98,156	451,163	(6,244,792)	1,352,568	3,238,376	(3,272,211)	1,318,733
Self-insurance liabilities	5,537,187	302,139	—	—	—	5,839,326	—	—	5,839,326
Other accrued expenses	7,540,073	1,015,996	178,414	—	—	8,734,483	107,295	—	8,841,778
Total current liabilities	45,105,455	10,811,678	276,570	451,163	(6,244,792)	50,400,074	3,459,450	(3,272,211)	50,587,313
Long-term liabilities:									
Long-term debt, less current portion	151,315,890	—	—	—	—	151,315,890	1,603,233	—	152,919,123
Obligations under finance leases, less current portion	5,706,592	—	—	—	—	5,706,592	—	—	5,706,592
Obligations under operating leases, less current portion	8,049,293	—	—	—	—	8,049,293	—	—	8,049,293
Self-insurance liabilities	3,913,634	—	—	—	—	3,913,634	—	—	3,913,634
Other long-term liabilities	—	—	—	114,249	—	114,249	—	—	114,249
Total liabilities	214,090,864	10,811,678	276,570	565,412	(6,244,792)	219,499,732	5,062,683	(3,272,211)	221,290,204
Net assets (deficit):									
Without donor restrictions	177,397,901	(1,651,066)	148,129,687	2,980,140	—	326,856,662	9,923,864	(11,687,293)	325,093,233
With donor restrictions	10,423,246	—	—	10,746,967	(10,423,246)	10,746,967	—	—	10,746,967
Total net assets (deficit)	187,821,147	(1,651,066)	148,129,687	13,727,107	(10,423,246)	337,603,629	9,923,864	(11,687,293)	335,840,200
Total liabilities and net assets	$ 401,912,011	9,160,612	148,406,257	14,292,519	(16,668,038)	557,103,361	14,986,547	(14,959,504)	557,130,404

(Continued)

SHEPPARD AND ENOCH PRATT FOUNDATION, INC.
AND SUBSIDIARIES

Consolidating Balance Sheet Information

June 30, 2023

	Mosaic Community Services, Inc.										
Assets	**Mosaic Community Services, Inc.**	**Alliance**	**Behavioral Health Partners**	**DuCHoDo**	**ReCHoDo**	**Eliminations**	**Total Mosaic Community Services, Inc.**	**Family Services Inc.**	**Way Station, Inc.**	**Consolidating eliminations**	**Consolidated totals**
Current assets:											
Cash	$ 5,137,403	7,689,410	4,780,953	46,259	20,842	—	17,674,867	7,498,959	14,656,927	—	66,783,376
Investments limited or restricted as to use	—	—	—	—	—	—	—	—	12,816	—	1,007,798
Accounts receivable, net	3,847,370	4,339,898	(65,187)	—	—	—	8,122,081	6,209,292	2,420,911	—	44,256,366
Due from affiliates	8,116,940	3,746,278	—	294,485	4,004	(7,460,007)	4,701,700	834,252	2,450,167	(28,441,942)	—
Prepaid expenses and other current assets	1,103,990	130,233	10,469	—	—	—	1,244,692	407,215	788,425	—	10,152,189
Total current assets	18,205,703	15,905,819	4,726,235	340,744	24,846	(7,460,007)	31,743,340	14,949,718	20,329,246	(28,441,942)	122,199,729
Investments limited or restricted as to use, less current portion	4,896,735	—	—	—	—	—	4,896,735	44,000	8,188,661	—	190,127,686
Property and equipment, net	14,428,687	3,141,642	31,897	234,969	829,513	—	18,666,708	10,026,500	26,440,670	—	333,781,578
Third-party payor settlements receivable	—	—	—	—	—	—	—	—	—	—	7,261,077
Right of use assets	5,461,942	500,565	166,747	—	—	—	6,129,254	2,498,552	1,615,868	—	18,794,793
Other assets	577,761	226,114	—	—	142,136	—	946,011	—	3,265,413	—	6,264,275
Total assets	$ 43,570,828	19,774,140	4,924,879	575,713	996,495	(7,460,007)	62,382,048	27,518,770	59,839,858	(28,441,942)	678,429,138
Liabilities and Net Assets											
Current liabilities:											
Current maturities of long-term debt	$ 483,411	72,573	—	—	301,198	—	857,182	4,721,109	620,168	—	10,851,758
Current portion of obligations under finance leases	—	—	—	—	—	—	—	—	—	—	514,647
Current portion of obligations under operating leases	649,161	246,598	122,065	—	—	—	1,017,824	929,074	254,778	—	3,688,980
Accounts payable	1,164,774	213,857	12,681	4,074	13,515	—	1,408,901	393,822	810,144	—	8,933,382
Accrued salaries, wages, and employee benefits	3,197,525	227,995	—	—	—	—	3,425,520	2,399,608	3,001,027	—	30,437,866
Accrued pension liabilities	—	—	—	—	—	—	—	—	—	—	—
Due to affiliates	7,965,850	1,441,762	8,625,247	738,253	2,511,163	(7,460,007)	13,822,268	2,986,928	10,314,013	(28,441,942)	—
Self-insurance liabilities	372,217	1,500	—	—	—	—	373,717	283,450	577,920	—	7,074,413
Other accrued expenses	1,834,791	1,451,584	31,868	3,413	4,653	—	3,326,309	2,591,763	2,840,932	—	17,600,782
Total current liabilities	15,667,729	3,655,869	8,791,861	745,740	2,830,529	(7,460,007)	24,231,721	14,305,754	18,418,982	(28,441,942)	79,101,828
Long-term liabilities:											
Long-term debt, less current portion	1,226,706	536,108	—	400,000	78,219	—	2,241,033	—	2,642,232	—	157,802,388
Obligations under finance leases, less current portion	—	—	—	—	—	—	—	—	—	—	5,706,592
Obligations under operating leases, less current portion	5,127,800	260,265	44,583	—	—	—	5,432,648	1,687,134	1,384,207	—	16,553,282
Self-insurance liabilities	248,147	—	—	—	—	—	248,147	18,353	660,554	—	4,840,688
Other long-term liabilities	295,853	763,465	—	—	172,472	—	1,231,790	100,000	3,393,616	—	4,839,655
Total liabilities	22,566,235	5,215,707	8,836,444	1,145,740	3,081,220	(7,460,007)	33,385,339	16,111,241	26,499,591	(28,441,942)	268,844,433
Net assets:											
Without donor restrictions	20,669,302	10,546,056	(3,911,565)	(570,027)	(2,084,725)	—	24,649,041	8,910,678	24,710,660	—	383,363,612
With donor restrictions	335,291	4,012,377	—	—	—	—	4,347,668	2,496,851	8,629,607	—	26,221,093
Total net assets (deficit)	21,004,593	14,558,433	(3,911,565)	(570,027)	(2,084,725)	—	28,996,709	11,407,529	33,340,267	—	409,584,705
Total liabilities and net assets	$ 43,570,828	19,774,140	4,924,879	575,713	996,495	(7,460,007)	62,382,048	27,518,770	59,839,858	(28,441,942)	678,429,138

See accompanying independent auditors' report.

**SHEPPARD AND ENOCH PRATT FOUNDATION, INC.
AND SUBSIDIARIES**

Consolidating Statement of Operations Information

Year ended June 30, 2023

	Obligated group								
	Sheppard Pratt Health System, Inc.	Sheppard Pratt Physicians, P.A.	Sheppard Pratt Investment, Inc.	Sheppard and Enoch Pratt Foundation, Inc.	Obligated Group combining eliminations	Combined Obligated Group subtotal	Sheppard Pratt Properties, LLC	Eliminations	Subtotal
Revenues, gains, and other support:									
Patient service revenue (net of allowances and discounts)	$ 173,842,203	11,648,271	—	—	—	185,490,474	—	—	185,490,474
Residential and educational service revenue (net of allowances)	88,245,775	—	—	—	—	88,245,775	—	—	88,245,775
Net service revenue	262,087,978	11,648,271	—	—	—	273,736,249	—	—	273,736,249
Net assets released from restrictions used for operations	1,995,787	2,400	—	—	—	1,998,187	—	—	1,998,187
Intercorporate revenue	355,181	—	—	—	(114,043)	241,138	171,572	(171,572)	241,138
Other revenue	18,065,947	836,325	—	186,222	—	19,088,494	504,016	—	19,592,510
Total revenues, gains, and other support	282,504,893	12,486,996	—	186,222	(114,043)	295,064,068	675,588	(171,572)	295,568,084
Expenses:									
Salaries and wages	156,644,894	11,750,601	—	—	—	168,395,495	—	—	168,395,495
Employee benefits	27,375,146	1,847,191	—	—	—	29,222,337	—	—	29,222,337
Expendable supplies	9,010,858	3,565	—	—	—	9,014,423	37	—	9,014,460
Purchased services	60,495,466	1,975,121	32,570	11,401	—	62,514,558	148,702	—	62,663,260
Intercorporate charges	(8,158,259)	(511,582)	—	—	(114,043)	(8,783,884)	—	(171,572)	(8,955,456)
Interest	4,930,275	—	—	—	—	4,930,275	51,483	—	4,981,758
Repairs and maintenance	4,629,499	163	—	—	—	4,629,662	(39,162)	—	4,590,500
Depreciation and amortization	20,570,398	4,827	—	—	—	20,575,225	476,058	—	21,051,283
Total expenses	275,498,277	15,069,886	32,570	11,401	(114,043)	290,498,091	637,118	(171,572)	290,963,637
Operating income (loss)	7,006,616	(2,582,890)	(32,570)	174,821	—	4,565,977	38,470	—	4,604,447
Other (expense) income:									
Investment income	(21,680)	—	(388,351)	128	—	(409,903)	—	—	(409,903)
Realized gains on investments, net	191,918	—	1,042,653	—	—	1,234,571	—	—	1,234,571
Loss related to pension settlement	(54,220,883)	—	—	—	—	(54,220,883)	—	—	(54,220,883)
Unrealized gains on investments, net	621,252	—	6,612,742	—	—	7,233,994	—	—	7,233,994
Other	(2,459,626)	—	(5,930)	300,000	—	(2,165,556)	—	—	(2,165,556)
Total other (expense) income	(55,889,019)	—	7,261,114	300,128	—	(48,327,777)	—	—	(48,327,777)
Deficiency of revenues over expenses	(48,882,403)	(2,582,890)	7,228,544	474,949	—	(43,761,800)	38,470	—	(43,723,330)
Other changes in net assets:									
Net assets released from restrictions used for purchases of property and equipment	733,368	—	—	—	—	733,368	—	—	733,368
Transfer (to) from affiliates	7,591,561	(2,372,953)	(5,218,608)	—	—	—	(950,449)	950,449	—
Pension liability adjustment	50,372,249	—	—	—	—	50,372,249	—	—	50,372,249
Capital grants and other	3,208,110	—	—	—	—	3,208,110	—	—	3,208,110
Reclassification	—	—	—	—	—	—	—	—	—
Increase (decrease) in net assets without donor	$ 13,022,885	(4,955,843)	2,009,936	474,949	—	10,551,927	(911,979)	950,449	10,590,397

Schedule 2

SHEPPARD AND ENOCH PRATT FOUNDATION, INC.
AND SUBSIDIARIES

Consolidating Statement of Operations Information

Year ended June 30, 2023

	Mosaic Community Services, Inc.										
	Mosaic Community Services, Inc.	**Alliance**	**Behavioral Health Partners**	**DuCHoDo**	**ReCHoDo**	**Eliminations**	**Total Mosaic Community Services, Inc.**	**Family Services Inc.**	**Way Station, Inc.**	**Consolidating eliminations**	**Consolidated totals**
Revenues, gains, and other support:											
Patient service revenue (net of allowances and discounts)	$ —	—	—	—	—	—	—	—	—	—	185,490,474
Residential and educational service revenue (net of allowances)	42,844,678	1,588,471	8,400,479	—	—	—	52,833,628	12,069,023	35,976,217	—	189,124,643
Net service revenue	42,844,678	1,588,471	8,400,479	—	—	—	52,833,628	12,069,023	35,976,217	—	374,615,117
Net assets released from restrictions used for operations	11,619	—	—	—	—	—	11,619	19,797	9,600	—	2,039,203
Intercorporate revenue	207,315	212,489	—	—	—	(419,804)	—	343,612	—	(584,750)	—
Other revenue	7,705,816	21,890,082	50,590	97,710	293,430	—	30,037,628	25,143,712	6,202,189	—	80,976,039
Total revenues, gains, and other support	50,769,428	23,691,042	8,451,069	97,710	293,430	(419,804)	82,882,875	37,576,144	42,188,006	(584,750)	457,630,359
Expenses:											
Salaries and wages	25,296,203	13,644,378	6,467,954	—	—	—	45,408,535	20,693,396	26,044,740	—	260,542,166
Employee benefits	5,028,423	2,895,841	1,221,562	—	—	—	9,145,826	3,775,126	5,958,420	—	48,101,709
Expendable supplies	2,538,086	812,308	18,931	492	446	—	3,370,263	1,388,522	1,374,586	—	15,147,831
Purchased services	11,460,833	3,839,679	446,412	40,162	160,678	—	15,947,764	7,162,491	4,723,461	—	90,496,976
Intercorporate charges	1,592,130	3,203,378	1,229,776	77,993	214,413	(419,804)	5,897,886	1,908,093	1,734,227	(584,750)	—
Interest	78,536	—	—	—	10,703	—	89,239	200,057	114,454	—	5,385,508
Repairs and maintenance	805,914	147,038	47,547	14,207	28,176	—	1,042,882	243,366	1,423,974	—	7,300,722
Depreciation and amortization	2,200,622	176,606	7,723	21,979	86,622	—	2,493,552	771,447	1,640,285	—	25,956,567
Total expenses	49,000,747	24,719,228	9,439,905	154,833	501,038	(419,804)	83,395,947	36,142,498	43,014,147	(584,750)	452,931,479
Operating income (loss)	1,768,681	(1,028,186)	(988,836)	(57,123)	(207,608)	—	(513,072)	1,433,646	(826,141)	—	4,698,880
Other (expense) income:											
Investment income	—	—	—	—	—	—	—	—	(20,590)	—	(430,493)
Realized gains on investments, net	—	—	—	—	—	—	—	—	55,278	—	1,289,849
Loss related to pension settlement	—	—	—	—	—	—	—	—	—	—	(54,220,883)
Unrealized gains on investments, net	141,070	—	—	—	—	—	141,070	—	350,572	—	7,725,636
Other	120,513	—	—	—	—	—	120,513	—	90,078	—	(1,954,965)
Total other (expense) income	261,583	—	—	—	—	—	261,583	—	475,338	—	(47,590,856)
Deficiency of revenues over expenses	2,030,264	(1,028,186)	(988,836)	(57,123)	(207,608)	—	(251,489)	1,433,646	(350,803)	—	(42,891,976)
Other changes in net assets:											
Net assets released from restrictions used for purchases of property and equipment	—	—	—	—	—	—	—	—	—	—	733,368
Transfer (to) from affiliates	258,272	80,698	768,673	—	—	—	1,107,643	(157,771)	(949,872)	—	—
Pension liability adjustment	—	—	—	—	—	—	—	—	—	—	50,372,249
Capital grants and other	483,300	—	—	—	—	—	483,300	—	46,706	—	3,738,116
Reclassification	—	—	—	—	—	—	—	—	—	—	—
Increase (decrease) in net assets without donor	$ 2,771,836	(947,488)	(220,163)	(57,123)	(207,608)	—	1,339,454	1,275,875	(1,253,969)	—	11,951,757

See accompanying independent auditors' report.

SHEPPARD AND ENOCH PRATT FOUNDATION, INC.
AND SUBSIDIARIES

Consolidating Statement of Changes in Net Assets Information

Year ended June 30, 2023

	Obligated group								
	Sheppard Pratt Health System, Inc.	**Sheppard Pratt Physicians, P.A.**	**Sheppard Pratt Investment, Inc.**	**Sheppard and Enoch Pratt Foundation, Inc.**	**Obligated Group combining eliminations**	**Combined Obligated Group subtotal**	**Sheppard Pratt Properties, LLC**	**Eliminations**	**Subtotal**
Net assets without donor restrictions:									
Deficiency of revenues over expenses	$ (48,882,403)	(2,582,890)	7,228,544	474,949	—	(43,761,800)	38,470	—	(43,723,330)
Other changes in net assets:									
Net assets released from restrictions used for purchases of property and equipment	733,368	—	—	—	—	733,368	—	—	733,368
Transfer (to) from affiliates	7,591,561	(2,372,953)	(5,218,608)	—	—	—	(950,449)	950,449	—
Pension liability adjustment	50,372,249	—	—	—	—	50,372,249	—	—	50,372,249
Capital grants and other	3,208,110	(1)	—	—	—	3,208,109	—	—	3,208,109
Reclassification	—	—	—	—	—	—	—	—	—
Increase (decrease) in net assets without donor	13,022,885	(4,955,844)	2,009,936	474,949	—	10,551,926	(911,979)	950,449	10,590,396
Net assets with donor restrictions:									
Gifts and grants	—	—	—	881,802	—	881,802	—	—	881,802
Investment income	—	—	—	(9,239)	—	(9,239)	—	—	(9,239)
Net realized gains on investments	—	—	—	50,737	—	50,737	—	—	50,737
Net unrealized gains (losses) on investments	—	—	—	319,777	—	319,777	—	—	319,777
Other changes	—	1	(2)	—	—	(1)	(1)	—	(2)
Transfer (to) from affiliates	1,204,745	2,400	—	(2,758,560)	1,524,409	(27,006)	—	—	(27,006)
Net assets released from restrictions for operations	(1,995,787)	(2,400)	—	—	—	(1,998,187)	—	—	(1,998,187)
Net assets released from restrictions for purchases of property and equipment	(733,368)	—	—	—	—	(733,368)	—	—	(733,368)
Reclassification	—	—	—	—	—	—	—	—	—
(Decrease) increase in net assets with donor restrictions	(1,524,410)	1	(2)	(1,515,483)	1,524,409	(1,515,485)	(1)	—	(1,515,486)
Increase(decrease) in net assets	11,498,475	(4,955,843)	2,009,934	(1,040,534)	1,524,409	9,036,441	(911,980)	950,449	9,074,910
Net assets (deficit), beginning of year	176,322,672	3,304,777	146,119,753	14,767,641	(11,947,655)	328,567,188	10,835,844	(12,637,742)	326,765,290
Net assets (deficit), end of year	$ 187,821,147	(1,651,066)	148,129,687	13,727,107	(10,423,246)	337,603,629	9,923,864	(11,687,293)	335,840,200

(Continued)

SHEPPARD AND ENOCH PRATT FOUNDATION, INC.
AND SUBSIDIARIES

Consolidating Statement of Changes in Net Assets Information

Year ended June 30, 2023

	Mosaic Community Services, Inc.									
	Mosaic Community Services, Inc.	Alliance	Behavioral Health Partners	DuCHoDo	ReCHoDo	Total Mosaic Community Services, Inc.	Family Services Inc.	Way Station, Inc.	Consolidating eliminations	Consolidated totals
Net assets without donor restrictions:										
Deficiency of revenues over expenses	$ 2,030,264	(1,028,186)	(988,836)	(57,123)	(207,608)	(251,489)	1,433,646	(350,803)	—	(42,891,976)
Other changes in net assets:										
Net assets released from restrictions used for purchases of property and equipment	—	—	—	—	—	—	—	—	—	733,368
Transfer (to) from affiliates	258,272	80,698	768,673	—	—	1,107,643	(157,771)	(949,872)	—	—
Pension liability adjustment	—	—	—	—	—	—	—	—	—	50,372,249
Capital grants and other	483,300	—	—	—	—	483,300	—	46,707	—	3,738,116
Reclassification	—	—	—	—	—	—	—	—	—	—
Increase (decrease) in net assets without donor	2,771,836	(947,488)	(220,163)	(57,123)	(207,608)	1,339,454	1,275,875	(1,253,968)	—	11,951,757
Net assets with donor restrictions:										
Gifts and grants	12,450	—	—	—	—	12,450	9,151	1,964	—	905,367
Investment income	—	—	—	—	—	—	—	—	—	(9,239)
Net realized gains on investments	—	—	—	—	—	—	—	—	—	50,737
Net unrealized gains (losses) on investments	—	—	—	—	—	—	—	—	—	319,777
Other changes	(2)	—	(1)	—	—	(3)	(3)	8	—	—
Transfer (to) from affiliates	11,619	—	—	—	—	11,619	6,369	9,019	—	1
Net assets released from restrictions for operations	(11,619)	—	—	—	—	(11,619)	(19,797)	(9,600)	—	(2,039,203)
Net assets released from restrictions for purchases of property and equipment	—	—	—	—	—	—	—	—	—	(733,368)
Reclassification	—	—	—	—	—	—	—	—	—	—
(Decrease) increase in net assets with donor restrictions	12,448	—	(1)	—	—	12,447	(4,280)	1,391	—	(1,505,928)
Increase(decrease) in net assets	2,784,284	(947,488)	(220,164)	(57,123)	(207,608)	1,351,901	1,271,595	(1,252,577)	—	10,445,829
Net assets (deficit), beginning of year	18,220,309	15,505,921	(3,691,401)	(512,904)	(1,877,117)	27,644,808	10,135,934	34,592,844	—	399,138,876
Net assets (deficit), end of year	$ 21,004,593	14,558,433	(3,911,565)	(570,027)	(2,084,725)	28,996,709	11,407,529	33,340,267	—	409,584,705

See accompanying independent auditors' report.

Schedule 4

SHEPPARD AND ENOCH PRATT FOUNDATION, INC.
AND SUBSIDIARIES

Health Department Funding

Year ended June 30, 2023

Way Station, Inc. receives funding from Anne Arundel County Mental Health Agency, Inc. (AACMHA), Frederick County Health Department (FCHD), Howard County Health Department (HCHD), and Washington County Mental Health Authority (WCMHA) for rendering services in Carroll County, Frederick County, Howard County and Washington County Maryland, respectively. Funding received for the year ended June 30, 2023 was as follows:

		AACMHA	FCHD								WCMHA	
		Segue	**Crisis Response Services F324**	**Crisis Response Services F828**	**Crisis Response Services F846**	**Crisis Response Services F818**	**Respite Care Services**	**Specialized Services for Individuals Dually Diagnosed with Mental Illness and Developmental Disability**	**Specialized Community Residential Placement**	**Mental Health Services, Residential Crisis Program**	**Healthy Transitions Initiative**	**Mental Health Stabilization Services**
Total revenue	$	224,628	921,158	71,861	23,709	33,649	100,340	151,253	46,165	282,789	123,021	89,978
Total expenses		(224,628)	(921,158)	(71,861)	(23,709)	(33,649)	(100,340)	(179,156)	(62,411)	(282,789)	(123,021)	(89,978)
Change in net assets	$	—	—	—	—	—	—	(27,903)	(16,246)	—	—	—

See accompanying independent auditors' report.