KPMG

SHEPPARD AND ENOCH PRATT FOUNDATION, INC. AND SUBSIDIARIES

Consolidated Financial Statements and Supplementary Information

June 30, 2021 and 2020

(With Independent Auditors' Report Thereon)

SHEPPARD AND ENOCH PRATT FOUNDATION, INC.
AND SUBSIDIARIES

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

Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying 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, 2021 and 2020, and the related consolidated statements of operations, changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Sheppard and Enoch Pratt Foundation, Inc. and its subsidiaries as of June 30, 2021 and 2020, and the results of their operations and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the basic 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 basic 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 themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

KPMG LLP

Baltimore, Maryland
October 27, 2021

SHEPPARD AND ENOCH PRATT FOUNDATION, INC.
AND SUBSIDIARIES

Consolidated Balance Sheets

June 30, 2021 and 2020

Assets		**2021**	**2020**
Current assets:			
Cash	$	86,535,923	54,943,272
Investments limited or restricted as to use		4,390,038	3,727,665
Accounts receivable, net		30,635,691	28,466,550
Prepaid expenses and other current assets		15,819,929	16,657,809
Total current assets		137,381,581	103,795,296
Investments limited or restricted as to use, less current portion		235,432,280	225,929,118
Notes receivable		1,449,399	1,482,340
Third-party payor settlements receivable		4,906,992	10,041,567
Property and equipment, net		334,911,194	299,294,081
Other assets		3,305,174	3,020,932
Total assets	$	717,386,620	643,563,334
Liabilities and Net Assets			
Current liabilities:			
Current maturities of long-term debt	$	6,122,339	5,887,157
Current portion of obligations under capital leases		828,406	753,500
Accounts payable		18,600,194	18,962,222
Accrued salaries, wages, and employee benefits		31,517,818	23,910,513
Self-insurance liabilities		4,193,665	3,531,347
Other accrued expenses		16,510,991	6,074,275
Total current liabilities		77,773,413	59,119,014
Long-term liabilities:			
Long-term debt, less current portion		173,569,687	177,236,997
Obligations under capitalized leases, less current portion		3,031,422	3,859,828
Self-insurance liabilities		7,039,273	6,778,732
Accrued pension liabilities		9,637,781	33,657,108
Other long-term liabilities		3,860,617	3,849,732
Total liabilities		274,912,193	284,501,411
Net assets:			
Without donor restrictions		415,283,577	323,129,196
With donor restrictions		27,190,850	35,932,727
Total net assets		442,474,427	359,061,923
Total liabilities and net assets	$	717,386,620	643,563,334

See accompanying notes to consolidated financial statements.

SHEPPARD AND ENOCH PRATT FOUNDATION, INC.
AND SUBSIDIARIES

Consolidated Statements of Operations

Years ended June 30, 2021 and 2020

	2021	2020
Revenues, gains, and other support:		
Patient service revenue	$ 142,471,677	146,350,461
Residential and educational service revenue	164,364,831	162,699,081
Net service revenue	306,836,508	309,049,542
Net assets released from restrictions used for operations	605,165	458,299
Other revenue	57,339,051	64,737,396
Total revenues, gains, and other support	364,780,724	374,245,237
Expenses:		
Salaries and wages	216,038,150	223,979,170
Employee benefits	44,155,748	43,954,950
Expendable supplies	17,155,334	18,953,306
Purchased services	53,532,555	55,917,403
Interest	3,269,100	3,210,043
Repairs and maintenance	10,436,980	10,840,194
Depreciation and amortization	20,378,934	20,450,548
Impairment of assets	100,017	3,531,583
Total expenses	365,066,818	380,837,197
Operating loss	(286,094)	(6,591,960)
Other income (expense):		
Investment income	1,339,187	1,885,258
Realized gains on investments, net	11,302,264	126,903
Unrealized gains (losses) on investments, net	40,265,395	(3,061,519)
Other	1,395,156	(471,072)
Total other income (expense)	54,302,002	(1,520,430)
Excess (deficiency) of revenues over expenses	54,015,908	(8,112,390)
Other changes in net assets:		
Net assets released from restrictions used for purchases of property and equipment	16,944,042	995,232
Pension liability adjustment	20,785,318	(4,269,717)
Capital grants and other	409,113	188,886
Increase (decrease) in net assets without donor restrictions	$ 92,154,381	(11,197,989)

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, 2021 and 2020

		2021	2020
Net assets without donor restrictions:			
Excess (deficiency) of revenues over expenses	$	54,015,908	(8,112,390)
Other changes in net assets:			
Net assets released from restrictions used for purchases of property and equipment		16,944,042	995,232
Pension liability adjustment		20,785,318	(4,269,717)
Capital grants and other		409,113	188,886
Increase (decrease) in net assets without donor restrictions		92,154,381	(11,197,989)
Net assets with donor restrictions:			
Gifts and grants		7,132,319	9,760,656
Investment income		99,108	56,643
Net realized gains on investments		345,314	4,128
Net unrealized gains (losses) on investments		1,305,121	(179,414)
Net assets released from restrictions for operations		(605,165)	(458,299)
Net assets released from restrictions for purchases of property and equipment		(16,944,042)	(995,232)
Net assets with donor restrictions from acquisition		(74,532)	50,000
(Decrease) increase in net assets with donor restrictions		(8,741,877)	8,238,482
Increase (decrease) in net assets		83,412,504	(2,959,507)
Net assets, beginning of year		359,061,923	362,021,430
Net assets, end of year	$	442,474,427	359,061,923

See accompanying notes to consolidated financial statements.

SHEPPARD AND ENOCH PRATT FOUNDATION, INC.
AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended June 30, 2021 and 2020

		2021	2020
Cash flows from operating activities:			
Increase in net assets	$	83,412,504	(2,959,507)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:			
Depreciation and amortization		20,378,934	20,450,548
Pension liability adjustment		(20,785,318)	4,269,717
Gifts and grants, net		(6,527,154)	(9,302,357)
Net realized (gain) on investments		(11,647,578)	(131,031)
Net unrealized (gain) loss on investments		(41,570,516)	3,240,933
Restricted investment income on restricted net assets		(99,108)	(56,643)
Capital grant and impairment of assets		(309,095)	3,342,697
(Increase) decrease in accounts receivable, net		(2,169,141)	6,008,673
Decrease (increase) in prepaid expenses and other assets		837,880	(1,493,839)
Decrease (increase) in third-party payor settlements receivable		5,134,575	(2,431,427)
Increase (decrease) in accounts payable, accrued expenses and other		24,803,497	(814,770)
Increase (decrease) in self-insurance liabilities		922,859	(3,247,788)
Decrease in accrued pension liability		(3,234,010)	(104,820)
Net cash provided by operating activities		49,148,329	16,770,386
Cash flows from investing activities:			
Purchases of property and equipment		(63,337,608)	(61,592,218)
Increase in other assets and notes receivable		(283,976)	—
Proceeds from sale of property and equipment		180,461	72,074
Purchases of alternative investments		(16,537,659)	(23,737,069)
Sales of alternative investments		13,870,390	6,021,050
Decrease in investments limited or restricted as to use, net		48,048,336	77,793,873
Cash acquired from acquisitions		—	142,156
Net cash used in investing activities		(18,060,056)	(1,300,134)
Cash flows from financing activities:			
Proceeds from debt issuance		2,000,000	—
Payment of long-term debt principal		(5,448,987)	(5,079,866)
Payment on capital lease obligations		(753,500)	(683,527)
Capital grants and advances		409,113	188,886
Gifts and grants, net		4,297,752	8,714,356
Net cash provided by financing activities		504,378	3,139,849
Net increase in cash and cash equivalents		31,592,651	18,610,101
Cash, beginning of year		54,943,272	36,333,171
Cash, end of year	$	86,535,923	54,943,272
Supplemental disclosure of noncash investing and financing activities:			
Noncash purchases of property and equipment	$	1,539,861	8,844,221

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), Family Services, Inc. (Family Services), 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 by several individuals who are employed by a member of Foundation, Health System, or Physicians and are subject to the terms of a stock agreement. Under the terms of the agreement, the stockholders are required to consult with Foundation regarding its views on any matter with respect to which the stockholder is entitled to vote, and the stockholders may not transfer shares (by sale or gift) without the permission of Foundation. The stock agreement does not allow for the stockholders to receive dividends or any other benefit for having held the stock. If the stockholders cease 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.

Mosaic, Way Station, 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.

(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

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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 the gift is received. 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. Foundation has not experienced such losses on these funds.

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(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 income (expense), which is included in the excess of revenues over expenses. Investment income and realized gains and losses from all other investments are reported as other income (expense), 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. The funds’ financial statements are presented at fair value as estimated in an unquoted market. 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 excluded from cash on the statement of cash flows.

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, 2021 and 2020.

(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 capital 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 excess 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 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.

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(k) Net Patient Service Revenue and Net Patient Accounts Receivable

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.

Net 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 customers. Revenues are recognized when control of the promised good or service is transferred to our customers, 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 net 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, 2021 and 2020 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. Net 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.

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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 14).

(l) Residential and Educational Service Revenue

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.

Foundation also operates residential treatment center services for adolescent. 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.

On August 31, 2020, Foundation made the decision to terminate operations at the Jefferson, Maryland location. The revenues related to these activities, a day school and residential treatment center, totaled approximately $900 thousand and $10 million for the years ended June 30, 2021.

(m) Other Operating Revenue

Other operating revenue is primarily comprised of grant revenue, 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 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 Corporation recorded impairment charges of $100,017 and $3,531,583 for the years ended June 30, 2021 and 2020, respectively.

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(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 income (expense).

(p) Excess of Revenues over Expenses

The consolidated statements of operations include a performance indicator, the excess of revenues over expenses. Changes in net assets without donor restrictions that are excluded from excess 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, except for Resources, 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. The operations of Resources, a for-profit company, are not significant to the consolidated financial statements. Foundation accounts for income taxes under ASC Topic 740, *Income Taxes*.

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

Lease arrangements, including assets under construction, are capitalized when such leases convey substantially all the risks and benefits incidental to ownership. Capital leases are amortized over either the lease term or the life of the related assets, depending upon available purchase options and lease renewal features. Amortization related to capital leases is included in the statements of operations within depreciation or amortization expense.

(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) New Accounting Pronouncements

The FASB issued ASU No. 2016-02, *Leases* (Topic 842), which will require lessees to recognize most leases on-balance sheet, increasing their reported assets and liabilities – sometimes very significantly. This update was developed to provide financial statement users with more information about an entity's leasing activities, and will require changes in processes and internal controls. The adoption of

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ASU 2016-02 is effective in fiscal year 2022, and will require application of the new guidance at the beginning of the earliest comparable period presented. The Company is currently assessing the impact of the adoption of ASU No. 2016-02 on its consolidated balance sheet.

(u) 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, 2022.

(v) COVID-19 Update

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, 2021 and 2020 the Company received $2,033,471 and $5,149,184 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, 2021 and 2020 the Company recognized $1,268,515 and $5,914,140 as Other 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 and is currently being held as a liability within Other Accrued Expenses.

Continued

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, 2021 and 2020, the deferred amount was $7,164,484 and $2,760,833 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, 2021 and 2020 was $3,719,835 and $3,838,921, 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:

		2021	2020
Board designated, without restrictions:			
Portion of pooled investments	$	201,223,960	157,016,203
Other investments		17,090,824	13,383,940
Held by trustees:			
Construction funds		1,543,912	30,496,612
Under self-insurance trusts		5,472,599	5,497,970
With donor restrictions:			
Portion of pooled investments		7,042,565	5,522,556
Restricted investments		7,448,458	17,739,501
Total investments limited or restricted as to use		239,822,318	229,656,782
Current portion		4,390,038	3,727,665
Investments limited or restricted as to use, less current portion	$	235,432,280	225,929,117

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:

		2021	2020
Board designated, without restrictions	$	201,223,960	157,016,203
With donor restrictions		7,042,565	5,522,556
Total	$	208,266,525	162,538,759

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

		2021	2020
Cash and cash equivalents	$	275,556	355,233
Corporate bonds		14,099,026	13,546,407
Mutual and common trust funds		88,340,247	74,342,965
Other (primarily alternative investments under equity method)		105,551,696	74,294,154
Total	$	208,266,525	162,538,759

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

		2021	2020
Cash and cash equivalents	$	9,607,132	6,517,260
Mutual funds		4,242,222	3,576,397
Real estate held for future development, at cost		3,022,786	3,022,786
Other		218,684	267,497
	$	17,090,824	13,383,940

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

		2021	2020
Equity investments	$	274,514	299,032
Fixed income investments		5,198,085	5,198,938
	$	5,472,599	5,497,970

Continued

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:

	2021	2020
Investment income, net:		
Without donor restrictions	$ 1,339,187	1,885,258
With donor restrictions	99,108	56,643
	1,438,295	1,941,901
Realized gains (losses) on sales of investments, net:		
Without donor restrictions	11,302,264	126,903
With donor restrictions	345,314	4,128
	11,647,578	131,031
Unrealized gains on investments, net:		
Without donor restrictions	40,265,395	(3,061,519)
With donor restrictions	1,305,121	(179,414)
Total unrealized gains (losses)	41,570,516	(3,240,933)
Total investment gain income (loss)	54,656,389	(1,168,001)
Investment income on other unrestricted investments and cash and cash equivalents	182,151	602,881
Investment income on self-insurance trust assets	—	11,055
Total investment income	$ 54,838,540	(554,065)

(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, 2021, aggregated by the three-level valuation hierarchy:

	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents	$ 16,748,367	—	—	16,748,367
Equities:				
Common stocks	6,883,015	—	—	6,883,015
Mutual funds	60,121,723	11,540,841	—	71,662,564
Other	2,633,840	4,619,799	—	7,253,639
Fixed income:				
Collaterized mortgage obligations	—	253,309	—	253,309
Corporate bonds	—	12,647,150	—	12,647,150
Government issued bonds	—	6,396,651	—	6,396,651
U.S. Treasury bonds	509,785	—	—	509,785
Other financial instruments	—	34,997	—	34,997
Total assets	$ 86,896,730	35,492,747	—	122,389,477

The table below presents Foundation's investable assets and liabilities as of June 30, 2020, aggregated by the three-level valuation hierarchy:

		Level 1	Level 2	Level 3	Total
Assets:					
Cash and cash equivalents	$	50,920,571	—	—	50,920,571
Equities:					
Common stocks		7,803,801	—	—	7,803,801
Mutual funds		54,782,186	3,086,612	—	57,868,798
Other		1,995,489	4,284,520	—	6,280,009
Fixed income:					
Collaterized mortgage obligations		—	323,607	—	323,607
Corporate bonds		—	10,982,800	—	10,982,800
Government issued bonds		—	7,436,841	—	7,436,841
Other financial instruments		—	71,704	—	71,704
Total assets	$	115,502,047	26,186,084	—	141,688,131

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, accounts payable and accrued expenses approximates 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, 2021 and June 30, 2020 was approximately $165,040,000 and $169,261,000, respectively. Due to the subjective nature of the terms of the Foundation's notes receivable and capital lease obligations, their fair values cannot be estimated.

Continued

(5) Donor Restricted Assets

Donor restricted assets consist of the following at June 30:

		2021	2020
Pledges receivable, net of unamortized discount of $319,000 at June 30, 2021 and $127,000 at June 30, 2020	$	5,592,202	3,286,821
Less allowance for uncollectible pledges		177,000	102,000
Net pledges receivable		5,415,202	3,184,821
Other investments (primarily property)		12,809,799	12,670,670
Portion of pooled investments (note 3)		7,042,565	5,522,556
Restricted cash and investments		1,923,284	14,554,680
	$	27,190,850	35,932,727

The net realizable value of the unconditional pledges receivable at June 30, 2021 was calculated using an average discount rate of 3%. The net present value of pledges receivable and the expected collection period at June 30, 2021 are as follows:

2022	$	3,550,937
2023		584,090
2024		580,129
2025		488,873
2026		388,174
	$	5,592,203

(6) Note Receivable

In conjunction with the land lease described in note 7, Investment Company provided a loan and a line of credit to the Maryland Economic Development Company (MEDCO) to help finance the development of university student housing located on the campus of Foundation. The unsecured term loan of $3.75 million is payable between the initial repayment date of January 2004 and June 30, 2031. MEDCO repaid $32,941 and $131,764 during each of the years ended June 30, 2021 and 2020, which resulted in an outstanding principal balance of $1,449,399 and $1,482,340 at June 30, 2021 and 2020, respectively. The loan bears interest at the rate of 12% per annum. Foundation has included approximately $170,000 and $187,000 of interest income from the loan in investment income during the fiscal years ended June 30, 2021 and 2020, respectively.

(7) Property and Equipment

Property and equipment at June 30 are summarized as follows:

		2021	2020
Land	$	25,764,241	25,178,190
Land improvements		37,632,836	20,340,549
Buildings and building improvements		460,532,746	344,970,546
Furniture and equipment		88,488,086	76,553,231
Vehicles		9,707,463	9,400,119
Construction in progress		11,614,424	101,595,829
		633,739,796	578,038,464
Less accumulated depreciation		298,828,602	278,744,383
	$	334,911,194	299,294,081

Assets under capital lease at June 30, 2021 and 2020 of $9,512,732 were included in buildings and building improvements and furniture and equipment in the table above. Accumulated depreciation of assets under capital leases totaled $7,572,333 and $7,103,335 at June 30, 2021 and 2020, respectively.

Certain land, buildings, improvements, and equipment are pledged as collateral for the debt described in note 9.

Depreciation and amortization expense for the years ended June 30, 2021 and 2020 was $20,378,934 and $20,450,548, 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 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.

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, 2021 and 2020, Foundation has recorded total ground rent receivable in the accompanying consolidated balance sheets of $11,724,409 and $9,069,674, respectively, with a related reserve of $10,551,968 and $8,162,707, respectively.

On June 28, 2021, the organization opened the new 85-bed Baltimore Washington hospital. The new hospital in Elkridge replaces the previously leased hospital facility in Ellicott City.

Interest expense, net of investment earnings, capitalized for this project totaled $2,647,023 and $1,213,462 for the years ended June 30, 2021 and 2020, respectively.

(8) Other Assets

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

		2021	2020
Workers' compensation excess insurance receivable	$	215,002	232,181
Intangible assets		1,307,000	1,307,000
Cash surrender value of life insurance and other		2,421,373	2,087,276
		3,943,375	3,626,457
Less accumulated amortization		(638,201)	(605,525)
	$	3,305,174	3,020,932

(9) Long-Term Debt and Note Payable

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

		2021	2020
Maryland Health and Higher Educational Facilities Authority (MHHEFA) Revenue Bonds, Series 2017	$	165,040,000	169,261,000
MHHEFA Revenue Bond – 2013		3,689,458	4,165,861
MHHEFA Revenue Bond – 2014		3,265,748	3,406,748
MHHEFA Revenue Bond – 2016		2,274,000	2,672,000
Bank notes		1,964,686	2,029,225
Mortgages on real estate		4,088,278	2,336,343
Other debt		241,635	216,282
		180,563,805	184,087,459
Less deferred financing costs		(871,779)	(963,305)
Less current portion		(6,122,339)	(5,887,157)
	$	173,569,687	177,236,997

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 bond was 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 bond 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, 2021 and 2020. The initial term of the credit facility provided by the direct placement loan arrangement is 15 years, and the final scheduled maturity of the

Continued

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 make payments to Capital One over 15 years, at a fixed interest rate of 2.645%. However, the lowering of the corporate tax rate in the Tax Cuts and Jobs Act of 2017 has triggered an adjustment to the interest rate. The new interest rate with the bank is 3.11%. Way Station owed $3,689,458 and $4,165,861 as of June 30, 2021 and 2020, 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 3.4%. 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 4.7% 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 ten years, which was 0.7% and 1.6% as of June 30, 2021, and 2020, respectively, and have principal payments beginning November 2016 and terminating October 2026. 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 an asset of $33,946 and $69,607 as of June 30, 2021 and 2020 respectively.

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

Community Services have mortgages on multiple properties with a total outstanding balance of $2,201,627 as of June 30, 2021 and $2,336,343 as of June 30, 2020. The interest rates and years of maturity range from 0% to 7.45%, and 2021 to 2038, respectively.

Continued

Community Services have other nonmortgage debt, consisting primarily of auto loans, with a total outstanding balance of $1,057 as of June 30, 2021 and $42,952 as of June 30, 2020.

In November 2019, Health System, Physicians, Foundation and Investment Company (Obligated Group) established a $15 million variable rate line of credit. In June 2020, the Obligated Group established an additional $15 million variable line of credit. As of June 30, 2021, the available amount on the original line of credit has been reduced by $5.6 million related to letters of credit issued on behalf of the Health System.

Community Services have combined variable rate lines of credit the amount of $5 million. As of June 30, 2021 and 2020, there were no outstanding balances on the lines of credit.

2022	$	6,122,339
2023		5,845,382
2024		5,969,406
2025		6,605,364
2026		6,253,341
2027 and thereafter		149,767,973
	$	180,563,805

Interest payments were $5,674,763 and $5,721,662 in 2021 and 2020, respectively.

(10) Other Financial Instruments

During the year ended June 30, 2006, Foundation received a gift annuity from donors. Under the terms of such agreement, Foundation agreed to pay 6% annually of the contributed amount (approximately $1 million) on a quarterly basis over the remaining lives of the donors. Accordingly, as of June 30, 2021 and 2020, the net present value of the estimated remaining payments of approximately $218,682 and $267,497, respectively, have been recorded as an other long-term liability.

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

Foundation has a noncontributory defined benefit pension plan (the Plan) that covers eligible employees of Health System and Physicians. The benefits are based on the employees' credited service and average compensation during the five consecutive years, taken from the last 10 years of service before retirement, which produces the highest result. The funding policy is 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 is 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. In 2018, the Plan was amended to temporarily allow a one-time opportunity to elect a lump-sum distribution of vested benefit in lieu of monthly payments for vested benefit payouts not to exceed $250,000. As a result of these changes, Foundation made lump-sum payments of approximately $349,324 and $23,612 in 2021 and 2020, 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 new employees' thrift plan. The new employee's thrift plan expense was $822,632 and $92,044 in 2021 and 2020, 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 has elected to freeze the future accrual of benefits relating to the plan. Foundation may provide a discretionary contribution to the employees' thrift plan. Foundation contributed $842,586 to the thrift plan in 2021 and there were no discretionary contributions to the thrift plan in 2020.

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:

		2021	2020
Accumulated benefit obligation at the end of the year	$	252,701,141	254,290,050
Changes in benefit obligations:			
Projected benefit obligation at the beginning of the year	$	256,111,308	240,953,427
Service cost		1,555,291	3,808,056
Interest cost		5,705,967	7,734,729
Actuarial loss		862,572	25,502,967
Benefits paid		(11,533,997)	(10,531,693)
Curtailment		—	(11,356,178)
Projected benefit obligation at the end of the year		252,701,141	256,111,308
Changes in plan assets:			
Fair value of plan assets at beginning of the year		222,454,200	211,461,216
Actual return on plan assets		27,843,157	19,224,676
Contributions to the plan		4,300,000	2,300,000
Benefits paid		(11,533,997)	(10,531,692)
Fair value of plan assets at end of the year		243,063,360	222,454,200
Funded status	$	(9,637,781)	(33,657,108)

Continued

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

		2021	2020
Service cost	$	1,555,291	3,808,056
Interest cost		5,705,967	7,734,729
Expected return on plan assets		(11,101,735)	(14,089,447)
Amortization of net loss		4,906,467	4,741,843
Net pension expense	$	1,065,990	2,195,181

The components of net benefit income other than the service cost of $0.5 million and $1.6 million were recorded in other income in the consolidated statements of operations for the year ended June 30, 2021 and June 30, 2020. Service costs is recorded as employee benefits in the accompanying consolidated statements of operations.

During the year ended June 30, 2021, Foundation adopted the Pri-2012 Mortality Table with generational improvements using projection scale MP 2020. During the year ended June 30, 2020, Foundation adopted the Pri-2012 Mortality Table with generational improvements using projection scale MP 2019. The following table presents the weighted average assumptions used to determine benefit obligations and net periodic benefit expense for the Plan:

	2021	2020
PBO Discount Rate (EOY)	2.94 %	3.69 %
Service Cost Discount Rate (BOY)	3.19	3.90
Interest Cost Discount Rate (BOY)	2.70	3.59
Rate of compensation increase	3.50	3.50
Expected long-term return on plan assets	5.10	6.80

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 excess 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.

Continued

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, 2021 and 2020. 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 in net assets without donor restrictions to recognized during the next fiscal year	Amounts recognized in net assets •without donor restrictions at June 30, 2021	Amounts recognized in net assets •without donor restrictions at June 30, 2020
Net actuarial loss	$ 1,646,254	35,806,140	56,591,458

(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 are invested in accordance with its overall investment policies at June 30, 2021 and 2020.

(c) Plan Assets

Foundation's pension plan weighted average asset allocations at the measurement dates of June 30, 2021 and 2020 by asset category are as follows:

	Target allocation	2021	2020
Equity securities	— %	— %	44 %
Debt securities	100	98	54
Cash and cash equivalents	—	2	2
	100 %	100 %	100 %

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, 2021 aggregated by the three level valuation hierarchy:

	Level 1	Level 2	Level 3	Total	Reported at NAV[1]
Assets:					
Cash and cash equivalents	$ 4,355,231	—	—	4,355,231	—
Collective trusts – equity	—	4,538	—	4,538	—
Collective trusts – fixed income	—	238,027,129	—	238,027,129	—
Private equity and real estate funds	—	—	—	—	676,462
Total assets	$ 4,355,231	238,031,667	—	242,386,898	676,462

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

The table below presents Foundation's pension plan investable assets as of June 30, 2020 aggregated by the three level valuation hierarchy:

		Level 1	Level 2	Level 3	Total	Reported at NAV[1]
Assets:						
Cash and cash equivalents	$	5,319,757	—	—	5,319,757	—
Collective trusts – equity		—	98,894,024	—	98,894,024	—
Collective trusts – fixed income		—	117,567,617	—	117,567,617	—
Private equity and real estate funds		—	—	—	—	672,804
Total assets	$	5,319,757	216,461,641	—	221,781,398	672,804

[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. There were no significant transfers between levels during the years ended June 30, 2021 and 2020. Foundation has the ability to liquidate the collective trusts on a daily basis.

Foundation's pension plan invests in alternative investments, which are primarily hedge funds of funds and private equity funds. Such investments are 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, 2021, 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, which is subject to regulatory approval.

The Foundation expects to contribute $13 million to its pension plan during the year ending June 30, 2022 in anticipation of the pension termination, which is expected in 2022.

(e) Estimated Future Benefit Payments

The following benefit payments, which reflect expected future employee service, as appropriate, are expected to be paid from the plan in each of the fiscal years as follows:

2022	$	12,480,000
2023		12,587,000
2024		12,897,000
2025		13,136,000
2026		13,350,000
2027–2031		67,912,000

The expected benefits to be paid are based on the same assumptions used to measure Foundation's benefit obligation at June 30, 2021.

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 $15,242,852 in 2021 and $15,385,146 in 2020.

Certain of the subsidiaries maintain various tax sheltered annuity accounts, defined contribution plans or other retirement benefit plans. These subsidiaries have the option to issue discretionary matching contributions to the plans. During the years ended June 30, 2021 and 2020, these subsidiaries contributed $658,519 and $385,049, respectively, to the plans.

(12) Leases

Foundation leases office space under long term operating leases, which expire at various dates through 2035, some of which require increasing monthly payments expiring over the next several years. The following is a schedule of the future minimum lease payments under operating leases as of June 30, 2021 that have initial or remaining lease terms in excess of one year for each of the years ending June 30:

2022	$	3,751,439
2023		2,534,084
2024		2,233,875
2025		1,955,475
2026		1,386,373
Thereafter		4,503,626
Total minimum lease payments	$	16,364,872

Rent expense was approximately $8,051,666 and $7,197,278 in 2021 and 2020, respectively. Foundation also leases various equipment under short term leases.

Foundation has various capital leases for buildings and software the majority of which are related to its electronic medical records system and the long term rental for one of its school locations.

The following is a schedule of future minimum lease payments under capital leases as of June 30, 2021:

2022	$	1,008,056
2023		1,044,762
2024		731,137
2025		395,166
2026		407,021
Thereafter		851,040
Total minimum lease payments		4,437,182
Less amount representing interest		577,354
Present value of net minimum lease payments		3,859,828
Less obligations under capital leases, current portion		828,406
Obligations under capital leases, less current portion	$	3,031,422

(13) 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 $274,514 and $299,032 at June 30, 2021 and 2020, respectively. The related claims liabilities of approximately $2,987,000 and $2,641,000 as of June 30, 2021 and 2020, 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, 2021 and 2020; 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 $1,464,000 for both 2021 and 2020 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 2021 and 2020. Investments of approximately $5,200,000 at both June 30, 2021 and 2020, 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 $5,780,000 and $5,745,000 as of June 30, 2021 and 2020, 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 $2,465,000 and $1,920,000, respectively, as of June 30, 2021 and 2020, 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, 2021 and 2020, the ultimate liabilities may be significantly different from the estimates.

(14) 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:

		2021	2021
Hospital and physician services	$	142,471,677	146,250,461
Adolescent residential treatment centers		28,109,384	31,557,331
Special education		48,238,218	53,020,364
Community services		88,017,229	78,221,386
Total revenue from contract with customers		306,836,508	309,049,542
Other nonpatient care		57,944,216	65,195,695
Total operating revenue	$	364,780,724	374,245,237

Continued

The mix of receivables and total net service revenue from patients and third parties as of June 30, 2021 and 2020 was as follows:

	Accounts receivable		Revenue	
	2021	**2020**	**2021**	**2020**
Medicare	10 %	5 %	7 %	7 %
Medicaid	26	27	47	48
Commercial insurers and HMO's	20	16	13	12
Local government	24	34	16	17
Blue Cross/Blue Shield	6	6	10	9
Self-pay and other	14	12	7	7
	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, 2021, and 2020, the Company has recorded third party payor settlements receivable of $4,906,992 and $10,041,567 respectively.

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.

Continued

During 2021 and 2020, 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 net patient service revenue by approximately $101,407 and $342,292 during the years ended June 30, 2021 and 2020, 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.

(15) 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, 2021 and 2020:

	2021									
	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	$ 69,852,116	12,966,758	28,989,838	36,247,328	11,907,444	9,562,062	10,377,523	179,903,069	36,135,081	216,038,150
Employee benefits	13,206,367	2,539,001	6,610,458	7,877,348	2,051,878	1,706,150	2,357,019	36,348,221	7,807,527	44,155,748
Expendable supplies	8,063,250	1,706,917	1,331,618	2,853,142	201,907	1,024,444	588,622	15,769,900	1,385,434	17,155,334
Purchased services	13,379,997	1,739,008	2,650,956	11,146,639	2,830,870	3,947,668	3,928,721	39,623,859	13,908,696	53,532,555
Interest	1,284,443	268,956	131,068	159,495	4,480	18,019	15,925	1,882,386	1,386,714	3,269,100
Repairs and maintenance	4,141,894	810,111	534,948	1,574,206	319,134	154,252	182,879	7,717,424	2,719,556	10,436,980
Depreciation, amortization, and impairment	6,840,522	1,539,309	1,790,039	2,578,417	504,819	54,846	177,892	13,485,844	6,993,107	20,478,951
	$ 116,768,589	21,570,060	42,038,925	62,436,575	17,820,532	16,467,441	17,628,581	294,730,703	70,336,115	365,066,818

	2020									
	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	$ 74,210,428	17,341,172	31,510,642	35,247,021	11,710,606	9,984,739	9,017,500	189,022,108	34,957,062	223,979,170
Employee benefits	13,675,807	3,263,888	6,730,159	6,803,617	1,991,896	1,929,210	2,131,105	36,525,682	7,429,268	43,954,950
Expendable supplies	8,449,770	1,849,247	1,808,263	3,242,970	223,104	1,089,717	729,651	17,392,722	1,560,584	18,953,306
Purchased services	13,806,642	1,692,227	4,164,739	10,204,451	1,969,319	2,932,309	1,927,817	36,697,504	19,219,899	55,917,403
Interest	1,271,124	304,885	299,494	150,665	3,378	18,596	18,522	2,066,664	1,143,379	3,210,043
Repairs and maintenance	4,124,895	964,016	757,782	1,800,695	263,653	162,931	131,164	8,205,136	2,635,058	10,840,194
Depreciation, amortization, and impairment	7,007,819	4,025,446	4,338,985	2,470,107	452,210	71,987	160,532	18,527,086	5,455,045	23,982,131
	$ 122,546,485	29,440,881	49,610,064	59,919,526	16,614,166	16,189,489	14,116,291	308,436,902	72,400,295	380,837,197

Continued

(16) 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.

(17) 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, 2021

		Without donor restrictions	With donor restrictions	Total
Donor-restricted endowment funds	$	—	4,265,617	4,265,617
Board-designated endowment funds		162,403,029	—	162,403,029
	$	162,403,029	4,265,617	166,668,646

Changes in endowment net assets for the year ended June 30, 2021:

		Without donor restrictions	With donor restrictions	Total
Endowment net assets, beginning of year	$	125,721,278	4,107,732	129,829,010
Investment return:				
Investment income		1,009,666	—	1,009,666
Net depreciation (realized and unrealized gain and losses)		38,055,515	64,942	38,120,457
Total investment return		39,065,181	64,942	39,130,123
Contributions		—	92,943	92,943
Appropriation of endowment assets for expenditure		(2,383,430)	—	(2,383,430)
	$	162,403,029	4,265,617	166,668,646

(c) Net Asset Classification by Type of Endowment as of June 30, 2020

		Without donor restrictions	With donor restrictions	Total
Donor-restricted endowment funds	$	—	4,107,732	4,107,732
Board-designated endowment funds		125,721,278	—	125,721,278
	$	125,721,278	4,107,732	129,829,010

Changes in endowment net assets for the year ended June 30, 2020:

		Without donor restrictions	With donor restrictions	Total
Endowment net assets, beginning of year	$	132,600,296	3,968,378	136,568,674
Investment return:				
Investment income		1,429,537	—	1,429,537
Net depreciation (realized and unrealized gains and losses)		(3,213,533)	1,554	(3,211,979)
Total investment return		(1,783,996)	1,554	(1,782,442)
Contributions		—	137,800	137,800
Appropriation of endowment assets for expenditure		(5,095,022)	—	(5,095,022)
	$	125,721,278	4,107,732	129,829,010

Continued

(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, 2021 and 2020, 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.

(18) 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 other obligations come due. Cash required to meet operating needs is invested in bank operating accounts. The Obligated Group and the Community Services have access to variable rate lines of credit in the amount of $35,000,000 less the $5.6 million used for the letters of credit referenced in note 9, respectively 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 $210,800,000, could be available to fund operations if needed. Foundation has an endowment spending rate policy of 4%. Approximately $4,900,000 of appropriations from this endowment will be available within the next 12 months to support liquidity.

Continued

The following is a reconciliation of current financial assets as of June 30, 2021 to financial assets available to fund general expenditures for the following fiscal year. General expenditures include all programmatic and supporting operating expenses.

	2021	2020
Financial assets at year end:		
Current assets:		
Cash	$ 86,535,923	54,943,272
Investments limited or restricted as to use	4,390,038	3,727,665
Accounts receivable, net	30,635,691	28,466,550
Prepaid expenses and other current assets	15,819,929	16,657,809
Total current assets	137,381,581	103,795,296
Other:		
Investments	4,699,041	4,031,703
Borrowings available under lines of credit	29,400,000	29,400,000
Subtotal	171,480,622	137,226,999
Less assets unavailable for general expenditures within one year:		
Investments limited or restricted as to use	(4,367,213)	(3,704,926)
Prepaid expenses	(9,572,121)	(6,421,658)
Financial assets available to meet cash needs for general expenditures within one year	$ 157,541,288	127,100,415

(19) Subsequent Events

Foundation has evaluated all events and transactions from the balance sheet date through October 27, 2021, the date at which the consolidated financial statements were issued.

Sheppard Pratt Hospital filed a full rate application to the Maryland Health Services Cost Review Commission (HSCRC) on June 28, 2021, requesting an increase to its fiscal year 2022 revenue. At the HSCRC Commission Meeting on September 9, 2021, the Commissioners voted on and approved an 8.55% rate increase to regulated hospital rates.

SUPPLEMENTARY INFORMATION

Schedule 1

SHEPPARD AND ENOCH PRATT FOUNDATION, INC
AND SUBSIDIARIES

Consolidating Balance Sheet Information

June 30, 2021

	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	$ 38,345,691	838,281	—	17,555,645	—	56,739,617	879,066	—	57,618,683
Investments limited or restricted as to use	—	—	—	3,657,388	—	3,657,388	—	—	3,657,388
Accounts receivable, net	20,306,074	1,423,203	—	—	—	21,729,277	—	—	21,729,277
Due from affiliates	18,248,899	2,345,816	1,959,809	163,769	(19,652,687)	3,065,606	15,684	(15,684)	3,065,606
Prepaid expenses and other current assets	8,156,540	1,285,087	—	—	—	9,441,627	—	—	9,441,627
Total current assets	85,057,204	5,892,387	1,959,809	21,376,802	(19,652,687)	94,633,515	894,750	(15,684)	95,512,581
Investments limited or restricted as to use, less current portion	62,795,991	—	167,684,719	12,518,524	—	242,999,234	—	(12,637,742)	230,361,492
Interest in net assets of Foundation	13,655,960	—	—	—	(13,655,960)	—	—	—	—
Notes receivable	—	—	1,449,399	—	—	1,449,399	—	—	1,449,399
Property and equipment, net	267,180,974	—	—	—	—	267,180,974	14,481,877	—	281,662,851
Third-party payor settlements receivable	4,906,992	—	—	—	—	4,906,992	—	—	4,906,992
Other assets	4,184,601	—	—	—	—	4,184,601	—	(2,343,362)	1,841,239
Total assets	$ 437,781,722	5,892,387	171,093,927	33,895,326	(33,308,647)	615,354,715	15,376,627	(14,996,788)	615,734,554
Liabilities and Net Assets									
Current liabilities:									
Current maturities of long-term debt	$ 4,327,000	—	—	—	—	4,327,000	105,650	—	4,432,650
Current portion of obligations under capital leases	828,406	—	—	—	—	828,406	—	—	828,406
Accounts payable	16,063,520	420,645	—	—	—	16,484,165	—	—	16,484,165
Accrued salaries, wages, and employee benefits	17,061,738	2,450,522	—	—	—	19,512,260	—	—	19,512,260
Due to affiliates	2,346,046	—	8,481,235	17,351,515	(19,652,687)	8,526,109	—	(15,684)	8,510,425
Self-insurance liabilities	3,140,700	268,970	—	—	—	3,409,670	—	—	3,409,670
Other accrued expenses	8,059,483	7,671	209,662	—	—	8,276,816	83,705	—	8,360,521
Total current liabilities	51,826,893	3,147,808	8,690,897	17,351,515	(19,652,687)	61,364,426	189,355	(15,684)	61,538,097
Long-term liabilities:									
Long-term debt, less current portion	160,259,169	—	—	—	—	160,259,169	1,825,939	—	162,085,108
Obligations under capitalized leases, less current portion	3,031,422	—	—	—	—	3,031,422	—	—	3,031,422
Self-insurance liabilities	6,049,152	—	—	—	—	6,049,152	—	—	6,049,152
Accrued pension liabilities	517,508	9,120,273	—	—	—	9,637,781	—	—	9,637,781
Other long-term liabilities	—	—	—	218,683	—	218,683	2,343,362	(2,343,362)	218,683
Total liabilities	221,684,144	12,268,081	8,690,897	17,570,198	(19,652,687)	240,560,633	4,358,656	(2,359,046)	242,560,243
Net assets (deficit):									
Without donor restrictions	202,441,618	(6,375,694)	162,403,030	2,270,766	—	360,739,720	11,017,970	(12,637,742)	359,119,948
With donor restrictions	13,655,960	—	—	14,054,362	(13,655,960)	14,054,362	1	—	14,054,363
Total net assets (deficit)	216,097,578	(6,375,694)	162,403,030	16,325,128	(13,655,960)	374,794,082	11,017,971	(12,637,742)	373,174,311
Total liabilities and net assets	$ 437,781,722	5,892,387	171,093,927	33,895,326	(33,308,647)	615,354,715	15,376,627	(14,996,788)	615,734,554

(Continued)

Schedule 1

SHEPPARD AND ENOCH PRATT FOUNDATION, INC
AND SUBSIDIARIES

Consolidating Balance Sheet Information

June 30, 2021

	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	$ 5,624,683	9,259,802	1,318,726	75,589	99,886	—	16,378,686	4,993,572	7,544,982	—	86,535,923
Investments limited or restricted as to use	21,129	1,696	—	—	—	—	22,825	109,975	599,850	—	4,390,038
Accounts receivable, net	2,196,608	4,153	208,543	—	—	—	2,409,304	2,593,844	3,903,266	—	30,635,691
Due from affiliates	199,471	—	21,178	—	—	—	220,649	15,345	1,413,995	(4,715,595)	—
Prepaid expenses and other current assets	4,917,189	3,415,293	13,530	2,183	9,768	(3,904,629)	4,453,334	345,206	1,579,762	—	15,819,929
Total current assets	12,959,080	12,680,944	1,561,977	77,772	109,654	(3,904,629)	23,484,798	8,057,942	15,041,855	(4,715,595)	137,381,581
Investments limited or restricted as to use, less current portion	4,970,783	—	—	—	—	—	4,970,783	44,000	8,363,569	(8,307,564)	235,432,280
Interest in net assets of Foundation	—	—	—	—	—	—	—	—	—	—	—
Notes receivable	—	—	—	—	—	—	—	—	—	—	1,449,399
Property and equipment, net	15,576,864	3,041,817	27,390	281,260	1,001,924	—	19,929,255	8,183,980	25,135,108	—	334,911,194
Third-party payor settlements receivable	—	—	—	—	—	—	—	—	—	—	4,906,992
Other assets	677,865	210,295	—	—	127,894	—	1,016,054	160,457	287,424	—	3,305,174
Total assets	$ 34,184,592	15,933,056	1,589,367	359,032	1,239,472	(3,904,629)	49,400,890	16,446,379	48,827,956	(13,023,159)	717,386,620
Liabilities and Net Assets											
Current liabilities:											
Current maturities of long-term debt	$ 465,042	68,523	—	—	447,474	—	981,039	213,008	495,642	—	6,122,339
Current portion of obligations under capital leases	—	—	—	—	—	—	—	—	—	—	828,406
Accounts payable	969,040	181,227	8,092	1,228	2,775	—	1,162,362	628,460	325,207	—	18,600,194
Accrued salaries, wages, and employee benefits	5,223,544	1,110,568	—	—	—	—	6,334,112	2,167,013	3,504,433	—	31,517,818
Due to affiliates	509,903	—	4,456,793	456,747	2,355,297	(3,904,629)	3,874,111	166,429	472,194	(13,023,159)	—
Self-insurance liabilities	136,695	—	—	—	—	—	136,695	—	647,300	—	4,193,665
Other accrued expenses	4,617,673	617,426	32,195	2,400	2,400	—	5,272,094	694,997	2,183,379	—	16,510,991
Total current liabilities	11,921,897	1,977,744	4,497,080	460,375	2,807,946	(3,904,629)	17,760,413	3,869,907	7,628,155	(13,023,159)	77,773,413
Long-term liabilities:											
Long-term debt, less current portion	2,068,257	679,243	—	400,000	167,690	—	3,315,190	5,075,453	3,093,936	—	173,569,687
Obligations under capitalized leases, less current portion	—	—	—	—	—	—	—	—	—	—	3,031,422
Self-insurance liabilities	374,495	—	—	—	—	—	374,495	—	615,626	—	7,039,273
Accrued pension liabilities	—	—	—	—	—	—	—	—	—	—	9,637,781
Other long-term liabilities	541,525	763,465	6,451	—	26,659	—	1,338,100	123,220	2,180,614	—	3,860,617
Total liabilities	14,906,174	3,420,452	4,503,531	860,375	3,002,295	(3,904,629)	22,788,198	9,068,580	13,518,331	(13,023,159)	274,912,193
Net assets:											
Without donor restrictions	19,006,676	8,500,227	(2,914,164)	(501,343)	(1,762,823)	—	22,328,573	5,858,729	27,976,327	—	415,283,577
With donor restrictions	271,742	4,012,377	—	—	—	—	4,284,119	1,519,070	7,333,298	—	27,190,850
Total net assets (deficit)	19,278,418	12,512,604	(2,914,164)	(501,343)	(1,762,823)	—	26,612,692	7,377,799	35,309,625	—	442,474,427
Total liabilities and net assets	$ 34,184,592	15,933,056	1,589,367	359,032	1,239,472	(3,904,629)	49,400,890	16,446,379	48,827,956	(13,023,159)	717,386,620

See accompanying independent auditors' report.

SHEPPARD AND ENOCH PRATT FOUNDATION, INC
AND SUBSIDIARIES

Consolidating Statement of Operations Information

Year ended June 30, 2021

	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)	$ 130,680,445	11,791,232	—	—	—	142,471,677	—	—	142,471,677
Residential and educational service revenue (net of allowances)	76,341,784	5,820	—	—	—	76,347,604	—	—	76,347,604
Net service revenue	207,022,229	11,797,052	—	—	—	218,819,281	—	—	218,819,281
Net assets released from restrictions used for operations	588,446	—	—	—	—	588,446	—	—	588,446
Intercorporate revenue	6,855,416	11,084,057	—	—	(9,805,619)	8,133,854	114,381	(114,381)	8,133,854
Other revenue	4,208,190	2,899,792	—	77,493		7,185,475	467,041		7,652,516
Total revenues, gains, and other support	218,674,281	25,780,901	—	77,493	(9,805,619)	234,727,056	581,422	(114,381)	235,194,097
Expenses:									
Salaries and wages	113,121,294	26,407,894	—	—	—	139,529,188	—	—	139,529,188
Employee benefits	24,425,932	3,381,719	—	—	—	27,807,651	—	—	27,807,651
Expendable supplies	10,967,538	47	—	—	—	10,967,585	8,819	—	10,976,404
Purchased services	30,447,173	2,766,605	—	3,791	—	33,217,569	61,196	—	33,278,765
Intercorporate charges	6,036,892	4,569,492	—	—	(9,930,939)	675,445	—	(114,381)	561,064
Interest	2,662,448	—	—	—	—	2,662,448	51,605	—	2,714,053
Repairs and maintenance	7,568,519	—	—	—	—	7,568,519	44,263	—	7,612,782
Depreciation and amortization	15,170,283	—	—	—	—	15,170,283	563,370	—	15,733,653
Impairment of assets	91,004	—	—	—	—	91,004	—	—	91,004
Total expenses	210,491,083	37,125,757	—	3,791	(9,930,939)	237,689,692	729,253	(114,381)	238,304,564
Operating income (loss)	8,183,198	(11,344,856)	—	73,702	125,320	(2,962,636)	(147,831)	—	(3,110,467)
Other income (expense):									
Investment income	231,640	—	1,009,666	—	(125,320)	1,115,986	—	—	1,115,986
Realized gains on investments, net	2,287,104	—	8,582,169	—	—	10,869,273	—	—	10,869,273
Unrealized gains on investments, net	8,564,630	—	29,490,199	—	—	38,054,829	—	—	38,054,829
Other	546,714	97,860	(16,852)	150,000	653,095	1,430,817	—	—	1,430,817
Total other income (expense)	11,630,088	97,860	39,065,182	150,000	527,775	51,470,905	—	—	51,470,905
Excess (deficiency) of revenues over expenses	19,813,286	(11,246,996)	39,065,182	223,702	653,095	48,508,269	(147,831)	—	48,360,438
Other changes in net assets:									
Net assets released from restrictions used for purchases of property and equipment	16,944,042	—	—	—	—	16,944,042	—	—	16,944,042
Transfer (to) from affiliates	(5,926,546)	10,328,702	(2,383,430)	—	—	2,018,726	—	—	2,018,726
Pension liability adjustment	20,785,318	—	—	—	—	20,785,318	—	—	20,785,318
Capital grants and other	334,581	—	—	74,532	—	409,113	—	—	409,113
Increase (decrease) in net assets without donor restrictions	$ 51,950,681	(918,294)	36,681,752	298,234	653,095	88,665,468	(147,831)	—	88,517,637

(Continued)

SHEPPARD AND ENOCH PRATT FOUNDATION, INC
AND SUBSIDIARIES

Consolidating Statement of Operations Information

Year ended June 30, 2021

	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)	$ —	—	—	—	—	—	—	—	—	—	142,471,677
Residential and educational service revenue (net of allowances)	37,108,327	—	8,175,306	—	—	—	45,283,633	12,918,812	29,814,782	—	164,364,831
Net service revenue	37,108,327	—	8,175,306	—	—	—	45,283,633	12,918,812	29,814,782	—	306,836,508
Net assets released from restrictions used for operations	12,029	—	—	—	—	—	12,029	4,436	254	—	605,165
Intercorporate revenue	298,424	—	95,284	—	—	—	393,708	412,497	2,725,032	(11,665,091)	—
Other revenue	9,622,278	21,376,645	161,950	112,878	290,044	(2,835,523)	28,728,272	15,746,207	5,212,057	(1)	57,339,051
Total revenues, gains, and other support	47,041,058	21,376,645	8,432,540	112,878	290,044	(2,835,523)	74,417,642	29,081,952	37,752,125	(11,665,092)	364,780,724
Expenses:											
Salaries and wages	25,012,634	12,472,502	1,176,011	55,138	142,198	(2,583,995)	36,274,488	14,964,813	24,084,043	1,185,618	216,038,150
Employee benefits	5,156,222	2,532,925	118	—	—	—	7,689,265	4,017,842	5,826,608	(1,185,618)	44,155,748
Expendable supplies	2,278,737	531,978	26,466	133	6,083	—	2,843,397	1,542,968	1,792,565	—	17,155,334
Purchased services	8,209,766	4,284,610	438,743	26,706	81,847	—	13,041,672	4,352,648	2,859,470	—	53,532,555
Intercorporate charges	1,441,705	—	7,635,360	—	—	—	9,077,065	1,427,904	599,059	(11,665,092)	—
Interest	193,145	201	1,971	—	15,920	—	211,237	217,410	126,400	—	3,269,100
Repairs and maintenance	1,396,520	134,739	42,409	19,192	69,930	(251,528)	1,411,262	430,849	982,087	—	10,436,980
Depreciation and amortization	2,372,788	119,427	6,900	29,725	95,893	—	2,624,733	680,799	1,339,749	—	20,378,934
Impairment of assets	186	—	—	—	—	—	186	7,121	1,706	—	100,017
Total expenses	46,061,703	20,076,382	9,327,978	130,894	411,871	(2,835,523)	73,173,305	27,642,354	37,611,687	(11,665,092)	365,066,818
Operating income (loss)	979,355	1,300,263	(895,438)	(18,016)	(121,827)	—	1,244,337	1,439,598	140,438	—	(286,094)
Other income (expense):											
Investment income	123,211	—	—	—	—	—	123,211	—	99,990	—	1,339,187
Realized gains on investments, net	—	—	—	—	—	—	—	—	432,991	—	11,302,264
Unrealized gains on investments, net	589,159	—	—	—	—	—	589,159	—	1,621,407	—	40,265,395
Other	(35,661)	—	—	—	—	—	(35,661)	—	—	—	1,395,156
Total other income (expense)	676,709	—	—	—	—	—	676,709	—	2,154,388	—	54,302,002
Excess (deficiency) of revenues over expenses	1,656,064	1,300,263	(895,438)	(18,016)	(121,827)	—	1,921,046	1,439,598	2,294,826	—	54,015,908
Other changes in net assets:											
Net assets released from restrictions used for purchases of property and equipment	—	—	—	—	—	—	—	—	—	—	16,944,042
Transfer (to) from affiliates	—	—	(2,018,726)	—	—	—	(2,018,726)	—	—	—	—
Pension liability adjustment	—	—	—	—	—	—	—	—	—	—	20,785,318
Capital grants and other	—	—	—	—	—	—	—	—	—	—	409,113
Increase (decrease) in net assets without donor restrictions	$ 1,656,064	1,300,263	(2,914,164)	(18,016)	(121,827)	—	(97,680)	1,439,598	2,294,826	—	92,154,381

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, 2021

	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:									
Excess (deficiency) of revenues over expenses	$ 19,813,286	(11,246,996)	39,065,182	223,702	653,095	48,508,269	(147,831)	—	48,360,438
Other changes in net assets:									
Net assets released from restrictions used for purchases of property and equipment	16,944,042	—	—	—	—	16,944,042	—	—	16,944,042
Transfer (to) from affiliates	(5,926,546)	10,328,702	(2,383,430)	—	—	2,018,726	—	—	2,018,726
Pension liability adjustment	20,785,318	—	—	—	—	20,785,318	—	—	20,785,318
Capital grants and other	334,581	—	—	74,532	—	409,113	—	—	409,113
Increase (decrease) in net assets without donor restrictions	51,950,681	(918,294)	36,681,752	298,234	653,095	88,665,468	(147,831)	—	88,517,637
Net assets with donor restrictions:									
Gifts and grants	—	—	—	7,033,976	—	7,033,976	—	—	7,033,976
Investment income	—	—	—	99,108	—	99,108	—	—	99,108
Net realized gains on investments	—	—	—	345,314	—	345,314	—	—	345,314
Net unrealized gains on investments	—	—	—	1,293,092	—	1,293,092	—	—	1,293,092
Interest in net assets of Foundation	(8,900,471)	—	—	—	8,900,471	—	—	—	—
Transfer (to) from affiliates	17,532,488	—	—	(17,532,488)	—	—	—	—	—
Net assets released from restrictions for operations	(588,446)	—	—	—	—	(588,446)	—	—	(588,446)
Net assets released from restrictions for purchases of property and equipment	(16,944,042)	—	—	—	—	(16,944,042)	—	—	(16,944,042)
Reclass to unrestricted	—	—	—	(74,532)	—	(74,532)	—	—	(74,532)
(Decrease) increase in net assets with donor restrictions	(8,900,471)	—	—	(8,835,530)	8,900,471	(8,835,530)	—	—	(8,835,530)
Increase (decrease) in net assets	43,050,210	(918,294)	36,681,752	(8,537,296)	9,553,566	79,829,938	(147,831)	—	79,682,107
Net assets (deficit), beginning of year	173,047,368	(5,457,400)	125,721,278	24,862,424	(23,209,526)	294,964,144	11,165,802	(12,637,742)	293,492,204
Net assets (deficit), end of year	$ 216,097,578	(6,375,694)	162,403,030	16,325,128	(13,655,960)	374,794,082	11,017,971	(12,637,742)	373,174,311

(Continued)

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

Consolidating Statement of Changes in Net Assets Information

Year ended June 30, 2021

	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:										
Excess of revenues over expenses	$ 1,656,064	1,300,263	(895,438)	(18,016)	(121,827)	1,921,046	1,439,598	2,294,826	—	54,015,908
Other changes in net assets:										
Net assets released from restrictions used for purchases of property and equipment	—	—	—	—	—	—	—	—	—	16,944,042
Transfer (to) from affiliates	—	—	(2,018,726)	—	—	(2,018,726)	—	—	—	—
Pension liability adjustment	—	—	—	—	—	—	—	—	—	20,785,318
Capital grants and other	—	—	—	—	—	—	—	—	—	409,113
Increase (decrease) in net assets without donor restrictions	1,656,064	1,300,263	(2,914,164)	(18,016)	(121,827)	(97,680)	1,439,598	2,294,826	—	92,154,381
Net assets with donor restrictions:										
Gifts and grants	2,763	(2,675)	—	—	—	88	—	98,255	—	7,132,319
Investment income	—	—	—	—	—	—	—	—	—	99,108
Net realized gains on investments	—	—	—	—	—	—	—	—	—	345,314
Net unrealized gains on investments	12,029	—	—	—	—	12,029	—	—	—	1,305,121
Interest in net assets of Foundation	—	—	—	—	—	—	—	—	—	—
Transfer (to) from affiliates	—	—	—	—	—	—	—	—	—	—
Net assets released from restrictions for operations	(12,029)	—	—	—	—	(12,029)	(4,436)	(254)	—	(605,165)
Net assets released from restrictions for purchases of property and equipment	—	—	—	—	—	—	—	—	—	(16,944,042)
Reclass to unrestricted	—	—	—	—	—	—	—	—	—	(74,532)
(Decrease) increase in net assets with donor restrictions	2,763	(2,675)	—	—	—	88	(4,436)	98,001	—	(8,741,877)
Increase (decrease) in net assets	1,658,827	1,297,588	(2,914,164)	(18,016)	(121,827)	(97,592)	1,435,162	2,392,827	—	83,412,504
Net assets (deficit), beginning of year	17,619,591	11,215,016	—	(483,327)	(1,640,996)	26,710,284	5,942,637	32,916,798	—	359,061,923
Net assets (deficit), end of year	$ 19,278,418	12,512,604	(2,914,164)	(501,343)	(1,762,823)	26,612,692	7,377,799	35,309,625	—	442,474,427

See accompanying independent auditors' report.

SHEPPARD AND ENOCH PRATT FOUNDATION, INC.
AND SUBSIDIARIES
Health Department Funding
For the Year Ended June 30, 2021

Schedule 4

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, 2021 was as follows:

	AACMHA	FCHD					HCHD		WCMHA
	Segue	Crisis Response Services	Crisis Response Services Supplemental Funding	Crisis Response Services Supplemental Funding	Respite Care Services	Specialized Services for Individuals Dually Diagnosed with Mental Illness and Developmental Disability	In-Home Intervention Services	Specialized Community Residential Placement	Healthy Transitions Initiative
Total Revenue	$ 178,512	$ 176,085	$ 40,000	$ 25,000	$ 96,192	$ 145,000	$ 62,000	$ 43,200	$ 128,092
Total Expenses	(178,512)	$ (176,085)	$ (40,000)	$ (25,000)	$ (96,192)	$ (209,353)	$ (74,219)	$ (54,377)	(128,092)
Change in Net Assets	-	-	-	-	-	(64,353)	(12,219)	(11,177)	-

See accompanying independent auditors' report.