SHEPPARD AND ENOCH PRATT FOUNDATION, INC.
AND SUBSIDIARIES

Consolidated Financial Statements and Supplementary Information

June 30, 2020 and 2019

(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, 2020 and 2019, 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, 2020 and 2019, and the results of their operations, changes in net assets and their cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in Note 1(t) to the consolidated financial statements, the Company and its subsidiaries adopted Financial Accounting Board Standards Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers* (Topic 606) during the year ended June 30, 2020. Our opinion is not modified with respect to this matter.

Other Matters

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary information in Schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with 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

October 28, 2020

SHEPPARD AND ENOCH PRATT FOUNDATION, INC.
AND SUBSIDIARIES

Consolidated Balance Sheets

June 30, 2020 and 2019

Assets		**2020**	**2019**
Current assets:			
Cash	$	54,943,272	36,333,171
Investments limited or restricted as to use		3,727,665	553,333
Accounts receivable, net		28,466,550	34,475,223
Prepaid expenses and other current assets		16,657,809	15,489,857
Total current assets		103,795,296	86,851,584
Investments limited or restricted as to use, less current portion		225,929,118	291,646,562
Notes receivable		1,482,340	1,614,104
Third-party payor settlements receivable		10,041,567	7,610,140
Property and equipment, net		299,294,081	253,085,496
Other assets		3,020,932	2,595,956
Total assets	$	643,563,334	643,403,842
Liabilities and Net Assets			
Current liabilities:			
Current maturities of long-term debt	$	5,887,157	5,760,441
Current portion of obligations under capital leases		753,500	683,527
Accounts payable		18,962,222	11,513,122
Accrued salaries, wages and employee benefits		23,910,513	24,973,393
Self-insurance liabilities		3,531,347	4,354,055
Other accrued expenses		6,074,275	5,097,791
Total current liabilities		59,119,014	52,382,329
Long-term liabilities:			
Long-term debt, less current portion		177,236,997	182,405,780
Obligations under capitalized leases, less current portion		3,859,828	4,613,328
Self-insurance liabilities		6,778,732	9,203,812
Accrued pension liabilities		33,657,108	29,492,211
Other long-term liabilities		3,849,732	3,284,952
Total liabilities		284,501,411	281,382,412
Net assets:			
Without donor restrictions		323,129,196	334,327,185
With donor restrictions		35,932,727	27,694,245
Total net assets		359,061,923	362,021,430
Total liabilities and net assets	$	643,563,334	643,403,842

See accompanying notes to consolidated financial statements.

SHEPPARD AND ENOCH PRATT FOUNDATION, INC.
AND SUBSIDIARIES

Consolidated Statements of Operations and Changes in Net Assets

Years ended June 30, 2020 and 2019

	2020	2019
Revenues, gains, and other support:		
Patient service revenue (net of allowances and discounts)	$ 146,350,461	153,262,072
Residential and educational service revenue (net of allowances)	162,699,081	170,335,523
Total net service revenue	309,049,542	323,597,595
Less provision for bad debts		1,479,238
Net service revenue less provision for bad debts	309,049,542	322,118,357
Net assets released from restrictions used for operations	458,299	743,358
Other revenue	64,737,396	59,316,164
Total revenues, gains, and other support	374,245,237	382,177,879
Expenses:		
Salaries and wages	223,979,170	226,647,417
Employee benefits	43,954,950	48,883,881
Expendable supplies	18,953,306	19,387,936
Purchased services	55,917,403	57,613,275
Interest	3,210,043	3,287,713
Repairs and minor alterations	10,840,194	10,824,681
Depreciation and amortization	20,450,548	19,992,147
Impairment of assets	3,531,583	106,137
Total expenses	380,837,197	386,743,187
Operating loss	(6,591,960)	(4,565,308)
Other income (expense):		
Investment income	1,885,258	2,164,619
Realized gain (loss) on investments, net	126,903	(763,811)
Change in unrealized (loss) gain on investments, net	(3,061,519)	3,100,139
Other	(471,072)	2,164,107
Total other (expense) income	(1,520,430)	6,665,054
(Deficiency) excess of revenues over expenses	(8,112,390)	2,099,746
Other changes in net assets:		
Net assets released from restrictions used for purchases of property and equipment	995,232	339,862
Pension liability adjustment	(4,269,717)	(10,379,663)
Capital grants	188,886	27,748
Decrease in net assets without donor restrictions	$ (11,197,989)	(7,912,307)

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, 2020 and 2019

		2020	2019
Net assets without donor restrictions:			
(Deficiency) excess of revenues over expenses	$	(8,112,390)	2,099,746
Other changes in net assets:			
Net assets released from restrictions used for purchases of property and equipment		995,232	339,862
Pension liability adjustment		(4,269,717)	(10,379,663)
Capital grants and other		188,886	27,748
Decrease in net assets without donor restrictions		(11,197,989)	(7,912,307)
Net assets with donor restrictions:			
Gifts and grants		9,760,656	1,154,373
Investment income		56,643	100,481
Net realized gain (loss) on investments		4,128	(25,634)
Net unrealized (loss) gain on investments		(179,414)	100,732
Net assets released from restrictions for operations		(458,299)	(743,358)
Net assets released from restrictions for purchases of property and equipment		(995,232)	(339,862)
Net assets with donor restrictions from acquisition		50,000	—
Increase in net assets with donor restrictions		8,238,482	246,732
Decrease in net assets		(2,959,507)	(7,665,575)
Net assets, beginning of year		362,021,430	369,687,005
Net assets, end of year	$	359,061,923	362,021,430

See accompanying notes to consolidated financial statements.

SHEPPARD AND ENOCH PRATT FOUNDATION, INC.
AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended June 30, 2020 and 2019

		2020	2019
Cash flows from operating activities:			
Decrease in net assets	$	(2,959,507)	(7,665,575)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:			
Depreciation and amortization		20,450,548	19,992,147
Pension liability adjustment		4,269,717	10,379,663
Provision for doubtful accounts		—	1,479,238
Gifts and grants, net		(9,302,357)	(411,015)
Net realized (gain) loss on investments		(131,031)	789,445
Net unrealized loss (gain) on investments		3,240,933	(3,200,871)
Restricted investment income on restricted net assets		(56,643)	(100,481)
Capital grant and loss on disposal of assets		3,342,697	78,389
Decrease (increase) in accounts receivable, net		6,008,673	(4,144,484)
(Increase) decrease in prepaid expenses and other assets		(1,493,839)	302,750
Increase in third-party payor settlements receivable		(2,431,427)	(887,635)
(Decrease) increase in accounts payable, accrued expenses and other		(814,770)	4,269,428
(Decrease) increase in self-insurance liabilities		(3,247,788)	1,668,559
Decrease in accrued pension liability		(104,820)	(3,134,018)
Net cash provided by operating activities		16,770,386	19,415,540
Cash flows from investing activities:			
Purchases of property and equipment		(61,592,218)	(40,832,614)
Increase in other assets and notes receivable		—	(275,429)
Proceeds from sale of property and equipment		72,074	7,962
Purchases of alternative investments		(23,737,069)	(3,643,782)
Sales of alternative investments		6,021,050	1,986,317
Decrease in investments limited or restricted as to use, net		77,793,873	7,493,580
Cash acquired from acquisitions		142,156	—
Net cash used in investing activities		(1,300,134)	(35,263,966)
Cash flows from financing activities:			
Payment of long-term debt principal		(5,079,866)	(5,125,337)
Payment on capital lease obligations		(683,527)	(561,029)
Payment of deferred financing costs		—	(44,376)
Capital grants and advances		188,886	27,748
Gifts and grants, net		8,714,356	344,824
Net cash provided by (used in) financing activities		3,139,849	(5,358,170)
Net increase (decrease) in cash and cash equivalents		18,610,101	(21,206,596)
Cash, beginning of year		36,333,171	57,539,767
Cash, end of year	$	54,943,272	36,333,171
Supplemental disclosure of noncash investing and financing activities:			
Noncash purchases of property and equipment	$	8,844,221	652,986

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 Physicians, P.A. (Physicians), Sheppard Pratt Investment, Inc. (Investment Company), Sheppard Pratt Properties, LLC (Properties), Sheppard Pratt Preferred Resources, Inc. (Resources), and the community services organizations (Community Services), collectively, comprised of Mosaic Community Services, Inc. (Mosaic), Way Station, Inc. (Way Station), and Family Services, Inc. (Family Services).

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 certain subsidiaries.

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.

Foundation and Frederick Memorial Hospital, Inc. each had 50% membership interest in Behavioral Health Partners of Frederick, Inc (BHP). On October 1, 2019, Foundation and Frederick Memorial Hospital, Inc. transferred all membership shares to Health System.

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

Resources is a for-profit company that was formed for the purpose of providing employee assistance program services to other entities. Resources was inactive as an operating entity for the years ended June 30, 2020 and 2019.

(b) Basis of Presentation

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

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

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

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

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

Unconditional promises to give cash and other assets to Foundation with donor-imposed restrictions are reported as increases in net assets at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date 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.

(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 the statement of cash flows.

(Continued)

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

(f) Pledges

Pledges, less an allowance for uncollectible amounts, are recorded as receivables in the year the pledge is made unless the pledge carries conditions that have not been met. Conditional pledges are recorded as contributions when the conditions of the pledge have been satisfied. Pledges receivable are recorded at net realizable value, which is calculated using a discount rate of 3% at June 30, 2020 and 2019.

(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.

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

The Company adopted Accounting Standards Codification (ASC) 606, Revenue Recognition, effective July 1, 2019 using the modified retrospective transition method. 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. Upon adoption, the majority of what was previously classified as provision for uncollectible accounts and presented as a reduction to net patient service revenue in the consolidated statements of operations is treated as a price concession that reduces the transaction price, which is reported as a reduction to net patient service revenue. Other than these changes in presentation, the impact of adopting ASC 606 was not material to consolidated operating revenues, excess of revenues over expenses or total net assets.

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.

(Continued)

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. Bad debt expense for the years ended June 30, 2020 and 2019 was 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.

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

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

(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. No significant impairment charges were recorded during the years ended June 30, 2020 and 2019.

(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.

Under terms of H.R. 1, effective January 1, 2018, non profit organizations, Health System and Community Services, were required to report qualified transportation fringe benefits under §274(a)(4) as unrelated business taxable income under IRC §512(a)(7). However, in December 2019, Congress retroactively repealed IRC §512(a)(7) on non-profit organizations, and these transportation benefits were no longer subject to unrelated business income tax.

(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. 2014-09, *Revenue from Contracts with Customers* (Topic 606), which establishes principles for reporting useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from the entity's contracts with customers. Particularly, that an entity recognizes 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. ASU 2014-09 was effective for fiscal year 2020 and was adopted on the modified retrospective basis. As a result of the adoption of Topic 606, what was previously classified as the provision for bad debts in the statement of operations and changes in net assets is now reflected as implicit price concessions (as defined in Topic 606) and therefore included as a reduction to net patient service revenue. For the year ended June 30, 2020, the Company recorded $3.0 million of implicit price concessions as a reduction of net patient service revenue that would have been recorded as bad debt expense prior to the adoption of Topic 606.

The FASB issued ASU No. 2018-08, *Not-for-Profit Entities* (Topic 958) *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which addresses practice issues by helping an entity evaluate whether it should account for a grant (or similar transaction) as a contribution or as an exchange transaction. In an exchange transaction, a resource provider receives '"commensurate value" in return for the resources transferred. The ASU clarifies how an entity determines whether a resource provider is receiving commensurate value. The ASU also clarifies and expands the criteria for determining whether a contribution is conditional. Some grants that are considered exchange transactions under current U.S. GAAP will be accounted for as conditional contributions under the ASU. The adoption of this ASU was effective for the year ended June 30, 2020 and was adopted on the modified prospective basis. The adoption of this ASU did not have a material impact on the consolidated balance sheet and results of operations.

The FASB issued ASU No. 2017-07, *Compensation – Retirement Benefits* (Topic 715)*: Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost.* The amendments in this ASU require that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost as defined in paragraphs 715-30-35-4 and 715-60-35-9 are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. The amendments also allow only the service cost component to be eligible for capitalization when applicable (for example, as a cost of internally manufactured inventory of a self-constructed asset). ASU No. 2017-07 was effective for fiscal year 2020. This ASU required retrospective application to all prior periods presented which resulted in an increase of $1.9 million to both employee benefits expense and other income in the consolidated statements of operations for the year ended June 30, 2019.

Effective July 1, 2019, the Company adopted ASU 2016-18, *Restricted Cash* (Topic 230), which requires that the statement of cash flows explain the change during the period in total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, the amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The adoption of ASU 2016-18 did not have a material impact on the Company's consolidated financial statements.

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 ASU 2016-02 is effective 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, which is expected to have a material impact 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.

(v) COVID-19

The CARES Act, which was enacted on March 27, 2020, authorizes $100 billion in funding to hospitals and other healthcare providers to be distributed through the Public Health and Social Services Emergency Fund (the "PHSSEF"). Payments from the PHSSEF are intended to compensate healthcare providers for lost revenues 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 certain terms and conditions, including limitations on balance billing and not using PHSSEF funds to reimburse expenses or losses that other sources are obligated to reimburse. The U.S. Department of Health and Human Services (the "HHS") initially distributed $30 billion of this funding based on each provider's share of total Medicare fee-for-service reimbursement in 2019, but announced that $50 billion in CARES Act funding (including the $30 billion already distributed) will be allocated proportional to providers' share of 2018 net patient revenue. HHS indicated that distributions of the remaining $50 billion were targeted primarily to hospitals in COVID-19 high impact areas, to rural providers, and to reimburse providers for COVID-19-related treatment of uninsured patients. The Company received approximately $6.3 million in payments from the initial PHSSEF payments of which all was recognized as other revenue for the year ended June 30, 2020.

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. Inpatient acute care hospitals may request accelerated payments of up to 100% of the Medicare payment amount for a six-month period (not including Medicare Advantage payments), although CMS is now reevaluating pending and new applications in light of direct payments made available through PHSSEF. CMS based payment amounts for inpatient acute care hospitals on the provider's Medicare fee-for-service reimbursements in the last six months of 2019. Such accelerated payments are interest free for healthcare providers up to 29 months. The program currently requires CMS to recoup the payments beginning one year from receipt by the provider, by withholding 25 percent of future Medicare fee-for-service payments for 11 months and then 50% future Medicare fee-for-service payments for the next 6 months. The payments are made for services a healthcare entity has provided or will provide to its Medicare patients who are the healthcare entity's customers. Therefore, they are accounted for under Topic 606 as revenue. In September 2020, the Company received approximately $3.8 million of accelerated payments. This liability will be reduced over time as revenue is recognized for claims submitted for services provided.

Lastly, the CARES Act provides 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, 2020, the Company deferred approximately $3 million in social security taxes.

Due to the recent enactment of the CARES Act and the PPPHCE Act, there is still a high degree of uncertainty surrounding their implementation, and the public health emergency continues to evolve. We continue to assess the potential impact of the CARES Act, the PPPHCE Act, the potential impact of future stimulus measures, if any, and the impact of other laws, regulations, and guidance related to COVID-19 on our business, results of operations, financial condition and cash flows.

(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, 2020 and 2019 was $3,838,921 and $4,683,471, 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:

		2020	2019
Board designated, without restrictions:			
Portion of pooled investments	$	157,016,203	158,605,919
Other investments		13,383,940	15,763,529
Held by trustees:			
Construction funds		30,496,613	91,663,555
Under self-insurance trusts		5,497,970	5,683,977
Security deposit and collateral		—	5,598,828
With donor restrictions:			
Portion of pooled investments		5,522,556	6,365,179
Restricted investments		17,739,501	8,518,908
Total investments limited or restricted as to use		229,656,783	292,199,895
Current portion		3,727,665	553,333
Investments limited or restricted as to use, less current portion	$	225,929,118	291,646,562

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:

		2020	2019
Board designated, without restrictions	$	157,016,203	158,605,919
With donor restrictions		5,522,556	6,365,179
Total	$	162,538,759	164,971,098

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

		2020	2019
Cash and cash equivalents	$	355,233	6,937,547
Corporate bonds		13,546,407	12,981,111
Mutual and common trust funds		67,490,493	85,992,334
Other (primarily alternative investments under equity method)		81,146,626	59,060,106
Total	$	162,538,759	164,971,098

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

		2020	2019
Cash and cash equivalents	$	6,517,260	8,722,999
Mutual funds		3,576,397	3,634,792
Real estate held for future development, at cost		3,022,786	3,080,215
Other		267,497	325,523
	$	13,383,940	15,763,529

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

		2020	2019
Equity Investments	$	299,032	523,409
Fixed income investments		5,198,938	5,160,568
	$	5,497,970	5,683,977

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:

		2020	2019
Investment income, net:			
Without donor restrictions	$	1,885,258	2,164,619
With donor restrictions		56,643	100,481
		1,941,901	2,265,100
Net realized gains (losses) on sales of investments:			
Without donor restrictions		126,903	(763,811)
With donor restrictions		4,128	(25,634)
		131,031	(789,445)
Net unrealized gains on investments:			
Without donor restrictions		(3,061,519)	3,100,139
With donor restrictions		(179,414)	100,732
Total unrealized gains		(3,240,933)	3,200,871
Total investment gain income		(1,168,001)	4,676,526
Investment income on other unrestricted investments and cash and cash equivalents		602,881	994,173
Investment income on self-insurance trust assets		11,055	11,576
Total investment income	$	(554,065)	5,682,275

(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, 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:				
Collateralized 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

The table below presents Foundation's investable assets and liabilities as of June 30, 2019, aggregated by the three-level valuation hierarchy:

	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents	$ 112,327,846	—	—	112,327,846
Equities:				
Common stocks	11,143,866	—	—	11,143,866
Mutual funds	72,244,285	117,162	—	72,361,447
Other	2,226,402	4,572,667	—	6,799,069
Fixed income:				
Collateralized mortgage obligations	—	422,314	—	422,314
Corporate bonds	—	9,874,490	—	9,874,490
Government issued bonds	—	7,844,875	—	7,844,875
Other financial instruments	—	6,977	—	6,977
Total assets	$ 197,942,399	22,838,485	—	220,780,884
Liabilities:				
Interest rate swap	$ —	24,861	—	24,861

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, 2020 and June 30, 2019 was approximately $169,261,000 and $173,365,000, 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.

(5) Donor Restricted Assets

Donor restricted assets consist of the following at June 30:

		2020	2019
Pledges receivable, net of unamortized discount of $127,000 at June 30, 2020 and $186,000 at June 30, 2019	$	3,286,821	3,057,063
Less allowance for uncollectible pledges		102,000	97,000
Net pledges receivable		3,184,821	2,960,063
Other investments (primarily property)		12,670,670	12,810,158
Portion of pooled investments (note 3)		5,522,556	6,365,179
Restricted cash and investments		14,554,680	5,558,845
	$	35,932,727	27,694,245

The net realizable value of the unconditional pledges receivable at June 30, 2020 was calculated using an average discount rate of 3%. The net present value of pledges receivable and the expected collection period at June 30, 2020 are as follows:

2021	$	2,922,734
2022		95,609
2023		92,499
2024		89,464
2025		86,515
	$	3,286,821

(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 in equal quarterly installments between the initial repayment date (January 2004) and June 30, 2031. MEDCO repaid approximately $132,000 during each of the years ended June 30, 2020 and 2019, which resulted in an outstanding balance of $1,482,340 and $1,614,104 June 30, 2020 and 2019, respectively. The loan bears interest at the rate of 12% per annum. Foundation has included approximately $187,000 and $202,000 of interest income from the loan in investment income during the fiscal years ended June 30, 2020 and 2019, respectively.

(7) Property and Equipment

Property and equipment at June 30 are summarized as follows:

	2020	2019
Land	$ 25,178,190	25,020,490
Land improvements	20,340,549	19,222,543
Buildings and building improvements	344,970,546	341,640,528
Furniture and equipment	76,553,231	73,797,595
Vehicles	9,400,119	8,926,474
Construction in progress	101,595,829	45,669,307
	578,038,464	514,276,937
Less accumulated depreciation	278,744,383	261,191,441
	$ 299,294,081	253,085,496

Assets under capital lease at June 30, 2020 and 2019 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 $7,103,335 and $6,266,052 at June 30, 2020 and 2019, respectively.

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

Depreciation expense for the years ended June 30, 2020 and 2019 was $20,450,548 and $19,992,147, 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. Based on current cash flow projections, it is anticipated that the full amount of rent accruing will not be paid. Foundation has recorded an allowance for a portion of the unpaid accrued rent, and the related interest on the unpaid rents for fiscal years 2015 through 2020. Partial ground rent payments of approximately $0 and $2,095,000 were accrued as a receivable at June 30, 2020 and 2019. As of June 30, 2020 and 2019, Foundation has recorded total ground rent receivable in the accompanying consolidated balance sheets of $9,069,674 and $8,273,638, respectively, with a related reserve of $8,162,707 and $6,178,778, respectively.

On September 20, 2016, the State Health Planning and Development Agency approved Foundation's application to build a new hospital in Elkridge, Maryland. The new hospital will replace Sheppard Pratt at Ellicott City, which is currently housed in a leased facility in Ellicott City, Maryland. The project is expected to span multiple years with a cumulative investment of approximately $96,530,000.

(Continued)

Construction in progress includes the project to build the replacement facility in Howard County. In connection with this project, the Foundation has total unspent commitments of approximately $43,000,000 and $71,000,000 as of June 30, 2020 and 2019, respectively. Interest expense, net of investment earnings, capitalized for this project totaled $1,213,462 and $649,756 for the years ended June 30, 2020 and 2019, respectively.

(8) Other Assets

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

		2020	2019
Workers' compensation excess insurance receivable	$	232,181	233,218
Intangible assets		1,307,000	1,307,000
Cash surrender value of life insurance and other		2,087,276	1,628,588
		3,626,457	3,168,806
Less accumulated amortization		(605,525)	(572,850)
	$	3,020,932	2,595,956

(9) Long-Term Debt and Note Payable

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

		2020	2019
Maryland Health and Higher Educational Facilities Authority (MHHEFA) Revenue Bonds, Series 2017	$	169,261,000	173,365,000
MHHEFA Revenue Bond – 2013		4,165,861	4,627,130
MHHEFA Revenue Bond – 2014		3,406,748	3,542,708
MHHEFA Revenue Bond – 2016		2,672,000	3,062,000
Bank notes		2,029,225	2,090,419
Mortgages on real estate		2,336,343	2,442,617
Other debt		216,282	95,642
		184,087,459	189,225,516
Less deferred financing costs		(963,305)	(1,059,295)
Less current portion		(5,887,157)	(5,760,441)
	$	177,236,997	182,405,780

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, 2020 and 2019. The initial term of the credit facility provided by the direct placement loan arrangement is 15 years, and the final scheduled maturity of the bonds is June 1, 2048. The Series 2017 bonds are secured by a trust indenture and Obligated Group has granted the bank and MHHEFA a security interest in its revenues. The Series 2017 Bonds require Obligated Group to satisfy certain measures of financial performance as long as the bonds are outstanding.

On May 2, 2013, MHHEFA issued a $7,200,000 bank-qualified tax-exempt revenue bond (MHHEFA Revenue Bond - 2013) for the purpose of reimbursing Way Station for certain capital expenditures associated with the acquisition and development of two properties in Frederick, Maryland, a property in Hagerstown, Maryland, and a property in Columbia, Maryland. The bond was purchased by Capital One Bank, and Way Station was scheduled 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 $4,165,861 and $4,627,130 as of June 30, 2020 and 2019, 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 1.6% and 3.4% as of June 30, 2020, and 2019, 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 $69,607 as of June 30, 2020 and as a liability of $24,861 as of June 30, 2019.

Community Services have mortgages on multiple properties with a total outstanding balance of $2,336,343 as of June 30, 2020 and $2,442,617 as of June 30, 2019. The interest rates and years of maturity range from 0% to 7.45%, and 2020 to 2038, respectively.

Community Services have other nonmortgage debt, consisting primarily of auto loans, with a total outstanding balance of $42,952 as of June 30, 2020 and $95,642 as of June 30, 2019. The interest rates range from 0% to 5.9%.

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, 2020, there were no outstanding balances on the lines of credit. 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, 2020 and 2019, there were no outstanding balances on the lines of credit.

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

2021	$	5,887,157
2022		5,584,784
2023		5,735,974
2024		5,856,107
2025		6,488,035
2026 and thereafter		154,535,402
	$	184,087,459

Interest payments were $5,721,662 and $5,907,137 in 2020 and 2019, 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, 2020 and 2019, the net present value of the estimated remaining payments of approximately $267,497 and $325,522, 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.

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 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.

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, 2020 and 2019. 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, 2020	Amounts recognized in net assets •without donor restrictions at June 30, 2019
Net actuarial loss	$ 4,810,610	56,591,458	52,321,741

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 $23,612 and $116,983 in 2020 and 2019, 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 $92,044 and $4,234,969 in 2020 and 2019, 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. This caused a curtailment of $11.4 million for the year ended June 30, 2020. Foundation may provide a discretionary contribution to the employees' thrift plan. There were no discretionary contributions to the thrift plan in 2020 and 2019.

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:

		2020	2019
Accumulated benefit obligation at the end of the year	$	254,290,050	227,029,642
Changes in benefit obligations:			
Projected benefit obligation at the beginning of the year	$	240,953,427	220,432,718
Service cost		3,808,056	3,799,732
Interest cost		7,734,729	8,661,017
Actuarial loss		25,502,967	17,717,310
Benefits paid		(10,531,693)	(9,657,350)
Curtailment		(11,356,178)	—
Projected benefit obligation at the end of the year		256,111,308	240,953,427
Changes in plan assets:			
Fair value of plan assets at beginning of the year		211,461,216	198,186,152
Actual return on plan assets		19,224,677	17,932,414
Contributions to the plan		2,300,000	5,000,000
Benefits paid		(10,531,693)	(9,657,350)
Fair value of plan assets at end of the year		222,454,200	211,461,216
Funded status	$	(33,657,108)	(29,492,211)

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

		2020	2019
Service cost	$	3,808,056	3,799,732
Interest cost		7,734,729	8,661,017
Expected return on plan assets		(14,089,447)	(13,301,175)
Amortization of prior service cost		—	3,992
Amortization of net loss		4,741,843	2,702,416
Net pension expense	$	2,195,181	1,865,982

As described in Note 1(t) the Company adopted ASU No. 2017-07. As a result of the adoption of this ASU, the components of net benefit costs other than the service cost of $1.6 million were recorded in other income in the consolidated statements of operations for the year ended June 30, 2020. Service costs is recorded as employee benefits in the accompanying consolidated statements of operations. This resulted in an increase to both operating expenses and other income of $1.6 million in the consolidated statements of operations for the year ended June 30, 2019.

During the year ended June 30, 2020, Foundation previously adopted the new Pri-2012 Mortality Table with generational improvements using projection scale MP 2019. During the year ended June 30, 2019, Foundation utilized the RP-2014 Mortality Table with generational improvements using projection scale MP-2014.

The following table presents the weighted average assumptions used to determine benefit obligations and net periodic benefit expense for the Plan:

	2020	2019
PBO Discount Rate (EOY)	3.69 %	3.69 %
Service Cost Discount Rate (BOY)	3.90	4.45
Interest Cost Discount Rate (BOY)	3.59	4.06
Rate of compensation increase	3.50	4.00
Expected long-term return on plan assets	6.80	6.80

(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, 2020 and 2019.

(c) Plan Assets

Foundation's pension plan weighted average asset allocations at the measurement dates of June 30, 2020 and 2019 by asset category are as follows:

	Target allocation	2020	2019
Equity securities	46 %	44 %	44 %
Debt securities	54	54	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, 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

The table below presents Foundation's pension plan investable assets as of June 30, 2019 aggregated by the three level valuation hierarchy:

	Level 1	Level 2	Level 3	Total	Reported at NAV[1]
Assets:					
Cash and cash equivalents	$ 3,721,801	—	—	3,721,801	—
Collective trusts – equity	—	93,690,160	—	93,690,160	—
Collective trusts – fixed income	—	113,236,213	—	113,236,213	—
Private equity and real estate funds	—	—	—	—	813,042
Total assets	$ 3,721,801	206,926,373	—	210,648,174	813,042

[1] Investments reported at NAV as the practical expedient

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, 2020 and 2019. 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, 2020, 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

The Foundation expects to contribute $2.3 million to its pension plan during the year ending June 30, 2021.

(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:

2021	$ 11,763,000
2022	11,984,000
2023	12,452,000
2024	12,772,000
2025	13,045,000
2026 – 2030	67,332,000

The expected benefits to be paid are based on the same assumptions used to measure Foundation's benefit obligation at June 30, 2020.

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 $15,385,146 in 2020 and $15,516,812 in 2019.

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, 2020 and 2019, these subsidiaries contributed $385,049 and $614,221, 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, 2020 that have initial or remaining lease terms in excess of one year for each of the years ending June 30:

2021	$	3,976,962
2022		2,498,941
2023		2,206,981
2024		2,130,542
2025		1,934,624
Thereafter		5,888,411
Total minimum lease payments	$	18,636,461

Rent expense was approximately $7,197,278 and $7,017,661 in 2020 and 2019, 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, 2020:

2021	$	972,661
2022		1,008,056
2023		1,044,762
2024		731,137
2025		395,166
Thereafter		1,258,060
Total minimum lease payments		5,409,842
Less amount representing interest		796,514
Present value of net minimum lease payments		4,613,328
Less obligations under capital leases, current portion		753,500
Obligations under capital leases, less current portion	$	3,859,828

(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 $299,032 and $523,000 at June 30, 2020 and 2019, respectively. The related claims liabilities of approximately $2,641,000 and $5,622,000 as of June 30, 2020 and 2019, respectively, are recorded 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, 2020 and 2019; 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 in 2020 and $1,427,000 in 2019 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 2020 and 2019. Investments of approximately $5,200,000 and $5,200,000 at June 30, 2020 and 2019, 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 $5,745,000 and $6,062,000 as of June 30, 2020 and 2019, respectively, are recorded 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 $1,920,000 and $1,870,000, respectively, as of June 30, 2020 and 2019.

While management believes that the provision for self-insurance claims is adequate, at June 30, 2020 and 2019, 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).

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

	2020	2019
Hospital and physician services	$ 146,250,461	151,782,834
Adolescent residential treatment centers	31,557,331	38,360,013
Special education	53,020,364	56,158,136
Community services	78,221,386	75,817,374
Total revenue from contracts with customers	309,049,542	322,118,357
Other nonpatient care	65,195,695	60,059,522
Total operating revenue	$ 374,245,237	382,177,879

The mix of receivables and total net service revenue from patients and third parties as of June 30, 2020 and 2019 was as follows:

	Accounts receivable		Revenue	
	2020	2019	2020	2019
Medicare	5 %	5 %	7 %	8 %
Medicaid	27	37	48	46
Commercial insurers and HMO's	16	16	12	12
Local Government	34	26	17	16
Blue Cross/Blue Shield	6	7	9	10
Self-pay and other	12	9	7	8
Total	100 %	100 %	100 %	100 %

On January 1, 2020, the Medicaid administrative services organization for Maryland changed to Optum. Since this change, the Company has experienced delays in processing their Medicaid claims; however, the Company is continuing to work with Optum to resolve the delays.

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 is as follows for the years ended June 30:

	2020	2019
Medicare	$ 9,386,350	9,447,252
Medicaid	8,718,215	8,931,171
Other third-party payors	6,479,790	6,506,333
	$ 24,584,355	24,884,756

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, 2017 and on Medicaid cost reports for all programs through June 30, 2016. As of June 30, 2020 and 2019, the Company has recorded third-party payor settlements receivable of $10,041,567 and $7,610,140 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.

During 2020 and 2019, 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 $342,292 and $400,978 during the years ended June 30, 2020 and 2019, 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, 2020 and 2019:

	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 minor alterations	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

	2019									
	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	$ 77,806,157	17,005,718	33,201,877	32,942,286	11,387,014	10,357,620	8,981,518	191,682,190	34,965,227	226,647,417
Employee benefits	16,339,938	3,673,572	8,283,956	6,074,399	1,890,749	1,889,699	2,178,687	40,331,000	8,552,881	48,883,881
Expendable supplies	8,969,128	1,909,454	2,196,730	2,674,161	221,900	1,400,136	716,774	18,088,283	1,299,653	19,387,936
Purchased services	16,173,495	1,767,241	4,303,649	10,452,260	1,507,392	3,106,568	2,364,674	39,675,279	17,937,996	57,613,275
Interest	1,066,269	201,468	569,601	174,700	2,154	19,527	21,141	2,054,860	1,232,853	3,287,713
Repairs and minor alterations	4,058,613	873,772	761,530	1,748,554	222,325	170,472	146,251	7,981,517	2,843,164	10,824,681
Depreciation and amortization	7,137,003	1,573,911	2,848,851	2,395,613	402,824	150,056	173,927	14,682,185	5,416,099	20,098,284
	$ 131,550,603	27,005,136	52,166,194	56,461,973	15,634,358	17,094,078	14,582,972	314,495,314	72,247,873	386,743,187

(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, 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

(c) Net Asset Classification by Type of Endowment as of June 30, 2019

	Without donor restrictions	With donor restrictions	Total
Donor-restricted endowment funds	$ —	3,968,378	3,968,378
Board-designated endowment funds	132,600,296	—	132,600,296
	$ 132,600,296	3,968,378	136,568,674

Changes in endowment net assets for the year ended June 30, 2019:

	Without donor restrictions	With donor restrictions	Total
Endowment net assets, beginning of year	$ 134,319,442	3,935,059	138,254,501
Investment return:			
Investment income	1,661,448	—	1,661,448
Net appreciation (realized and unrealized gains and losses)	1,176,370	15,444	1,191,814
Total investment return	2,837,818	15,444	2,853,262
Contributions	—	17,875	17,875
Appropriation of endowment assets for expenditure	(4,556,964)	—	(4,556,964)
	$ 132,600,296	3,968,378	136,568,674

(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, 2020 and 2019, 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 $5,600,000 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 $163,500,000, could be available to fund operations if needed. However, certain alternative investments included in that amount are not liquid and have redemption limitations. Foundation has an endowment spending rate policy of 4%. Approximately $4,800,000 of appropriations from this endowment will be available within the next 12 months to support liquidity.

The following is a reconciliation of current financial assets as of June 30, 2020 to financial assets available to fund general expenditures for the following fiscal year. General expenditures include all programmatic and supporting operating expenses.

		2020	2019
Financial assets at year end:			
Current assets:			
Cash	$	54,943,272	36,333,171
Investments limited or restricted as to use		3,727,665	553,333
Accounts receivable, net		28,466,550	34,475,223
Prepaid expenses and other current assets		16,657,809	15,489,957
Total current assets		103,795,296	86,851,684
Other:			
Investments		4,031,703	3,807,205
Borrowings available under lines of credit		29,400,000	5,000,000
Subtotal		137,226,999	95,658,889
Less assets unavailable for general expenditures within one year:			
Investments limited or restricted as to use		(3,704,926)	(544,208)
Prepaid expenses		(6,421,658)	(5,651,009)
Financial assets available to meet cash needs for general expenditures within one year	$	127,100,415	89,463,672

(Continued)

(19) Subsequent Events

Foundation has evaluated all events and transactions from the balance sheet date through October 28, 2020, the date at which the consolidated financial statements were issued.

On September 30, 2020, Sheppard Pratt Properties, LLC borrowed $2,000,000 in a fixed rate 15 year commercial mortgage to purchase a property to provide residential services at a rate of 3.5%.

On September 19, 2020, HHS released post payment notice of reporting requirements as it relates to general and targeted distributions received through the PHSSEF. These reporting requirements were determined to be a Type II subsequent event and will be evaluated by management in subsequent periods.

SUPPLEMENTARY INFORMATION

SHEPPARD AND ENOCH PRATT FOUNDATION, INC.
AND SUBSIDIARIES

Consolidating Balance Sheet Information

June 30, 2020

	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	$ 33,280,341	1,790,968	—	192,157	—	35,263,466	513,708	—	35,777,174
Investments limited or restricted as to use	—	—	—	3,010,313	—	3,010,313	—	—	3,010,313
Accounts receivable, net	19,789,234	2,569,064	—	—	—	22,358,298	—	—	22,358,298
Due from affiliates	1,444,072	20,301	2,229,469	831,691	(4,299,050)	226,483	—	—	226,483
Prepaid expenses and other current assets	9,294,946	1,717,950	—	—	(1,681,179)	9,331,717	—	—	9,331,717
Total current assets	63,808,593	6,098,283	2,229,469	4,034,161	(5,980,229)	70,190,277	513,708	—	70,703,985
Investments limited or restricted as to use, less current portion	80,877,938	—	131,300,663	22,049,943	—	234,228,544	—	(12,637,742)	221,590,802
Interest in net assets of Foundation	22,556,431	—	—	—	(22,556,431)	—	—	—	—
Notes receivable	—	—	1,482,340	—	—	1,482,340	—	—	1,482,340
Third-party payor settlements receivable	10,041,567	—	—	—	—	10,041,567	—	—	10,041,567
Property and equipment, net	234,760,708	—	—	—	—	234,760,708	12,066,749	—	246,827,457
Other assets	2,958,202	—	—	—	—	2,958,202	—	(1,349,760)	1,608,442
Total assets	$ 415,003,439	6,098,283	135,012,472	26,084,104	(28,536,660)	553,661,638	12,580,457	(13,987,502)	552,254,593
Liabilities and Net Assets									
Current liabilities:									
Current maturities of long-term debt	$ 4,221,000	—	—	—	—	4,221,000	—	—	4,221,000
Current portion of obligations under capital leases	753,500	—	—	—	—	753,500	—	—	753,500
Accounts payable	16,865,398	88,439	—	—	—	16,953,837	—	—	16,953,837
Accrued salaries, wages and employee benefits	13,127,257	1,972,414	—	—	—	15,099,671	—	—	15,099,671
Due to affiliates	2,237,026	311,788	7,047,183	954,183	(4,299,050)	6,251,130	—	—	6,251,130
Self-insurance liabilities	3,094,151	225,602	—	—	—	3,319,753	—	—	3,319,753
Other accrued expenses	2,655,678	50,365	2,244,011	—	(1,028,084)	3,921,970	64,895	—	3,986,865
Total current liabilities	42,954,010	2,648,608	9,291,194	954,183	(5,327,134)	50,520,861	64,895	—	50,585,756
Long-term liabilities:									
Long-term debt, less current portion	164,569,308	—	—	—	—	164,569,308	—	—	164,569,308
Obligations under capitalized leases, less current portion	3,859,828	—	—	—	—	3,859,828	—	—	3,859,828
Self-insurance liabilities	5,822,892	—	—	—	—	5,822,892	—	—	5,822,892
Accrued pension liabilities	24,750,033	8,907,075	—	—	—	33,657,108	—	—	33,657,108
Other long-term liabilities	—	—	—	267,497	—	267,497	1,349,760	(1,349,760)	267,497
Total liabilities	241,956,071	11,555,683	9,291,194	1,221,680	(5,327,134)	258,697,494	1,414,655	(1,349,760)	258,762,389
Net assets (deficit):									
Without donor restrictions	150,490,937	(5,457,400)	125,721,278	1,972,533	(653,095)	272,074,253	11,165,802	(12,637,742)	270,602,313
With donor restrictions	22,556,431	—	—	22,889,891	(22,556,431)	22,889,891	—	—	22,889,891
Total net assets (deficit)	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
Total liabilities and net assets	$ 415,003,439	6,098,283	135,012,472	26,084,104	(28,536,660)	553,661,638	12,580,457	(13,987,502)	552,254,593

(Continued)

Schedule 1

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

Consolidating Balance Sheet Information

June 30, 2020

	Mosaic Community Services, Inc.									
Assets	**Mosaic Community Services, Inc.**	**Alliance**	**DuCHoDo**	**ReCHoDo**	**Eliminations**	**Total Mosaic Community Services, Inc.**	**Family Services Inc.**	**Way Station, Inc.**	**Consolidating eliminations**	**Consolidated totals**
Current assets:										
Cash	$ 3,798,487	2,683,302	86,393	70,382	—	6,638,564	2,449,278	10,078,256	—	54,943,272
Investments limited or restricted as to use	18,368	4,371	—	—	—	22,739	114,411	580,202	—	3,727,665
Accounts receivable, net	1,546,256	8,592	—	—	—	1,554,848	2,269,583	2,283,821	—	28,466,550
Due from affiliates	24,201	—	—	—	—	24,201	1,340	17,056	(269,080)	—
Prepaid expenses and other current assets	4,818,398	8,305,514	1,198	7,451	(7,950,918)	5,181,643	395,791	2,762,620	(1,013,962)	16,657,809
Total current assets	10,205,710	11,001,779	87,591	77,833	(7,950,918)	13,421,995	5,230,403	15,721,955	(1,283,042)	103,795,296
Investments limited or restricted as to use, less current portion	4,282,316	—	—	—	—	4,282,316	—	6,265,345	(6,209,345)	225,929,118
Interest in net assets of Foundation	—	—	—	—	—	—	—	—	—	—
Notes receivable	—	—	—	—	—	—	—	—	—	1,482,340
Third-party payor settlements receivable	—	—	—	—	—	—	—	—	—	10,041,567
Property and equipment, net	17,080,401	3,048,879	310,985	1,092,948	—	21,533,213	8,821,952	22,111,459	—	299,294,081
Other assets	656,258	203,597	—	120,655	—	980,510	104,257	327,723	—	3,020,932
Total assets	$ 32,224,685	14,254,255	398,576	1,291,436	(7,950,918)	40,218,034	14,156,612	44,426,482	(7,492,387)	643,563,334
Liabilities and Net Assets										
Current liabilities:										
Current maturities of long-term debt	$ 454,265	66,583	—	439,861	—	960,709	225,126	480,322	—	5,887,157
Current portion of obligations under capital leases	—	—	—	—	—	—	—	—	—	753,500
Accounts payable	884,239	479,595	3,497	9,971	—	1,377,302	364,183	293,603	(26,703)	18,962,222
Accrued salaries, wages and employee benefits	3,792,795	810,429	—	—	—	4,603,224	1,719,700	2,487,918	—	23,910,513
Due to affiliates	5,373,636	—	478,406	2,239,183	(7,950,918)	140,307	16,490	67,115	(6,475,042)	—
Self-insurance liabilities	56,272	—	—	—	—	56,272	—	155,322	—	3,531,347
Other accrued expenses	704,029	169,468	—	—	—	873,497	505,000	1,699,555	(990,642)	6,074,275
Total current liabilities	11,265,236	1,526,075	481,903	2,689,015	(7,950,918)	8,011,311	2,830,499	5,183,835	(7,492,387)	59,119,014
Long-term liabilities:										
Long-term debt, less current portion	2,477,711	747,767	400,000	216,758	—	3,842,236	5,256,821	3,568,632	—	177,236,997
Obligations under capitalized leases, less current portion	—	—	—	—	—	—	—	—	—	3,859,828
Self-insurance liabilities	379,237	—	—	—	—	379,237	—	576,603	—	6,778,732
Accrued pension liabilities	—	—	—	—	—	—	—	—	—	33,657,108
Other long-term liabilities	482,910	765,397	—	26,659	—	1,274,966	126,655	2,180,614	—	3,849,732
Total liabilities	14,605,094	3,039,239	881,903	2,932,432	(7,950,918)	13,507,750	8,213,975	11,509,684	(7,492,387)	284,501,411
Net assets:										
Without donor restrictions	17,350,610	7,199,964	(483,327)	(1,640,996)	—	22,426,251	4,419,132	25,681,500	—	323,129,196
With donor restrictions	268,981	4,015,052	—	—	—	4,284,033	1,523,505	7,235,298	—	35,932,727
Total net assets (deficit)	17,619,591	11,215,016	(483,327)	(1,640,996)	—	26,710,284	5,942,637	32,916,798	—	359,061,923
Total liabilities and net assets	$ 32,224,685	14,254,255	398,576	1,291,436	(7,950,918)	40,218,034	14,156,612	44,426,482	(7,492,387)	643,563,334

See accompanying independent auditors' report.

Schedule 2

SHEPPARD AND ENOCH PRATT FOUNDATION, INC.
AND SUBSIDIARIES

Consolidating Statement of Operations Information

Year ended June 30, 2020

	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)	$ 133,348,305	13,002,156	—	—	—	146,350,461	—	—	146,350,461
Residential and educational service revenue (net of allowances)	84,467,714	9,980	—	—	—	84,477,694	—	—	84,477,694
Total net service revenue	217,816,019	13,012,136	—	—	—	230,828,155	—	—	230,828,155
Net assets released from restrictions used for operations	369,965	—	—	—	—	369,965	—	—	369,965
Other revenue	15,357,447	15,362,551	—	55,912	(13,063,525)	17,712,385	445,942	—	18,158,327
Total revenues, gains, and other support	233,543,431	28,374,687	—	55,912	(13,063,525)	248,910,505	445,942	—	249,356,447
Expenses:									
Salaries and wages	122,939,811	27,176,944	—	—	—	150,116,755	—	—	150,116,755
Employee benefits	25,857,231	3,668,338	—	—	—	29,525,569	—	—	29,525,569
Expendable supplies	11,846,783	—	—	—	—	11,846,783	74,779	—	11,921,562
Purchased services	42,735,288	6,911,166	—	3,465	(13,202,542)	36,447,377	95,467	—	36,542,844
Interest	2,653,231	—	—	—	—	2,653,231	—	—	2,653,231
Repairs and minor alterations	7,761,113	—	—	—	—	7,761,113	58,298	—	7,819,411
Depreciation and amortization	15,479,505	—	—	—	—	15,479,505	526,164	—	16,005,669
Impairment of assets	3,551,466	—	—	—	—	3,551,466	—	—	3,551,466
Total expenses	232,824,428	37,756,448	—	3,465	(13,202,542)	257,381,799	754,708	—	258,136,507
Operating income (loss)	719,003	(9,381,761)	—	52,447	139,017	(8,471,294)	(308,766)	—	(8,780,060)
Other income (expense):									
Investment income	323,432	—	1,429,537	—	(139,017)	1,613,952	—	—	1,613,952
Realized gain on investments, net	25,093	—	97,152	—	—	122,245	—	—	122,245
Change in unrealized loss on investments, net	(1,136,982)	—	(1,842,976)	—	—	(2,979,958)	—	—	(2,979,958)
Other	1,380,132	322,574	(1,467,708)	—	(653,095)	(418,097)	—	—	(418,097)
Total other income (expense)	591,675	322,574	(1,783,995)	—	(792,112)	(1,661,858)	—	—	(1,661,858)
Excess (deficiency) of revenues over expenses	1,310,678	(9,059,187)	(1,783,995)	52,447	(653,095)	(10,133,152)	(308,766)	—	(10,441,918)
Other changes in net assets:									
Net assets released from restrictions used for purchases of property and equipment	831,683	—	—	—	—	831,683	—	—	831,683
Transfer (to) from affiliates	(7,492,570)	12,587,592	(5,095,022)	—	—	—	—	—	—
Pension liability adjustment	(4,269,717)	—	—	—	—	(4,269,717)	—	—	(4,269,717)
Capital grants	81,261	—	—	—	—	81,261	—	—	81,261
Increase (decrease) in net assets without donor restrictions	$ (9,538,665)	3,528,405	(6,879,017)	52,447	(653,095)	(13,489,925)	(308,766)	—	(13,798,691)

(Continued)

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

Consolidating Statement of Operations Information

Year ended June 30, 2020

	Mosaic Community Services, Inc.									
	Mosaic Community Services, Inc.	**Alliance**	**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)	$ —	—	—	—	—	—	—	—	—	146,350,461
Residential and educational service revenue (net of allowances)	36,277,108	—	—	—	—	36,277,108	12,548,536	29,395,743	—	162,699,081
Total net service revenue	36,277,108	—	—	—	—	36,277,108	12,548,536	29,395,743	—	309,049,542
Net assets released from restrictions used for operations	11,602	—	—	—	—	11,602	73,437	3,295	—	458,299
Other revenue	9,978,907	20,363,564	116,101	307,862	(1,938,885)	28,827,549	13,139,045	6,943,993	(2,331,518)	64,737,396
Total revenues, gains, and other support	46,267,617	20,363,564	116,101	307,862	(1,938,885)	65,116,259	25,761,018	36,343,031	(2,331,518)	374,245,237
Expenses:										
Salaries and wages	24,708,954	12,424,700	56,354	145,334	(1,702,221)	35,633,121	14,748,294	23,481,000	—	223,979,170
Employee benefits	4,432,630	2,512,061	—	—	—	6,944,691	2,797,408	4,687,282	—	43,954,950
Expendable supplies	2,704,762	809,044	130	7,616	—	3,521,552	1,590,037	1,920,155	—	18,953,306
Purchased services	10,102,345	3,294,164	26,462	67,364	—	13,490,335	4,746,647	3,468,660	(2,331,083)	55,917,403
Interest	192,181	78	—	18,508	—	210,767	204,354	142,126	(435)	3,210,043
Repairs and minor alterations	1,651,688	145,891	23,223	69,586	(236,664)	1,653,724	493,824	873,235	—	10,840,194
Depreciation and amortization	2,229,371	107,453	32,554	96,411	—	2,465,789	728,048	1,251,042	—	20,450,548
Impairment of assets	(2,622)	—	—	—	—	(2,622)	(21,458)	4,197	—	3,531,583
Total expenses	46,019,309	19,293,391	138,723	404,819	(1,938,885)	63,917,357	25,287,154	35,827,697	(2,331,518)	380,837,197
Operating income (loss)	248,308	1,070,173	(22,622)	(96,957)	—	1,198,902	473,864	515,334	—	(6,591,960)
Other income (expense):										
Investment income	102,477	—	—	—	—	102,477	140	168,689	—	1,885,258
Realized gain on investments, net	—	—	—	—	—	—	—	4,658	—	126,903
Change in unrealized gain (loss) on investments, net	133,719	—	—	—	—	133,719	—	(215,280)	—	(3,061,519)
Other	94,468	—	—	—	—	94,468	(147,443)	—	—	(471,072)
Total other income (expense)	330,664	—	—	—	—	330,664	(147,303)	(41,933)	—	(1,520,430)
Excess (deficiency) of revenues over expenses	578,972	1,070,173	(22,622)	(96,957)	—	1,529,566	326,561	473,401	—	(8,112,390)
Other changes in net assets:										
Net assets released from restrictions used for purchases of property and equipment	1,297	—	—	—	—	1,297	—	162,252	—	995,232
Transfer (to) from affiliates	—	—	—	—	—	—	—	—	—	—
Pension liability adjustment	—	—	—	—	—	—	—	—	—	(4,269,717)
Capital grants	97,100	—	—	—	—	97,100	—	10,525	—	188,886
Increase (decrease) in net assets without donor restrictions	$ 677,369	1,070,173	(22,622)	(96,957)	—	1,627,963	326,561	646,178	—	(11,197,989)

See accompanying independent auditors’ report.

Schedule 3

SHEPPARD AND ENOCH PRATT FOUNDATION, INC.
AND SUBSIDIARIES

Consolidating Statement of Changes in Net Assets Information

Year ended June 30, 2020

	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	$ 1,310,678	(9,059,187)	(1,783,995)	52,447	(653,095)	(10,133,152)	(308,766)	—	(10,441,918)
Other changes in net assets:									
Net assets released from restrictions used for purchases of property and equipment	831,683	—	—	—	—	831,683	—	—	831,683
Transfer (to) from affiliates	(7,492,570)	12,587,592	(5,095,022)	—	—	—	—	—	—
Pension liability adjustment	(4,269,717)	—	—	—	—	(4,269,717)	—	—	(4,269,717)
Capital grants and other	81,261	—	—	—	—	81,261	—	—	81,261
Increase (decrease) in net assets without donor restrictions	(9,538,665)	3,528,405	(6,879,017)	52,447	(653,095)	(13,489,925)	(308,766)	—	(13,798,691)
Net assets with donor restrictions:									
Gifts and grants	—	—	—	9,745,045	—	9,745,045	—	—	9,745,045
Investment income	—	—	—	56,643	—	56,643	—	—	56,643
Net realized gain on investments	—	—	—	4,128	—	4,128	—	—	4,128
Net unrealized loss on investments	—	—	—	(191,016)	—	(191,016)	—	—	(191,016)
Interest in net assets of Foundation	8,411,598	—	—	—	(8,411,598)	—	—	—	—
Transfer (to) from affiliates	1,201,648	—	—	(1,201,648)	—	—	—	—	—
Net assets released from restrictions for operations	(369,965)	—	—	—	—	(369,965)	—	—	(369,965)
Net assets released from restrictions for purchases of property and equipment	(831,683)	—	—	—	—	(831,683)	—	—	(831,683)
Net assets with donor restrictions from acquisition	—	—	—	—	—	—	—	—	—
Increase (decrease) in net assets with donor restrictions	8,411,598	—	—	8,413,152	(8,411,598)	8,413,152	—	—	8,413,152
Increase (decrease) in net assets	(1,127,067)	3,528,405	(6,879,017)	8,465,599	(9,064,693)	(5,076,773)	(308,766)	—	(5,385,539)
Net assets (deficit), beginning of year	174,174,435	(8,985,805)	132,600,295	16,396,825	(14,144,833)	300,040,917	11,474,568	(12,637,742)	298,877,743
Net assets (deficit), end 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

(Continued)

Schedule 3

SHEPPARD AND ENOCH PRATT FOUNDATION, INC.
AND SUBSIDIARIES

Consolidating Statement of Changes in Net Assets Information

Year ended June 30, 2020

	Mosaic Community Services, Inc.									
	Mosaic Community Services, Inc.	**Alliance**	**DuCHoDo**	**ReCHoDo**	**Eliminations**	**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	$ 578,972	1,070,173	(22,622)	(96,957)	—	1,529,566	326,561	473,401	—	(8,112,390)
Other changes in net assets:										
Net assets released from restrictions used for purchases of property and equipment	1,297	—	—	—	—	1,297	—	162,252	—	995,232
Transfer (to) from affiliates	—	—	—	—	—	—	—	—	—	—
Pension liability adjustment	—	—	—	—	—	—	—	—	—	(4,269,717)
Capital grants and other	97,100	—	—	—	—	97,100	—	10,525	—	188,886
Increase (decrease) in net assets without donor restrictions	677,369	1,070,173	(22,622)	(96,957)	—	1,627,963	326,561	646,178	—	(11,197,989)
Net assets with donor restrictions:										
Gifts and grants	10,218	4,693	—	—	—	14,911	—	700	—	9,760,656
Investment income	—	—	—	—	—	—	—	—	—	56,643
Net realized gain on investments	—	—	—	—	—	—	—	—	—	4,128
Net unrealized gain (loss) on investments	11,602	—	—	—	—	11,602	—	—	—	(179,414)
Interest in net assets of Foundation	—	—	—	—	—	—	—	—	—	—
Transfer (to) from affiliates	—	—	—	—	—	—	—	—	—	—
Net assets released from restrictions for operations	(11,602)	—	—	—	—	(11,602)	(73,437)	(3,295)	—	(458,299)
Net assets released from restrictions for purchases of property and equipment	(1,297)	—	—	—	—	(1,297)	—	(162,252)	—	(995,232)
Net assets with donor restrictions from acquisition	—	—	—	—	—	—	50,000	—	—	50,000
Increase (decrease) in net assets with donor restrictions	8,921	4,693	—	—	—	13,614	(23,437)	(164,847)	—	8,238,482
Increase (decrease) in net assets	686,290	1,074,866	(22,622)	(96,957)	—	1,641,577	303,124	481,331	—	(2,959,507)
Net assets (deficit), beginning of year	16,933,301	10,140,150	(460,705)	(1,544,039)	—	25,068,707	5,639,513	32,435,467	—	362,021,430
Net assets (deficit), end 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

See accompanying independent auditors' report.