

**KENNEDY KRIEGER INSTITUTE,
INC. AND AFFILIATES**

**Consolidated Financial Statements
and Supplemental Information
June 30, 2022 and 2021**

Kennedy Krieger Institute, Inc. and Affiliates
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June 30, 2022 and 2021

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Report of Independent Auditors

To the Board of Directors of Kennedy Krieger Institute, Inc. and Affiliates

Opinion

We have audited the accompanying consolidated financial statements of Kennedy Krieger Institute, Inc. and Affiliates (the "Institute"), which comprise the consolidated balance sheets as of June 30, 2022 and 2021, and the related consolidated statements of operations and changes in net assets and of cash flows for the years then ended, including the related notes (collectively referred to as the "consolidated financial statements").

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of June 30, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Consolidated Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements


Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material

if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with US GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

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

A handwritten signature in cursive script that reads "PricewaterhouseCoopers LLP". The signature is written in black ink on a white background.

Baltimore, Maryland
October 14, 2022

Kennedy Krieger Institute, Inc., and Affiliates
Consolidated Balance Sheets
As of June 30, 2022 and 2021
(in thousands)

| ASSETS | 2022 | 2021 |
|--|-------------------|-------------------|
| Current assets: | | |
| Cash and cash equivalents | \$ 23,097 | \$ 37,106 |
| Patient receivables, less allowances of \$6,705 and \$8,643 | 20,554 | 21,913 |
| Grant and contract receivable | 9,873 | 4,561 |
| Tuition receivable | 6,175 | 4,215 |
| Pledges receivable | 526 | 636 |
| Prepaid expenses and other | 4,818 | 3,334 |
| Total current assets | <u>65,043</u> | <u>71,765</u> |
| Non-current assets: | | |
| Property and equipment, net | 145,849 | 154,078 |
| Investments: | | |
| Board designated endowment | 62,561 | 74,675 |
| Investments limited as to use | 8,770 | 10,671 |
| Pledges receivable, less allowances of \$2,204 and \$1,996 | 352 | 278 |
| Total non-current assets | <u>217,532</u> | <u>239,702</u> |
| Total assets | <u>\$ 282,575</u> | <u>\$ 311,467</u> |
| LIABILITIES AND NET ASSETS | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | 45,367 | 47,074 |
| Deferred grant revenue | 2,061 | 4,058 |
| Current portion of long term debt | 4,258 | 3,731 |
| Total current liabilities | <u>51,686</u> | <u>54,863</u> |
| Long-term liabilities: | | |
| Long term debt, net | 76,217 | 80,346 |
| Accrued pension | 3,477 | 9,487 |
| Interest rate swap | 4,285 | 8,518 |
| Other long-term liabilities | 2,397 | 3,643 |
| Total long-term liabilities | <u>86,376</u> | <u>101,994</u> |
| Total liabilities | <u>138,062</u> | <u>156,857</u> |
| Net assets: | | |
| Without donor restrictions | 116,116 | 127,552 |
| With donor restrictions | 28,397 | 27,058 |
| Total net assets | <u>144,513</u> | <u>154,610</u> |
| Total liabilities and net assets | <u>\$ 282,575</u> | <u>\$ 311,467</u> |

See accompanying notes to consolidated financial statements

Kennedy Krieger Institute, Inc., and Affiliates
Consolidated Statements of Operations and Changes in Net Assets
As of June 30, 2022 and 2021
(in thousands)

| | 2022 | 2021 |
|---|--------------------|------------------|
| Operating revenues: | | |
| Patient service revenue, net of contractual allowances | \$ 201,506 | \$ 195,123 |
| Bad debt expense | (4,565) | (6,410) |
| Net patient service revenue | <u>196,941</u> | <u>188,713</u> |
| Tuition revenue | 45,655 | 42,149 |
| Grant and contract revenue | 46,754 | 36,958 |
| Net assets released for operating activities | 5,347 | 2,127 |
| Investment earnings used for operating activities | 2,510 | 2,256 |
| Contributions without donor restrictions, net | 1,107 | 2,327 |
| Other operating revenues | <u>1,075</u> | <u>944</u> |
| Total operating revenues | <u>299,389</u> | <u>275,474</u> |
| Operating expenses: | | |
| Salaries, wages and benefits | 230,176 | 207,951 |
| Supplies, purchased services, and other | 53,696 | 45,520 |
| Depreciation and amortization | 12,995 | 12,597 |
| Rent | 3,548 | 2,861 |
| Interest | <u>2,141</u> | <u>2,366</u> |
| Total operating expenses | <u>302,556</u> | <u>271,295</u> |
| Operating revenues over operating expenses | (3,167) | 4,179 |
| Non-operating activity: | | |
| Investment return, net | (14,042) | 16,981 |
| Realized and unrealized gain on interest rate swap | 3,089 | 1,777 |
| Fundraising expenses related to contributions with donor restrictions | <u>(1,767)</u> | <u>(1,277)</u> |
| Net non-operating activities | <u>(12,720)</u> | <u>17,481</u> |
| Excess of revenue (under) expenses | <u>\$ (15,887)</u> | <u>\$ 21,660</u> |

Continued on next page

See accompanying notes to consolidated financial statements

Kennedy Krieger Institute, Inc., and Affiliates
Consolidated Statements of Operations and Changes in Net Assets
As of June 30, 2022 and 2021
(in thousands)

| | 2022 | 2021 |
|--|-------------------|-------------------|
| Net assets without donor restrictions: | | |
| Excess of revenue (under) over expenses | \$ (15,887) | \$ 21,660 |
| Net assets released from restriction for property and equipment | 715 | 1,389 |
| Change in funded status of defined benefit plan | <u>3,736</u> | <u>10,915</u> |
| (Decrease) / Increase in net assets without donor restrictions | (11,436) | 33,964 |
| Net assets without donor restrictions, beginning of year | <u>127,552</u> | <u>93,588</u> |
| Net assets without donor restrictions, end of year | <u>116,116</u> | <u>127,552</u> |
| Net Assets with donor restrictions: | | |
| Contributions with donor restrictions | 7,402 | 3,075 |
| Net assets released from restrictions for operations | (5,348) | (2,127) |
| Net assets released from restrictions for property and equipment | <u>(715)</u> | <u>(1,389)</u> |
| Increase / (Decrease) in net assets with donor restrictions | 1,339 | (441) |
| Net assets with donor restrictions, beginning of year | <u>27,058</u> | <u>27,499</u> |
| Net assets with donor restrictions, end of year | <u>28,397</u> | <u>27,058</u> |
| Increase/(Decrease) in total net assets | (10,097) | 33,523 |
| Total net assets, beginning of year | <u>154,610</u> | <u>121,087</u> |
| Total net assets, end of year | <u>\$ 144,513</u> | <u>\$ 154,610</u> |

See accompanying notes to consolidated financial statements

Kennedy Krieger Institute, Inc., and Affiliates
Consolidated Statements of Cash Flows
As of June 30, 2022 and 2021
(in thousands)

| | 2022 | 2021 |
|---|------------------|------------------|
| Cash flows from operating activities: | | |
| Change in net assets | \$ (10,097) | \$ 33,523 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Net realized and unrealized (gains) on investments, net | 13,993 | (15,490) |
| Depreciation and Amortization | 12,995 | 12,597 |
| Bad debt expense | 4,565 | 6,410 |
| Change in pension liability, net | (6,010) | (13,772) |
| Change in valuation of interest rate swap | (4,235) | (3,022) |
| Restricted contributions | (7,402) | (3,075) |
| Changes in assets and liabilities: | - | - |
| Accounts receivable | (3,206) | 2,981 |
| Other receivables | (7,236) | 1,744 |
| Prepaid expenses and other assets | (1,484) | (673) |
| Accounts payable and accrued expenses | (1,707) | 8,000 |
| Deferred grant revenue | (1,997) | (739) |
| Other liabilities | (419) | (455) |
| Net cash flows provided by operating activities | <u>(12,240)</u> | <u>28,029</u> |
| Cash flows from investing activities: | | |
| Other changes in assets limited to use | 1,901 | (2,308) |
| Purchase of property, plant and equipment | (4,766) | (6,890) |
| Net sales of investments | (1,879) | (2,154) |
| Net cash provided by (used in) investing activities | <u>(4,744)</u> | <u>(11,352)</u> |
| Cash flows from (used by) financing activities: | | |
| Payments on long term debt | (3,602) | (17,751) |
| Payments on line of credit and short loan | - | (10,000) |
| Proceeds from long term debt | - | 24,550 |
| Payments on capital lease obligation | (825) | (800) |
| Proceeds from contributions restricted by donor | 7,402 | 3,075 |
| Net cash provided by (used in) financing activities | <u>2,975</u> | <u>(926)</u> |
| Net increase (decrease) in cash and cash equivalents | (14,009) | 15,751 |
| Cash and cash equivalents, beginning of year | 37,106 | 21,355 |
| Cash and cash equivalents, end of year | <u>\$ 23,097</u> | <u>\$ 37,106</u> |
| Cash paid during the year for interest | <u>\$ 2,140</u> | <u>\$ 2,366</u> |

See accompanying notes to consolidated financial statements

Kennedy Krieger Institute, Inc., and Affiliates

Notes to Consolidated Financial Statements

As of June 30, 2022 and 2021

(in thousands)

1. DESCRIPTION OF ORGANIZATION

Kennedy Krieger Institute, Inc., and Affiliates (the “Institute”) is an internationally recognized organization dedicated to improving the lives of children, adolescents and young adults through comprehensive patient care, education, and research. The Institute’s primary operating activities include healthcare services, research, training, special education, and fundraising.

The operations of the Institute are carried out through a number of legal corporate entities. The consolidated financial statements of the Institute reflect the accounts of the following separate legal corporate entities:

- Kennedy Krieger Institute, Inc.
- Kennedy Krieger Children’s Hospital, Inc.
- Hugo W. Moser Research Institute at Kennedy Krieger, Inc.
- Kennedy Krieger Education and Community Services, Inc.
- Kennedy Krieger Associates, Inc.
- PACT: Helping Children with Special Needs, Inc.
- Kennedy Krieger Foundation, Inc.
- Madison Street Properties, Inc.

Healthcare services are provided through Kennedy Krieger Children’s Hospital, Inc. and include a forty-five bed inpatient unit typically admitting more than 300 patients yearly, over fifty specialty outpatient clinics generating in excess of 235,000 annual visits and the training of over 400 healthcare professionals each year. Net patient service revenue generated through Healthcare activities represents approximately 65.8% and 68.5% of the Institute’s operating revenue in fiscal years 2022 and 2021, respectively.

Grant and contract revenue represents approximately 15.6% and 13.4% of the Institute’s operating revenue in fiscal years 2022 and 2021, respectively. Approximately 67.5% and 67.4% of this revenue in fiscal years 2022 and 2021, respectively, comes from departments and agencies of the United States government. Major government sponsors included the National Institutes of Health, Center for Disease Control, Health Human Services, Health Resources and Services Administration, Federal Communications Commission and the Department of Education.

Special education services provided through Kennedy Krieger Education and Community Services, Inc. are conducted through non-public special education schools for students from kindergarten to grade eight, high school, and specialized autism programs. Tuition revenue generated through special education services represents approximately 15.2% and 15.3% of the Institute’s operating revenue in fiscal years 2022 and 2021, respectively.

Kennedy Krieger Institute, Inc., Kennedy Krieger Children’s Hospital, Inc., Hugo W. Moser Research Institute at Kennedy Krieger, Inc., Kennedy Krieger Education and Community Services, Inc., Kennedy Krieger Associates, Inc., and PACT: Helping Children with Special Needs, Inc. are Maryland non-stock corporations organized for charitable, scientific, and educational purposes and are tax-exempt under Section 501(c)(3) of the Internal Revenue Code. Kennedy Krieger Foundation, Inc. (the “Foundation”), is a Maryland stock corporation and is tax-exempt under Section 501(c)(3) of the Internal Revenue Code.

Kennedy Krieger Institute, Inc., and Affiliates

Notes to Consolidated Financial Statements

for the years ended June 30, 2022 and 2021

(in thousands)

Madison Street Properties, Inc. ("MSP") is a tax-exempt supporting organization under Section 509(a)(3) of the Internal Revenue Code and is wholly owned by the Foundation. All real and personal property and leasehold rights owned by the Institute are held by MSP, that in turn leases or subleases the property back to each member of the corporate family utilizing it and also provides property management services, including maintenance, security, and housekeeping.

The Institute maintains an independent affiliation with The Johns Hopkins University. The formal relationship between the parties is set forth in an affiliation agreement whereby (i) the medical, scientific, and other professional staff of the Institute receive primary and adjunct appointments in the appropriate Johns Hopkins University Schools or departments; and (ii) each Institution's independent corporate status is retained. Goods and services are purchased and sold by each organization through arm's length transactions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The consolidated financial statements of the Institute have been prepared on the accrual basis, which conforms to accounting principles generally accepted in the United States of America. The consolidated financial statements include the accounts of the Institute after elimination of all intercompany accounts and transactions.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Institute considers all highly-liquid investments with original maturities of three months or less to be cash equivalents. These investments are carried at cost, which approximates market value.

Investments and Investment Income

Investments in equity securities with readily determinable fair values and all investments in debt securities are recorded at fair value in the Consolidated Balance Sheets.

Investment income is included in the non-operating activity section of the Statement of Operations. Investment income includes interest and dividends, realized and unrealized gains (losses) on investments.

Allowance for Doubtful Accounts

An allowance for doubtful accounts is recorded for patient receivables which are anticipated to become uncollectible in future periods. Receivables deemed to be uncollectible have been written off.

Grant and Contract Revenue and Receivable

Grant and contract revenues are recorded through cost reimbursement arrangements when allowable costs are incurred, through service rates as services are provided or when contractual

Kennedy Krieger Institute, Inc., and Affiliates

Notes to Consolidated Financial Statements

for the years ended June 30, 2022 and 2021

(in thousands)

terms are satisfied. Grant and contract receivables are recorded when earned. An allowance for uncollectible grants and contracts receivable is estimated and is recorded against grant and contract receivables.

Tuition Revenue and Receivable

Tuition revenue is recognized when earned over the school term (July to June). The Institute does not record an allowance for uncollectible tuition receivables as tuition invoices are paid in full by the local education agencies at state approved tuition rates. Local education agencies receive a substantial component of this tuition from the State of Maryland.

Pledges Receivable

Unconditional promises to give cash and other assets to the Institute are reported 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 commitment is received in writing.

Pledges receivable from capital campaigns and other contributions, have been recorded net of an allowance for uncollectible pledges. The allowance for uncollectible pledges receivable is estimated based on the nature and source of each pledge including pledge payment history and the donor's likelihood of honoring the commitment. The allowance is applied to pledges greater than one year. Multi-year pledges are recorded at their estimated present value using a risk-free rate of return of 3.5% for 2022 and 2021.

Excess of Revenue over Expenses

The Statements of Operations include excess of revenues over (under) expenses, which is the Institute's performance indicator. Changes in net assets without donor restrictions, which are excluded from excess of revenues over expenses consistent with industry practice, include unrealized gains and losses on investments, certain pension related transactions and assets acquired using contributions which by donor restrictions were to be used for the purpose of acquiring such assets.

Investments Limited as to Use

Investments limited as to use primarily include assets held by trustees under bond indentures, self-insurance trust arrangements, deferred compensation plans and other donor restricted gift arrangements.

Property and Equipment

Property and equipment acquisitions are recorded at cost. Depreciation is calculated using the straight-line method over the following estimated useful lives:

| | |
|----------------------------|-------------|
| Buildings and Improvements | 30-40 years |
| Fixed Equipment | 10-15 years |
| Computer Software | 5-15 years |
| Furniture and Equipment | 3-5 years |

Equipment purchases under grants, where title to the equipment rests with the grantor, are recorded as expenditures of the grant and are not capitalized or depreciated.

Capital Leases

Capital leased assets are amortized over the shorter of their estimated useful lives or the lease term. Depreciation expense on capitalized leased assets is included in depreciation and amortization expenses in the Consolidated Statements of Operations.

Kennedy Krieger Institute, Inc., and Affiliates

Notes to Consolidated Financial Statements

for the years ended June 30, 2022 and 2021

(in thousands)

Deferred Financing Costs

Costs incurred related to the issuance of bonds payable have been deferred and are being amortized over the life of the bonds using the effective interest method. In fiscal year 2017, the Institute adopted ASU 2015-03, "Simplifying Presentation of Debt Issuance Costs". These debt issuance costs are now presented as a deduction from the carrying value of the associated debt.

Accrued Expenses

Accrued expenses are operating expenses that have been incurred but which have not been paid as of the balance sheet date. These expenses are typically periodic and due within one year or less. They include expenses incurred for payroll, employee benefits, subcontracts, interest and other operating items.

Deferred Grant Revenue

Deferred grant revenue has been recorded to reflect the portion of cash received on awarded grants where the grantor restrictions for its use have not been satisfied. Typically, the donor restrictions are satisfied within a year, therefore, deferred grant revenue is classified as a current liability.

Net Assets

Net assets without donor restrictions include undesignated amounts as well as amounts designated by the Board for a specific purpose. Net assets with donor restrictions are held by the Institute and consist primarily of amounts contributed to the Institute by donors with purpose restrictions. The Institute also has net assets with donor restrictions that are perpetual in nature. Earnings on these assets are available for use as specified by the donors.

Estimated Professional and General Liability Costs

The provision for estimated professional and general liability claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported.

Derivatives

The use of derivatives by the Institute is generally limited to an interest rate swap. The Institute follows accounting guidance on derivative financial instruments that are based on whether the derivative instrument meets the criteria for designation as cash flow or fair value hedges. The criteria for designating a derivative as a hedge include the assessment of the instrument's effectiveness in risk reduction, matching of the derivative instrument to its underlying transaction, and the assessment of the probability that the underlying transaction will occur. The Institute's only derivative financial instrument is an interest rate swap agreement without hedge accounting designation.

The Institute recognizes the fair value of its interest rate swap as a liability on the Consolidated Balance Sheet at fair value. The change in the fair value of this derivative is recorded as an unrealized gain or loss in the Consolidated Statements of Operations.

Pension Plan

The Institute follows current technical guidance for reporting and accounting for pension benefits provided to employees. This guidance requires recognition of the funded status of a defined benefit plan in the balance sheet as an asset or liability if the plan is over funded or underfunded, respectively. Changes in the funded status of a plan are required to be recognized in the year in which the changes occur through changes in Net assets without donor restrictions. The guidance also requires the measurement date of the plan's funded status to be the same as the company's fiscal year end.

Kennedy Krieger Institute, Inc., and Affiliates

Notes to Consolidated Financial Statements

for the years ended June 30, 2022 and 2021

(in thousands)

Short-term investments

Short-term investments are carried at fair value and are comprised of instruments with an average duration of 1 year.

Investments

The fair values of marketable equity, government, and fixed income securities included in long-term investments are based on quoted market prices.

Long-term Debt Obligations

Management estimates that the fair value of long-term debt is equal to its carrying value.

Reclassifications

Certain reclassifications have been made to conform with the current year financial statement presentation.

New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09 “Revenue from Contracts with Customers”. This standard implements a single framework for recognition of all revenue earned from customers. This framework ensures that entities appropriately reflect the consideration to which they expect to be entitled in exchange for goods and services by allocating transaction price to identified performance obligations and recognizing revenue as performance obligations are satisfied. The Institute adopted the standard in 2021. There was no material impact on the Consolidated Financial Statements.

In February 2016, the FASB issued ASU 2016-02 “Leases”. This standard requires lessees to recognize assets and liabilities for the rights and obligations created by leases with terms in excess of 12 months. The recognition, measurement, and presentation of expenses and cash flows arising from a lease will primarily depend on its classification as a finance or operating lease. The accounting by lessors remains largely unchanged. The effective date for this standard has been delayed by the FASB. Kennedy Krieger Institute is anticipating adopting the standard in 2023 and is evaluating the impact it will have on the consolidated financial statements.

The London Interbank Offered Rate (“LIBOR”) is used to price all of the Institute’s variable rate debt. By June 30, 2023, LIBOR is expected to cease publication and market participants around the world have undertaken reference rate reform initiatives to identify alternative reference rates. In March 2022, the FASB issued ASU 2022-04, Reference Rate Reform (*ASC 848*), to provide some relief to the operational challenges likely to arise due to the change in reference rates. This standard is adoptable as of the beginning of reporting periods including March 12, 2020, but can be adopted in any subsequent reporting period prior to December 31, 2022. The Institute’s variable rate financing agreements were modified with each bank debt holder as of August 20, 2020 to address the process for how the LIBOR reference rate will be replaced in each variable rate debt agreement.

3. NET PATIENT SERVICE REVENUE AND ALLOWANCE FOR DOUBTFUL ACCOUNTS

Net patient service revenues from inpatient and outpatient services are reported at estimated net realizable amounts from patients, third-party payers, and others for services rendered including contractual allowances with third-party payers and bad debts. The Institute has agreements with third-party payers that provide for payments to the Institute at amounts different from its established rates. Net patient service revenue is comprised of the following:

Kennedy Krieger Institute, Inc., and Affiliates
Notes to Consolidated Financial Statements
for the years ended June 30, 2022 and 2021
(in thousands)

| | 2022 | 2021 |
|------------------------------|-------------------|-------------------|
| Gross Inpatient Revenue | \$ 55,419 | \$ 59,077 |
| Less: Contractual Allowances | (13,597) | (13,074) |
| Bad Debt Expense | (241) | (837) |
| Net Inpatient Revenue | <u>41,581</u> | <u>45,166</u> |
| Gross Outpatient Revenue | 182,278 | 168,703 |
| Less: Contractual Allowances | (22,594) | (19,583) |
| Bad Debt Expense | (4,324) | (5,573) |
| Net Outpatient Revenue | <u>155,360</u> | <u>143,547</u> |
| Net Patient Service Revenue | <u>\$ 196,941</u> | <u>\$ 188,713</u> |

The percentage of patient service revenue generated by payer category for the fiscal years ended June 30, 2022 and 2021 is as follows:

| | 2022 | 2021 |
|----------------------|-------------|-------------|
| Medicaid | 38% | 38% |
| Blue Cross | 31% | 31% |
| Commerical insurance | 27% | 28% |
| Self pay and other | 2% | 1% |
| Medicare | 2% | 2% |
| | <u>100%</u> | <u>100%</u> |

The Allowance for Doubtful Accounts is based upon management's assessment of historical and expected net collections considering trends in healthcare insurance coverage, economic conditions, and payer mix. Management assesses the adequacy of the allowance periodically based upon historical collection and write off experience. After collection of amounts due from third-party payers, the Institute follows internal guidelines for placing certain past-due balances with collection agencies.

| | 2022 | 2021 |
|--|-----------------|-----------------|
| Beginning Allowance for doubtful accounts | \$ 8,643 | \$ 5,611 |
| Plus: Bad debt expense | 4,565 | 6,411 |
| Less: Bad debt write-offs, net of recoveries | (6,503) | (3,379) |
| Ending Allowance for doubtful accounts | <u>\$ 6,705</u> | <u>\$ 8,643</u> |

A summary of the payment arrangements with major third-party payers and patient financial assistance follows.

Maryland Medicaid

Since January 1, 2007, the Institute has been under a prospective payment system ("PPS") agreement with the Maryland Department of Health for inpatient and outpatient services provided to

Kennedy Krieger Institute, Inc., and Affiliates

Notes to Consolidated Financial Statements

for the years ended June 30, 2022 and 2021

(in thousands)

Maryland Medicaid patients. Service-based per diem rates for inpatient services are annually adjusted by market basket update factors published by the Centers for Medicare and Medicaid Services ("CMS"). Outpatient services are reimbursed as a percentage of charges and subject to the lower of cost versus charges. Base year costs are trended forward annually using the CMS outpatient PPS market basket update factor and compared to actual charges. No retroactive settlement occurs under these arrangements.

Out of State Medicaid

The Institute has entered into payment agreements with many out-of-state Medicaid plans. The majority of these payment agreements reflect similar rates paid by Maryland Medicaid. No retroactive settlement occurs under these agreements.

Commercial Insurance

The Institute has entered into payment agreements with commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis of payment to the Institute under these agreements includes prospectively determined rates per day or discharge, discounts from established charges and prospectively determined daily rates. No retroactive settlement occurs under these agreements.

Medicare

Certain inpatient and outpatient services rendered to Medicare beneficiaries are subject to retrospective cost-based reimbursement. Medicare cost reports have been filed through 2021 and final settled through 2019. No significant settlement due to or from the Medicare Program has been estimated and as a result no receivable or payable has been recorded at June 30, 2022 or 2021.

Financial Assistance and Community Benefit

The Institute provides services without charge or at discounted charges to patients who meet certain criteria under its financial assistance policy. The criteria for financial assistance considers the patient or patient's family's ability to pay at time of service. The Institute uses the federal poverty guidelines to determine eligibility for free or discounted care. In addition, the Institute's policy applies to patients who are medically indigent. The Institute also offers payment plan options to assist patients who experience a financial hardship paying their hospital and professional services bills, but who might not qualify for financial assistance. Continually the Institute reviews its financial assistance policy along with providing a plain language summary of the policy that is distributed to patients at registration.

The cost for services and supplies furnished under the Institute's financial assistance policy aggregated approximately \$5,325 and \$3,113 in 2022 and 2021, respectively. The cost has been estimated based on a cost to charge ratio and applied to financial assistance charges.

In addition to patient financial assistance and payment plan options, the Institute provides various community benefits across the developmental disability populations within the State of Maryland. The foundation of the community benefits provided envisions all persons with developmental disabilities ("DD") lead fully inclusive and meaningful lives. A community needs assessment is periodically updated to understand the changing needs of the community served. Based on the needs assessment, the Institute promotes and hosts educational forums, provides respite care resources, acts as a resource finder, provides advocacy and legal services, promotes and arranges information exchange among patients, families, and professionals, promotes workforce development, is a leader in healthcare training in DD, and conducts research, among other things.

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4. TUITION REVENUE

Tuition revenue generated by special education school programs is summarized as follows:

| | 2022 | 2021 |
|---------------------|------------------|------------------|
| High school | \$ 14,299 | \$ 13,561 |
| Lower/middle school | 15,301 | 13,818 |
| Leap/Autism | 7,347 | 6,612 |
| Montgomery County | 8,221 | 7,685 |
| PACT daycare | 432 | 326 |
| Other | 55 | 147 |
| | <u>\$ 45,654</u> | <u>\$ 42,149</u> |

Over 450 students are enrolled in special education programs each year and come from Baltimore City and many Maryland counties, Washington D.C., Virginia and other private and international sources. The percentage of tuition revenue generated by jurisdiction is as follows:

| | 2022 | 2021 |
|--------------------------------|---------------|---------------|
| Prince George's County, MD | 19.7% | 21.5% |
| Baltimore County, MD | 17.7% | 17.4% |
| Anne Arundel County, MD | 16.7% | 17.0% |
| Montgomery County, MD | 10.1% | 10.8% |
| Washington, DC | 9.2% | 8.1% |
| Baltimore City, MD | 4.9% | 5.5% |
| Other local education agencies | 20.7% | 18.6% |
| Private | <u>1.0%</u> | <u>1.1%</u> |
| Total | <u>100.0%</u> | <u>100.0%</u> |

5. GRANT AND CONTRACT REVENUE

Grant and contract revenue is generated through the following activities:

| | 2022 | 2021 |
|-----------------------------------|------------------|------------------|
| Research | \$ 30,710 | \$ 22,741 |
| Community service | 9,060 | 6,346 |
| Training / Hospital | 3,482 | 1,996 |
| Provider Relief Funds (CARES Act) | <u>3,502</u> | <u>5,875</u> |
| | <u>\$ 46,754</u> | <u>\$ 36,958</u> |

Research revenue includes all research initiatives funded through government and private sources. Community service revenue is derived from services provided to individuals and families with special needs in a community-based setting and is funded through government programs. Training revenue represents government funding of training programs for professionals in the field of developmental

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disabilities. Provider Relief Funds consists of funding received through Federal government stimulus payments related to the COVID-19 pandemic.

Grant and contract revenue includes recoveries of facility and administrative costs, with certain limitations and exclusions. Certain revenues and costs in current and prior years are subject to audit and retroactive settlement. No reserve has been recorded for any potential settlements as amounts are not known or are considered immaterial.

6. CARES ACT FUNDING

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") was enacted. The CARES Act provided stimulus funding to assist the US economy with the financial impact caused by the COVID-19 pandemic.

Provider Relief Funds

The CARES Act funded \$100.0 billion in appropriations for a Provider Relief Fund (PRF) to be used by healthcare organizations for preventing, preparing for, and responding to the coronavirus by reimbursing for health care related expenses and lost revenue that are attributable to COVID-19.

As of June 30, 2022, the Institute received \$14,856 in payments under the PRF and recognized \$3,502 and \$5,875 as Grant and contract revenue on the Consolidated Statements of Operations and Changes in Net Assets in 2022 and 2021, respectively.

In June 2021, HHS issued post payment reporting requirements for PRF recipients. The reporting requirements outline the deadlines to use the funds received and the required reporting timeframes based on when the funds were received. It is anticipated that all PRFs received by the Institute will be used by their spending deadline and reporting will be completed their reporting deadlines. Based on this guidance, it is not anticipated that amounts recorded as Grant and contract revenue in 2022 and previous years will have to be repaid to HHS.

Federal Communications Commission (FCC) funding

In April 2020, the Institute was awarded a grant from the FCC in the amount of \$995 to fund expenditures incurred to grow telehealth capacity as a result of the COVID-19 pandemic. The Institute recorded \$572 and \$423 as Grant and contract revenue in 2021 and 2020, respectively. In June 2021, the Institute was awarded an FCC grant in the amount of \$1,961 related to the Connected Care Pilot Program. This program is intended to expand connected care services, particularly for low-income Americans. No Grant and contract revenue has been recognized for this grant as of June 30, 2022.

Medicare Accelerated and Advance Payments Program

Under the CARES Act, CMS temporarily expanded its current accelerated and advance payment program for Medicare providers. Under this program, qualified healthcare providers received advanced payments from CMS. In May 2020, the Institute received \$1,184 in advanced payments under this program. Through June 30, 2022, \$938 of advanced payments have been recouped by CMS and the remaining balance will be recouped no later than September 2022. Advanced payment amounting to \$1,093 and \$246 is reflected in Accounts payable and accrued expense on the Consolidated Balance Sheets at June 30, 2021 and 2022, respectively.

Employer Payroll Tax Deferral and Employee Rentention Tax Credit

Between April 2020 and December 31, 2020, the Institute deferred \$6,261 in employer payroll taxes owed as allowed under the CARES Act. Payment of half of this tax deferral was paid to the IRS by December 31, 2021, with the remaining half due by December 31, 2022.

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The CARES Act provided for an Employee Retention Tax Credit (ERTC) against applicable employment taxes for eligible employers that pay qualified wages and certain healthcare expenses to employees after March 12, 2020 and before July 1, 2021. The tax credit is designed to encourage employers to keep employees on their payroll during the COVID-19 pandemic. Kennedy Krieger has claimed the credit in the total amount of \$3,008 through its employer's quarterly Federal tax returns (IRS form 941) during the state of emergency covering the period from March 2020 to June 2021.

Accounts payable and accrued expense reported on the Consolidated Balance Sheets as of June 30, 2021 and 2022 includes net deferred payroll taxes in the amount of \$4,696 and \$4,489, respectively which and have been netted down with the ERTC.

7. CONTRIBUTIONS FROM FUNDRAISING ACTIVITIES

During 2022 and 2021, the Institute recognized contributions from fundraising activities as summarized below:

| | 2022 | 2021 |
|-----------------------------|-----------------|-----------------|
| <u>Contributions</u> | | |
| With donor restrictions | \$ 7,402 | \$ 3,075 |
| Without donor restrictions | <u>1,108</u> | <u>2,327</u> |
| Total Contributions | 8,510 | 5,402 |
| <u>Fundraising expenses</u> | | |
| Without donor restrictions | 1,993 | 1,432 |
| With donor restrictions | <u>1,767</u> | <u>1,277</u> |
| Total Expenses | <u>\$ 3,760</u> | <u>\$ 2,709</u> |

Contributions with donor restrictions are made up of annual giving and purpose restricted contributions which are classified as net assets with donor restrictions on the Consolidated Balance Sheets. Contributions that are donor restricted to be held in perpetuity reflect gifts where the corpus cannot be utilized but where investment earnings are available for use. These contributions are also classified as net assets with donor restrictions on the Consolidated Balance Sheets. Contributions that reflect gifts with no donor restrictions are reported on the Consolidated Statements of Operations as contributions without donor restrictions, net.

Fundraising expenses are reported as operating expenses for those expenses related to contributions without donor restrictions and as non-operating activity for those expenses related to contributions with donor restrictions. Expenses directly related to special events are netted with the revenue from those events.

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8. INVESTMENTS AND INVESTMENT INCOME

| | 2022 | 2021 |
|-------------------------------|------------------|------------------|
| Board designated endowment | | |
| Fixed income mutual funds | \$ 19,420 | \$ 21,590 |
| Equity mutual funds | 43,141 | 53,085 |
| Total long-term investments | <u>62,561</u> | <u>74,675</u> |
| Investments limited as to use | | |
| Money market funds | 44 | 41 |
| Fixed income mutual funds | 2,471 | 2,299 |
| Equity securities and funds | 6,255 | 8,331 |
| Total assets limited to use | <u>8,770</u> | <u>10,671</u> |
| Total Investments | <u>\$ 71,331</u> | <u>\$ 85,346</u> |

Changes in Board designated endowment investments for the years ended June 30, 2022 and 2021 are as follows:

| | 2022 | 2021 |
|---|------------------|------------------|
| Board designated endowment investments, beginning of year | \$ 74,675 | \$ 57,031 |
| Investment return, net | (10,422) | 19,010 |
| Investment withdrawals | <u>(1,692)</u> | <u>(1,366)</u> |
| Board designated endowment investments, end of year | <u>\$ 62,561</u> | <u>\$ 74,675</u> |

The Investment Committee of the Board of Directors (“Investment Committee”) sets the investment policy for the Board designated endowment investments, including investment and spending guidelines. Investments are based on the objective of achieving capital appreciation and investment income. Assets are invested in a manner that is intended to achieve an average annual real return in excess of inflation while assuming an acceptable level of investment risk. To monitor the effectiveness of the investment strategy of long-term investments, performance goals are established and monitored related to benchmark indices and returns earned by comparable funds.

To satisfy its long-term rate of return objectives of the Board designated endowment investments, the Institute employs a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current income (interest and dividends). The investment policy includes a target asset allocation that is well diversified among suitable asset classes and that is expected to generate, on average, the level of expected return necessary to meet the long-term investments’ objectives while assuming a level of risk (volatility) consistent with achieving that return.

The asset allocation of the Board designated endowment investments at June 30, 2022 and 2021 is summarized below. The Investment Committee regularly reviews the actual asset allocation against the target and periodically rebalances the investment, as appropriate.

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| | Target Allocation | Actual Allocation | |
|--------------|----------------------|-------------------|-------------|
| | | 2022 | 2021 |
| Equities | 70% | 69% | 72% |
| Fixed income | 30% | 31% | 28% |
| | <u>100%</u> | <u>100%</u> | <u>100%</u> |

The investment policy also provides for an investment earnings withdrawal to be used in support of operating activities, as determined by Institute management, and approved through the annual budget. The annual withdrawal is determined based on 4% of the three-year average market value of the portfolio. Calculated withdrawals under the policy are \$2,510 and \$2,256 and actual withdrawals were \$1,692 and \$1,366 in 2022 and 2021, respectively. Since policy inception, \$4,832 in calculated withdrawals have been deferred.

Investments with a market value of \$1,435 as of June 30, 2022 and 2021 have been pledged as collateral under the Institute's self-funded unemployment insurance plan.

Investments Limited as To Use

Investments limited as to use at June 30, 2022 and 2021 are made up of the following:

| | 2022 | 2021 |
|-------------------------------------|-----------------|------------------|
| Self insurance trust fund | \$ 4,957 | \$ 5,954 |
| Deferred compensation | 2,051 | 2,637 |
| Donor restricted fund | 1,145 | 1,389 |
| Planned gifts, net of reserve | 322 | 396 |
| Donor advised fund | 295 | 295 |
| Total investments limited as to use | <u>\$ 8,770</u> | <u>\$ 10,671</u> |

Investment Income and Gains and Losses

Investment income and gains and losses are comprised of the following:

| | 2022 | 2021 |
|---|-----------------|---------------|
| Investment return | | |
| Interest and dividend income | \$ 3,536 | \$ 2,357 |
| Realized gain on investments, net | 516 | 2,237 |
| Less: Investment earnings appropriated for operating activities | (2,510) | (2,256) |
| Unrealized gain/(loss) on investments | <u>(15,584)</u> | <u>14,643</u> |
| Investment return, net | \$ (14,042) | \$ 16,981 |

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Liquidity and Availability

| | |
|---|------------|
| Cash | \$ 23,097 |
| Patient receivable, net | 20,554 |
| Grant and contract receivable | 9,873 |
| Tuition receivable | 6,175 |
| Pledges receivable | 878 |
| Prepaid expenses and other current assets | 4,818 |
| Investments limited as to use | 8,770 |
| Long-term investments | 62,561 |
| Total financial assets | \$ 136,726 |
| Less amounts not available: | |
| Investments limited as to use | \$ 8,770 |
| Pledges receivable, in excess of 1 year | 352 |
| Financial assets not available to be used within one year | \$ 9,122 |
| Financial assets available to meet general expenditures within one year | \$ 127,604 |

As part of the Institute's liquidity management plan, cash in excess of daily requirements is invested in either money market funds, short-term investments, or long-term investments. Investment decisions are based on anticipated liquidity needs, such that financial assets are available as general expenditures, liabilities, and other obligations come due. Additionally, the Institute maintains a line of credit with a bank, as discussed in Note 14.

9. FAIR VALUE MEASUREMENTS

The Institute follows the FASB's guidance on fair value measurements, which 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, establishes a framework for measuring fair value, and expands disclosures about such fair value measurements. This guidance applies to other accounting pronouncements that require or permit fair value measurements and, accordingly, this guidance does not require any new fair value measurements.

This guidance discusses valuation techniques such as the market approach, cost approach and income approach. The guidance establishes a three-tier level hierarchy for fair value measurements based upon the transparency of inputs used to value an asset or liability as of the measurement date. The three-tier hierarchy prioritizes the inputs used in measuring fair value as follows:

- Level 1 – Observable inputs such as quoted market prices for identical assets or liabilities in active markets;
- Level 2 – Observable inputs for similar assets or liabilities in an active market, or other than quoted prices in an active market that are observable either directly or indirectly; and
- Level 3 – Unobservable inputs in which there is little or no market data that requires the reporting entity to develop its own assumptions.

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The financial instrument's categorization within the hierarch is based upon the lowest level of input that is significant to the fair value measurement. Each of the financial instruments below has been valued utilizing the market approach.

The following tables present the fair value of investments and liabilities as of June 30, 2022 and June 30, 2021, by the valuation hierarchy defined above and also presents information on the liquidity aspects of each investment.

Fair Value of Investments
as of June 30, 2022

| | Level 1 | Level 2 | Level 3 | Total Fair Value |
|---------------------------------|------------------|-----------------|----------------|-----------------------------|
| Investments: | | | | |
| Money market funds (1) | \$ 44 | \$ - | \$ - | \$ 44 |
| Fixed income mutual funds (2) | 21,891 | - | - | 21,891 |
| Equity securities and funds (3) | 49,101 | - | - | 49,101 |
| Privately held investments (4) | - | - | 295 | 295 |
| Total Investments | <u>\$ 71,036</u> | <u>\$ -</u> | <u>\$ 295</u> | <u>\$ 71,331</u> |
| Liabilities: | | | | |
| Interest rate swap (5) | <u>\$ -</u> | <u>\$ 4,285</u> | <u>\$ -</u> | <u>\$ 4,285</u> |
| Total Liabilities | <u>\$ -</u> | <u>\$ 4,285</u> | <u>\$ -</u> | <u>\$ 4,285</u> |

Fair Value of Investments
as of June 30, 2021

| | Level 1 | Level 2 | Level 3 | Total Fair Value |
|---------------------------------|------------------|-----------------|----------------|-----------------------------|
| Investments: | | | | |
| Money market funds (1) | \$ 41 | \$ - | \$ - | \$ 41 |
| Fixed income mutual funds (2) | 23,888 | - | - | 23,888 |
| Equity securities and funds (3) | 61,122 | - | - | 61,122 |
| Privately held investments (4) | - | - | 295 | 295 |
| Total Investments | <u>\$ 85,051</u> | <u>\$ -</u> | <u>\$ 295</u> | <u>\$ 85,346</u> |
| Liabilities: | | | | |
| Interest rate swap (5) | <u>\$ -</u> | <u>\$ 8,518</u> | <u>\$ -</u> | <u>\$ 8,518</u> |
| Total Liabilities | <u>\$ -</u> | <u>\$ 8,518</u> | <u>\$ -</u> | <u>\$ 8,518</u> |

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- (1) Money market funds include investments in short-term debt securities, including U.S. Treasury bills and commercial paper with same day or next day liquidity.
- (2) Fixed income mutual funds include funds whose underlying investments include domestic and international corporate bonds, obligations issued or guaranteed by the U.S. government or its agencies, bankers acceptances, bank certificates of deposit, repurchase agreements, commercial paper, fixed income instruments denominated in currencies of emerging market countries and fixed income instruments represented by forwards or derivatives including options, future contracts, and swap agreements. All funds are traded in active markets and offer next day liquidity.
- (3) Equity funds include investments in common stock mutual funds with next day liquidity.
- (4) Privately held investments include common stock of a privately held company. There is no market for the common stock.
- (5) The Institute has classified the valuation of its interest rate swap as Level 2 within the fair value hierarchy. Over-the-counter derivatives that trade in liquid markets, such as interest rate swaps, model inputs (i.e. contractual terms, market prices, yield curves, credit curves, and measures of volatility) can generally be verified, and model selection does not involve significant management judgment.

10. PROPERTY AND EQUIPMENT

A summary of property and equipment at June 30, 2022 and 2021 is as follows:

| | 2022 | 2021 |
|--|------------------|------------------|
| Land | \$ 4,657 | \$ 4,657 |
| Building and improvements | 222,016 | 219,630 |
| Furniture & equipment, including computer software | <u>52,586</u> | <u>58,752</u> |
| | 279,259 | 283,039 |
| Less: Accumulated depreciation | <u>(133,410)</u> | <u>(128,961)</u> |
| Property and equipment, net | <u>145,849</u> | <u>154,078</u> |

Depreciation expense was \$12,866 and \$12,506 in 2022 and 2021, respectively.

Capital Lease Obligations

The Institute maintains lease agreements for computer equipment, software, and the renovation of leased space. The Institute records these leases as capital leases and capitalized the property and equipment on the Consolidated Balance Sheets.

The future minimum lease payments required under the capital lease are as follows:

| | |
|-------------------------------------|-----------------|
| 2023 | 674 |
| 2024 | 282 |
| 2025 | <u>57</u> |
| Total future minimum lease payments | <u>\$ 1,013</u> |

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11. PLEDGES RECEIVABLE

Pledges receivable at June 30, 2022 and 2021 are summarized below:

| | 2022 | 2021 |
|-------------------------------------|----------------|----------------|
| Pledges receivable: | | |
| With donor restrictions | 2,875 | 3,128 |
| Without donor restrictions | - | 1 |
| | <u>2,875</u> | <u>3,129</u> |
| Less: Present value adjustment | (97) | (116) |
| Allowance for uncollectible pledges | <u>(1,900)</u> | <u>(2,099)</u> |
| Net pledges receivable | 878 | 914 |
| Less: Pledges due within one year | <u>(526)</u> | <u>(636)</u> |
| Pledges due in one to five years | <u>\$ 352</u> | <u>\$ 278</u> |

The present value adjustments for 2022 and 2021 were made utilizing discount rates in effects at the time of the gift. The allowance for uncollectible pledges has been estimated based on management evaluation of each pledge's likelihood to be collected and using historical pledge write-off experience.

12. SIGNIFICANT CONCENTRATIONS OF CREDIT RISK

The Institute records patient receivables due for services provided to patients and others. The majority of these patients either qualify for federal/state assistance programs or have insurance through commercial insurance companies or managed care organizations. The Institute maintains reserves for potential losses and such losses have been within management's expectations. The mix of patient receivables due from patients and third-party payers at June 30, 2022 and 2021 are as follows:

| | 2022 | 2021 |
|-----------------------|---------------|---------------|
| Medicaid | 18.3% | 11.9% |
| Medicaid managed care | <u>10.4%</u> | <u>27.0%</u> |
| Total Medicaid | 28.7% | 38.9% |
| Commercial Insurance | 18.6% | 15.6% |
| Blue Cross | 24.8% | 21.6% |
| Self-pay and other | 23.8% | 21.2% |
| Medicare | <u>4.1%</u> | <u>2.7%</u> |
| | <u>100.0%</u> | <u>100.0%</u> |

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13. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses at June 30, 2022 and 2021 are made up of the following:

| | 2022 | 2021 |
|---|------------------|------------------|
| Accounts payable and PO accruals | \$ 7,936 | \$ 11,560 |
| Payroll payable | 10,362 | 8,513 |
| Accrued vacation | 7,609 | 7,313 |
| Performance incentive accruals | 4,649 | 5,145 |
| Employer FICA deferral | 4,696 | 4,489 |
| Workers' compensation, unemployment and health benefits | 3,199 | 4,030 |
| General and professional liability | 1,641 | 1,641 |
| Other accrued expenses | 5,276 | 4,383 |
| | <u>\$ 45,367</u> | <u>\$ 47,074</u> |

14. DEBT

Long-term Debt – (Bonds Payable and Bank Loans)

Bonds payable issued through the Maryland Health and Higher Educational Facilities Authority (“MHHEFA”) and Bank Loans at June 30, 2022 and 2021 consisted of the following:

| | 2022 | 2021 |
|--|------------------|------------------|
| MHHEFA Series 2013 Bonds | 13,760 | 14,550 |
| MHHEFA Series 2017A Bonds | 20,948 | 21,695 |
| MHHEFA Series 2017B Bonds | 24,523 | 25,204 |
| MHHEFA Series 2020 Bonds | 12,155 | 13,350 |
| 2020 Bank Loan | 9,837 | 10,156 |
| | <u>81,223</u> | <u>84,955</u> |
| Less: Current portion | (4,258) | (3,731) |
| Less: Unamortized deferred financing costs | (748) | (878) |
| Long term debt, net | <u>\$ 76,217</u> | <u>\$ 80,346</u> |

The Series 2013 Bonds issued through MHHEFA were privately placed with Bank of America through a \$16,730 non-bank qualified term loan with a 20-year amortization and a bank commitment maturity date of July 1, 2023. Principal and interest are due in monthly installments on the first day of each month. Terms of the loan call for a fixed interest rate of 3.62%.

The Series 2017A Bonds issued through MHHEFA were privately placed in March 2017 with CapitalOne Municipal Funding through a \$23,000 non-bank qualified term loan with a 25-year amortization and a bank commitment maturity date of April 1, 2027. Principal and interest payments are due in monthly installments on the first day of each month. Principal payments began on April 1, 2019. Terms of the loan agreement called for an original fixed rate of interest of 3.21%. Due to the change in the maximum federal corporate tax rate, the loan agreement was amended in May 2018, with a fixed rate of interest of 3.79%.

The Series 2017B Bonds issued through MHHEFA were privately placed with Truist Bank (formerly BB&T) through a \$27,510 non-bank qualified term loan with a maturity date of April 1, 2027. The loan is being amortized through March 1, 2037. Terms of the loan agreement call for interest to be paid based on a percentage of 30-day LIBOR plus a credit spread. On August 20, 2021, the terms of 2017B Bonds were amended by Truist Bank to extend the bank commitment date through August 2030 and add an interest rate floor. On December 1, 2021 an amendment was made to the financing

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agreement to change the interest rate basis from 30-day LIBOR to SOFR and to remove the interest reate floor. Principal and interest payments continue to be due in monthly installments.

The Series 2020 Bonds issued through MHHEFA were privately placed through a \$14,300 non-bank qualified term loan with Fulton Bank. Terms of the Series 2020 Bonds call for 10-year bank commitment with amortization continuing through July 1, 2036. Principal and interest are to be paid monthly with interest determined based on an index floating rate plus a credit spread and subject to an interest rate floor.

On October 16, 2019, the Institute closed on a \$10,000 364-day, unsecured short-term note with Truist Bank (formerly BB&T). Proceeds from the short-term note payable was used for fund various operating, capital and working capital requirements associated with its electric health record system implementation. Pricing on the note payable was based on 30-day LIBOR plus a credit spread. The short-term note payable included interest only payable monthly. The short-term note payable was refunded with the 2020 Bank Loan

The 2020 Bank Loan was closed with Truist Bank on August 20, 2020 in the amount of \$10,250 and refunded the \$10,000 short-term loan plus closing costs. Terms of the 2021 Bank Loan include a 5-year bank commitment with a 10-year amortization. Principal and interest are to be paid monthly with interest determined based on an index floating rate plus a credit spread and subject to an interest rate floor. On December 1, 2021an amendment to the loan agreement was made to change the interest rate basis from 30-day LIBOR to SOFR.

The obligated group for Bonds Payable and Bank Loan (the “Debt”) include Kennedy Krieger Institute, Inc., and each of its affiliated entities. Bonds Payable were issued in parity and contain certain restrictions on the Institute’s ability to incur additional indebtedness, restrict its use of facilities, maintain stipulated insurance coverage, and maintain a rate structure sufficient to meet its total annual cash requirements. The Institute must maintain compliance with certain debt covenants contained in the bond and loan agreements. At June 30, 2022 and 2021, the Institute was in compliance with all debt covenants in accordance with these agreements.

The aggregate future maturities of Bonds Payable and Bank Loan over the next five years and thereafter are summarized below at June 30, 2022.

| | | |
|------------|----|---------------|
| 2023 | \$ | 4,258 |
| 2024 | | 4,600 |
| 2025 | | 4,793 |
| 2026 | | 4,983 |
| 2027 | | 5,136 |
| Thereafter | | <u>57,453</u> |
| | \$ | <u>81,223</u> |

Unamortized deferred bond financing costs of \$748 in 2022 and \$877 in 2021 are netted against tax-exempt bonds. Amortization expense was \$129 and \$91 in 2022 and 2021, respectively.

Line of Credit

The Institute maintains a working capital line of credit with Truist bank. The committed amount under the line of credit is \$15,000 and with the commitment extended through August 17, 2023. There was no balance drawn against the line of credit at June 30, 2022 and 2021. The line of credit is secured

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by a pledge on the revenues of the Institute and debt covenant requirements are consistent with the Bonds Payable and the Bank Loan.

15. RETIREMENT PLANS

The Institute maintains defined benefit and defined contribution plans covering substantially all of its employees.

Defined Benefit Plan

The Institute's defined benefit pension plan (the "plan") provides benefits to staff-level employees based on years of service and the employees' final average compensation. The Institute's policy is to annually fund the amount necessary to meet minimum funding requirement under ERISA. Contributions of \$3,600 and \$5,100 were made for 2022 and 2021, respectively. The plan was amended effective April 1, 2019 to allow lump sum payments to employees hired before July 1, 1989 and to allow in-service distributions to Plan participants who reach normal retirement age while still employed.

The net periodic benefit cost calculated in accordance with current guidance for employer's accounting for pension obligations is \$337 and \$2,242 for 2022 and 2021, respectively. The service cost components of net periodic pension cost is reported within salaries, wages and benefits on the Consolidated Statements of Operations and Changes in Net Assets.

The following table sets for the plan's funded status and benefit obligations recognized in the Institute's consolidated financial statements at June 30, 2022 and 2021:

Kennedy Krieger Institute, Inc., and Affiliates
Notes to Consolidated Financial Statements
for the years ended June 30, 2022 and 2021
(in thousands)

| | 2022 | 2021 |
|---|-------------------|-------------------|
| Change in benefit obligation: | | |
| Benefit obligation at beginning of year | \$ 64,030 | \$ 66,026 |
| Service cost | 314 | 688 |
| Interest cost | 1,776 | 1,795 |
| Actuarial (gain)/loss | (14,334) | (1,448) |
| Benefits paid from the Plan | (1,195) * | (3,031) |
| Plan Settlements | (2,678) | - |
| Projected benefit obligation at end of year | <u>\$ 47,913</u> | <u>\$ 64,030</u> |
| Change in plan assets: | | |
| Fair value of plan assets at beginning of year | \$ 54,543 | \$ 42,767 |
| Actual return on plan assets | (9,834) | 9,707 |
| Employer contribution | 3,600 | 5,100 |
| Benefits paid from the plan | (1,195) * | (3,031) |
| Plan settlements | (2,678) * | - |
| Fair value of plan assets at end of year | <u>\$ 44,436</u> | <u>\$ 54,543</u> |
| Funded status at end of year | <u>\$ (3,477)</u> | <u>\$ (9,487)</u> |
| <i>* The plan reported settlements due to lump sum payouts exceeding the sum of the service cost and interest cost for the fiscal year ended June 30, 2022. A settlement loss of \$598 was reported</i> | | |
| Amounts recognized in the Consolidated Balance Sheets: | | |
| Non current liabilities | \$ (3,477) | \$ (9,487) |
| Amounts recognized in Net assets without donor restrictions: | | |
| Net actuarial loss/(gain) | \$ 10,702 | \$ 13,448 |
| Information for pension plans with a accumulated benefit obligation in excess of plan assets: | | |
| Projected benefit obligation | \$ 47,914 | \$ 64,030 |
| Accumulated benefit obligation | \$ 47,914 | \$ 64,030 |
| Fair value of assets | \$ 44,437 | \$ 54,544 |
| Components of net periodic pension cost: | | |
| Service cost | \$ 314 | \$ 688 |
| Interest cost | 1,776 | 1,795 |
| Expected return on plan assets | (3,316) | (2,609) |
| Recognized net actuarial (gain)/loss | 965 | 2,368 |
| Effect of Settlement | 598 | - |
| Net periodic pension cost | <u>\$ 337</u> | <u>\$ 2,242</u> |
| Other changes in plan assets and benefit obligations recognized in Net assets without donor restrictions: | | |
| Net actuarial loss/(gain) | \$ 10,702 | \$ 13,448 |
| Total recognized in net periodic benefit cost and Net assets without donor restrictions: | <u>\$ 11,039</u> | <u>\$ 15,690</u> |

Kennedy Krieger Institute, Inc., and Affiliates
Notes to Consolidated Financial Statements
for the years ended June 30, 2022 and 2021
(in thousands)

Assumptions:

Weighted-average assumptions used to determine benefit

| obligation at: | <u>6/30/2022</u> | <u>6/30/2021</u> |
|-------------------------------|------------------|------------------|
| Discount rate | 4.63% | 2.82% |
| Rate of compensation increase | N/A | N/A |

Weighted-average assumptions used to determine net periodic benefits cost for years ended:

| | <u>6/30/2022</u> | <u>6/30/2021</u> |
|--|------------------|------------------|
| Discount rate | 2.82% | 2.76% |
| Expected long-term return on plan assets | 6.00% | 6.00% |
| Rate of compensation increase | N/A | N/A |

Cash flows:

Contributions: The expected contributions to be made during the 2023 fiscal year are \$3,600.

Estimated future benefit payments to be paid for fiscal year ending:

| | | |
|-----------|----|--------|
| 2023 | \$ | 2,205 |
| 2024 | | 2,218 |
| 2025 | | 2,233 |
| 2026 | | 2,355 |
| 2027 | | 2,463 |
| 2028-2032 | | 13,847 |

The discount rate assumption for fiscal years ending 2022 and 2021 was based on the FTSE Pension Above-Median Discount Curve as of June 30, 2022 and 2021. The mortality tables used in fiscal year 2022 and 2021 are based on the MP-2021 projection scale and the MP-2020 projection scale respectively.

In determining the expected long-term rate of return on plan assets, the Institute evaluated the historical long-term rate of return for each class of asset in determining an acceptable overall range of expected returns for the plan.

The following tables present fair value measurements for plan assets as of June 30, 2022 and 2021 by the valuation hierarchy as defined in footnote 9 and also includes the liquidity aspects of each investment:

Fair Value of Investments as of June 30, 2022:

| | Level 1 | Level 2 | Level 3 | Total Fair Value |
|---------------------------------|------------------|----------------|----------------|-----------------------------|
| Investments: | | | | |
| Money market funds (1) | \$ 454 | \$ - | \$ - | \$ 454 |
| Fixed income mutual funds (2) | 15,561 | - | - | 15,561 |
| Equity securities and funds (3) | <u>28,422</u> | <u>-</u> | <u>-</u> | <u>28,422</u> |
| Total Investments | <u>\$ 44,437</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 44,437</u> |

Kennedy Krieger Institute, Inc., and Affiliates
Notes to Consolidated Financial Statements
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(in thousands)

Fair Value of Investments as of June 30, 2021:

| | Level 1 | Level 2 | Level 3 | Total Fair Value |
|---------------------------------|------------------|-------------|-------------|---------------------|
| Investments: | | | | |
| Money market funds (1) | \$ 261 | \$ - | \$ - | \$ 261 |
| Fixed income mutual funds (2) | 19,122 | - | - | 19,122 |
| Equity securities and funds (3) | <u>35,161</u> | <u>-</u> | <u>-</u> | <u>35,161</u> |
| Total Investments | <u>\$ 54,544</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 54,544</u> |

- (1) Money market funds include investments in short-term debt securities, including US Treasury bills and commercial paper with same day or next day liquidity.
- (2) Fixed income mutual funds include funds whose underlying investments include domestic and international corporate bonds, obligations issued or guaranteed by the U.S. government or its agencies, bankers acceptances, bank certificates of deposit, repurchase agreements, commercial paper, fixed income instruments denominated in currencies of emerging market countries and fixed income instruments represented by forwards or derivatives including options, future contracts, and swap agreements. All funds are traded in active markets with next day liquidity.
- (3) Equity funds include investments in common stock mutual funds and are traded in active markets with next day liquidity.

The plan's target allocations and actual asset allocation at June 30, by asset category, was as follows:

| | Target Allocation | Actual Allocation 2022 | Actual Allocation 2021 |
|--------------------|----------------------|---------------------------|---------------------------|
| Money market funds | - | 1.0% | 0.5% |
| Equities | 65% | 64.0% | 64.4% |
| Fixed income | <u>35%</u> | <u>35.0%</u> | <u>35.1%</u> |
| | <u>100%</u> | <u>100.0%</u> | <u>100.0%</u> |

The objectives of the plan's investment strategy are to maximize the plan's funded status and minimize the Institute's contributions and plan expense.

The Investment Committee establishes a target asset allocation and regularly reviews the actual asset allocation against the target. It also periodically rebalances the investment allocations, as appropriate.

Defined Contribution Plan

The Institute maintains a qualified defined contribution retirement plan which is in compliance with section 401(k) of the Internal Revenue Code (IRC). The 401(k) plan is active and available to all employees (including all faculty and senior staff members) and provides for up to a 50% employer match on employee contributions up to certain levels of compensation. During 2022 and 2021, the aggregate contributions to the 401(k) plan were \$25,689 and \$21,918.

Deferred Compensation Plan

The Institute also offers a non-qualified deferred compensation plan (457(b) of the IRC) for certain of its executives which allows for the deferral of compensation up to IRS limits. A deferred compensation balance of \$2,051 and \$2,637 in fiscal years 2022 and 2021, respectively, was

Kennedy Krieger Institute, Inc., and Affiliates
Notes to Consolidated Financial Statements
for the years ended June 30, 2022 and 2021
(in thousands)

reported in Investments limited as to use in the Consolidated Balance Sheet. An associated liability of an equal amount is included in Other long-term liabilities in the Consolidated Balance Sheet. The Institute makes no contributions to the Deferred Compensation Plan.

16. INTEREST RATE SWAP

The Institute manages the fixed/variable mix of its debt portfolio, including hedging exposure to increasing interest expense on variable rate debt, by utilizing an interest rate swap. The Institute maintains a fixed payer interest rate swap which hedges the variable interest rate risk on the majority of the outstanding balance of the Series 2020 and 2017B Series Bonds. Under the terms of the agreement with a local bank, the Institute pays a fixed rate of 3.636% and receives a percentage of an applicable variable reference rate on notional amounts that reduce annually until July 2036. Notional amounts of \$33,551 and \$34,415 were effective June 30, 2022 and 2021, respectively. Under the terms of the agreement, no collateral requirements exist on the part of the Institute.

The fair value of the interest rate swap and the related unrealized (losses) were as follows as of June 30, including the classification on the Consolidated Balance Sheets and Statements of Operations:

| | Fair Market Value | |
|--|--|-----------------|
| | 2022 | 2021 |
| Interest rate swap liability | \$ 4,283 | \$ 8,518 |
| | Amount recognized in Non-operating activity | |
| | 2022 | 2021 |
| Unrealized gain/(loss) on interest rate swap valuation | \$ 4,235 | \$ 3,022 |
| Interest rate swap payments | (1,146) | (1,245) |
| Total | <u>\$ 3,089</u> | <u>\$ 1,777</u> |

17. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions were held for the following purposes at June 30, 2022 and 2021:

| | 2022 | 2021 |
|--------------------------------|------------------|------------------|
| Capital Campaigns | \$ 1,010 | \$ 1,943 |
| Research and clinical projects | 22,836 | 22,700 |
| Perpetual in nature | <u>4,551</u> | <u>2,415</u> |
| | <u>\$ 28,397</u> | <u>\$ 27,058</u> |

Kennedy Krieger Institute, Inc., and Affiliates
Notes to Consolidated Financial Statements
for the years ended June 30, 2022 and 2021
(in thousands)

During 2022 and 2021, net assets with donor restrictions were released by satisfying donor restrictions in the following amounts:

| | 2022 | 2021 |
|------------------------|-----------------|-----------------|
| Property and equipment | \$ 715 | \$ 1,389 |
| Operating activities | <u>5,347</u> | <u>2,127</u> |
| Total | <u>\$ 6,062</u> | <u>\$ 3,516</u> |

18. SELF INSURANCE

Professional and General Liability

The Institute maintains a self-insurance trust (the “Trust”) for general and professional liability to cover liability claims arising out of the ordinary course of its business. Excess coverage with an insurance company is in place to cover losses above self-insured retention levels.

Assets in the Trust are to provide for payment of professional and general liability claims and expenses. Potential losses from asserted and unasserted claims are accrued based on estimates that incorporate the Institute’s past experience, as well as other considerations, including the nature of each claim or incident, applicable insurance coverage and relevant trend factors.

An accrued liability related to asserted and unasserted self-insured general and professional liability claims of \$1,641 and have been recorded both June 30, 2022 and 2021 and is included in Accounts payable and accrued expenses on the Consolidated Balance Sheets. Investments in the Trust have a market value of \$4,957 and \$5,954 at June 30, 2022, and 2021, respectively and are reported in Investments limited as to use on the Consolidated Balance Sheets.

Workers’ Compensation, Unemployment and Health Benefits

The Institute self-insures its workers’ compensation, unemployment and employee health and dental benefits. Losses from claims identified by the Institute, as well as provisions for estimated losses for incurred but not reported incidents, are accrued based on estimates that incorporate the past experience of the Institute, as well as other considerations, including the nature of the claims or incidents and relevant trend factors. An accrued liability of \$3,199 and \$4,031 has been recorded on June 30, 2022, and 2021, respectively for these self-insured plans and is included in Accounts payable and accrued expenses on the Consolidated Balance Sheets.

19. COMMITMENTS AND CONTINGENCIES

Litigation

The Institute is involved in claims and litigation on professional liability and personnel matters that arise in the ordinary course of its business. This litigation is not expected to result in losses that exceed insurance limits or have a materially adverse effect on the Institute’s financial position.

Rental Lease Commitments

Through the creation of MSP, all property and major equipment is leased/subleased to each operating entity. These transactions are eliminated through the consolidating of the Institute’s financial statements.

Kennedy Krieger Institute, Inc., and Affiliates
Notes to Consolidated Financial Statements
for the years ended June 30, 2022 and 2021
(in thousands)

Commitments for leases that do not meet the criteria for capitalization are classified as operating leases with related rentals charged to operations as incurred. The following is a schedule by year of future minimum lease payments under operating leases as of June 30, 2022, that have initial or remaining lease terms in excess of one year.

| | |
|-----------|------------------|
| 2023 | 2,708 |
| 2024 | 1,948 |
| 2025 | 1,776 |
| 2026 | 1,820 |
| 2027 | 1,837 |
| 2028-2033 | 9,658 |
| Total | <u>\$ 19,747</u> |

Rent expense on external lease commitments for the years ended June 30, 2022 and 2021 was \$3,548 and \$2,861, respectively.

Charitable Gift Annuities

The Institute has received charitable gift annuities from donors from which the Institute has guaranteed payments to the donor on a quarterly basis until the donor's death.

The Institute has recorded gift annuities, net of future annuity payments, consistent with the rates adopted by the American Council on Gift Annuities at the time of issuance of the gift annuity. Gift annuities with a market value of \$476 and \$588 have been recorded in 2022 and 2021, net of a future annuity payment liability of \$273 and \$329, respectively, and are reported in Investments limited as to use on the Consolidated Balance Sheets. Maryland Insurance Commission required reserves for annuity payments are \$321 and \$335 in 2022 and 2021. Assets maintained on outstanding annuity agreements exceed the amount of the Maryland Insurance Commission required reserve.

20. FUNCTIONAL EXPENSES

The Institute provides specialty pediatric health care services, conducts laboratory and clinical research, operates special education school programs, and administers community-based services, conducts fundraising activities, and provides institutional support. Costs not directly attributable to a function, including depreciation and interest, are allocated to function based on square footage.

Kennedy Krieger Institute, Inc., and Affiliates
Notes to Consolidated Financial Statements
for the years ended June 30, 2022 and 2021
(in thousands)

Expenses related to providing these services are as follows:

| | June 30, 2022 | | | | | | |
|-------------------------------|----------------------|------------------|------------------------------|-----------------|--------------------------|-------------------|--|
| | Healthcare | Research | Education/ Community Svcs | Fundraising | Institutional Support | Total | |
| Salaries, wages and benefits | \$ 140,953 | \$ 21,568 | \$ 40,061 | \$ 1,692 | \$ 27,293 | \$ 231,567 | |
| Supplies and other | 20,299 | 9,006 | 4,949 | 2,658 | 17,605 | 54,518 | |
| Rent | 2,687 | - | 837 | - | - | 3,524 | |
| Interest | 997 | 219 | 612 | 10 | 302 | 2,141 | |
| Depreciation and amortization | 6,049 | 1,331 | 3,717 | 64 | 1,834 | 12,995 | |
| Total | <u>\$ 170,985</u> | <u>\$ 32,124</u> | <u>\$ 50,177</u> | <u>\$ 4,425</u> | <u>\$ 47,034</u> | <u>\$ 304,744</u> | |

| | June 30, 2021 | | | | | | |
|-------------------------------|----------------------|------------------|------------------------------|-----------------|--------------------------|-------------------|--|
| | Healthcare | Research | Education/ Community Svcs | Fundraising | Institutional Support | Total | |
| Salaries, wages and benefits | \$ 132,137 | \$ 17,711 | \$ 34,136 | \$ 1,973 | \$ 23,063 | \$ 209,020 | |
| Supplies and other | 18,404 | 8,055 | 2,320 | 1,234 | 16,288 | 46,301 | |
| Rent | 2,468 | - | 393 | - | - | 2,861 | |
| Interest | 1,101 | 242 | 677 | 12 | 334 | 2,366 | |
| Depreciation and amortization | 5,864 | 1,290 | 3,604 | 62 | 1,778 | 12,598 | |
| Total | <u>\$ 159,974</u> | <u>\$ 27,298</u> | <u>\$ 41,130</u> | <u>\$ 3,281</u> | <u>\$ 41,463</u> | <u>\$ 273,146</u> | |

21. SUBSEQUENT EVENTS

The Institute has evaluated subsequent events through October 14, 2022, which is the date the Consolidated Financial Statements were issued. There have been no events subsequent to that date that needed to be disclosed.



Report of Independent Auditors

To the Board of Directors of Kennedy Krieger Institute, Inc., and Affiliates

We have audited the consolidated financial statements of Kennedy Krieger Institute, Inc., and Affiliates as of and for the years ended June 30, 2022 and 2021 and our report thereon appears on pages 1 and 2 of this document which included an unmodified opinion on those consolidated financial statements. That audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information as of and for the years ended June 30, 2022 and 2021 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 consolidating 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 consolidating information is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole. The consolidating information is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations and cash flows of the individual companies and is not a required part of the consolidated financial statements. Accordingly, we do not express an opinion on the financial position, results of operations and cash flows of the individual companies.

A handwritten signature in cursive script that reads "PricewaterhouseCoopers LLP". The signature is written in black ink on a white background.

Baltimore, Maryland
October 14, 2022

SUPPLEMENTAL CONSOLIDATING FINANCIAL STATEMENTS

Kennedy Krieger Institute, Inc., and Affiliates

Combining Statement of Net Assets

Year Ended June 30, 2022

| | Kennedy Krieger Children's Hospital, Inc | Hugo W. Moser Research Institute at Kennedy Krieger, Inc | Kennedy Krieger Education & Community Services, Inc. | Kennedy Krieger Foundation Inc. | Pact: Helping Children with Special Needs, Inc. | Madison Street Properties Inc. | Combining Eliminations | COMBINED TOTAL |
|--|--|--|--|---------------------------------|---|--------------------------------|------------------------|----------------|
| Assets: | | | | | | | | |
| Current Assets: | | | | | | | | |
| Cash and cash equivalents | 14,331,288 | - | - | 7,944,072 | 821,405 | - | - | 23,096,765 |
| Patient receivable, net | 18,667,187 | - | 1,781,568 | - | 105,062 | - | - | 20,553,817 |
| Grants and contract receivable | (514,027) | 8,167,179 | 1,644,424 | - | 575,726 | - | - | 9,873,302 |
| Tuition receivable | - | - | 6,175,059 | - | - | - | - | 6,175,059 |
| Pledge receivable | - | - | - | 521,500 | 4,000 | - | - | 525,500 |
| Due from affiliates | 64,986,150 | - | 2,515,584 | - | - | - | (67,501,734) | - |
| Prepaid expenses and other | 3,296,379 | 1,056,899 | 632,076 | 2,720 | 14,729 | - | (185,000) | 4,817,803 |
| Total Current Assets | 100,766,977 | 9,224,078 | 12,748,711 | 8,468,292 | 1,520,922 | - | (67,686,734) | 65,042,246 |
| Non-current Assets: | | | | | | | | |
| Property and equipment, net | - | - | - | - | - | 145,848,632 | - | 145,848,632 |
| Board designated endowment | - | - | - | 62,122,807 | 437,876 | - | - | 62,560,683 |
| Investments limited as to use | 7,008,407 | - | - | 1,761,547 | - | - | - | 8,769,954 |
| Pledge receivable, net | - | - | - | 345,241 | 7,500 | - | - | 352,741 |
| Total Non-Current Assets | 7,008,407 | - | - | 64,229,595 | 445,376 | 145,848,632 | - | 217,532,010 |
| Total Assets | 107,775,384 | 9,224,078 | 12,748,711 | 72,697,887 | 1,966,298 | 145,848,632 | (67,686,734) | 282,574,256 |
| Liabilities and Net Assets | | | | | | | | |
| Current Liabilities: | | | | | | | | |
| Accounts payable and accrued expenses | 42,663,154 | 1,021,805 | 58,455 | - | 36,508 | 1,587,320 | - | 45,367,242 |
| Deferred grant revenue | (117,822) | 1,826,599 | 311,042 | - | 41,048 | - | - | 2,060,867 |
| Due to affiliates | - | 21,457,455 | - | 4,892,636 | 35,074 | 41,116,569 | (67,501,734) | - |
| Current portion of Long-Term Liabilities | - | - | - | - | - | 4,257,929 | - | 4,257,929 |
| Total Current Liabilities | 42,545,332 | 24,305,859 | 369,497 | 4,892,636 | 112,630 | 46,961,818 | (67,501,734) | 51,686,038 |
| Non-current Liabilities: | | | | | | | | |
| Long Term Debt, net | - | - | - | - | - | 76,217,018 | - | 76,217,018 |
| Accrued Pension Payable | 3,476,679 | - | - | - | - | - | - | 3,476,679 |
| Interest Rate Swap Accrual | - | - | - | - | - | 4,283,214 | - | 4,283,214 |
| Other long-term liabilities | 2,397,470 | - | - | - | - | - | - | 2,397,470 |
| Total Long-Term Liabilities | 5,874,149 | - | - | - | - | 80,500,232 | - | 86,374,381 |
| Total Liabilities | 48,419,481 | 24,305,859 | 369,497 | 4,892,636 | 112,630 | 127,462,050 | (67,501,734) | 138,060,419 |
| Net Assets | | | | | | | | |
| Unrestricted | 54,103,932 | (25,135,110) | 11,236,329 | 57,245,460 | 464,297 | 18,386,582 | (185,000) | 116,116,490 |
| Restricted | 5,251,971 | 10,053,329 | 1,142,885 | 10,559,791 | 1,389,371 | - | - | 28,397,347 |
| Total Net Assets | 59,355,903 | (15,081,781) | 12,379,214 | 67,805,251 | 1,853,668 | 18,386,582 | (185,000) | 144,513,837 |
| Total Liabilities and Net Assets | 107,775,384 | 9,224,078 | 12,748,711 | 72,697,887 | 1,966,298 | 145,848,632 | (67,686,734) | 282,574,256 |

Kennedy Krieger Institute, Inc., and Affiliates

Combining Statement of Net Assets

Year Ended June 30, 2022

| | Kennedy Krieger Children's Hospital, Inc | Hugo W. Moser Research Institute at Kennedy Krieger, Inc | Kennedy Krieger Education & Community Services, Inc. | Kennedy Krieger Foundation Inc. | Pact: Helping Children with Special Needs, Inc. | Madison Street Properties Inc. | Combining Eliminations | Combined Total |
|---|---|---|---|--|--|---|---------------------------|-------------------|
| Operating revenues: | | | | | | | | |
| Patient service revenue, net | \$ 191,355,713 | \$ 2,220,553 | \$ 3,198,416 | \$ - | \$ 164,262 | \$ - | \$ - | \$ 196,938,944 |
| Tuition revenue | - | - | 45,223,696 | - | 431,796 | - | - | 45,655,492 |
| Grants and contract revenue | 6,705,922 | 30,710,214 | 7,066,321 | - | 2,271,216 | - | - | 46,753,673 |
| Net assets released for operating activities | 715,592 | 2,221,898 | 862,302 | 2,104,035 | 159,033 | - | (715,200) | 5,347,660 |
| Investment earnings used for operating activities | - | 2,510,439 | - | - | - | - | - | 2,510,439 |
| Unrestricted contributions from fundraising activities, net | - | - | - | 1,107,627 | - | - | - | 1,107,627 |
| Other operating revenues | 735,130 | 4,348,625 | 63,750 | - | 376,919 | 39,111,904 | (43,561,535) | 1,074,793 |
| Total operating revenues | 199,512,357 | 42,011,729 | 56,414,485 | 3,211,662 | 3,403,226 | 39,111,904 | (44,276,735) | 299,388,628 |
| Operating expenses: | | | | | | | | |
| Salaries, wages and benefits | 150,759,054 | 23,755,300 | 43,804,461 | 400,797 | 2,785,888 | 8,670,685 | - | 230,176,185 |
| Supplies, purchased services and other | 25,712,440 | 14,339,970 | 6,815,739 | 1,905,346 | 485,593 | 11,758,178 | (7,320,566) | 53,696,700 |
| Space costs, net | 24,078,656 | 5,246,735 | 7,228,957 | 262,091 | 139,730 | 3,547,573 | (36,956,169) | 3,547,573 |
| Depreciation | - | - | - | - | - | 12,994,618 | - | 12,994,618 |
| Interest | - | - | - | - | - | 2,140,774 | - | 2,140,774 |
| Total operating expenses | 200,550,150 | 43,342,005 | 57,849,157 | 2,568,234 | 3,411,211 | 39,111,828 | (44,276,735) | 302,555,850 |
| Operating revenues over (under) expenses | (1,037,793) | (1,330,276) | (1,434,672) | 643,428 | (7,985) | 76 | - | (3,167,222) |
| Non-operating activity: | | | | | | | | |
| Investment return, net | (671,185) | - | - | (13,298,328) | (72,386) | - | - | (14,041,899) |
| Gain (loss) on interest rate swap | - | - | - | - | - | 3,089,215 | - | 3,089,215 |
| Restricted fundraising expenses | - | - | - | (1,767,213) | - | - | - | (1,767,213) |
| Net non-operating activities | (671,185) | - | - | (15,065,541) | (72,386) | 3,089,215 | - | (12,719,897) |
| Excess of revenues (under) over expenses | \$ (1,708,978) | \$ (1,330,276) | \$ (1,434,672) | \$ (14,422,113) | \$ (80,371) | \$ 3,089,291 | \$ - | \$ (15,887,119) |

Kennedy Krieger Institute, Inc., and Affiliates
Combining Statement of Net Assets
Year Ended June 30, 2022

| | Kennedy Krieger Children's Hospital, Inc | Hugo W. Moser Research Institute at Kennedy Krieger, Inc | Kennedy Krieger Education & Community Services, Inc. | Kennedy Krieger Foundation Inc. | Pact: Helping Children with Special Needs, Inc. | Madison Street Properties Inc. | Combining Eliminations | COMBINED TOTAL |
|---|---|---|---|--|--|---|---------------------------|-------------------|
| Unrestricted net assets: | | | | | | | | |
| Excess of operating revenue over (under) operating expenses | \$ (1,708,978) | \$ (1,330,276) | \$ (1,434,672) | \$ (14,422,113) | \$ (80,371) | \$ 3,089,291 | \$ - | \$ (15,887,119) |
| Net assets released from restrictions used for property and equipment | - | - | - | - | - | 715,200 | - | 715,200 |
| Change in funded status of defined benefit plan | 3,736,335 | - | - | - | - | - | - | 3,736,335 |
| Increase (decrease) in unrestricted net assets | 2,027,357 | (1,330,276) | (1,434,672) | (14,422,113) | (80,371) | 3,804,491 | - | (11,435,584) |
| Unrestricted net assets, beginning of year | 52,076,575 | (23,804,836) | 12,671,000 | 71,667,576 | 544,668 | 14,582,091 | (185,000) | 127,552,074 |
| Unrestricted net assets, end of year | 54,103,932 | (25,135,112) | 11,236,328 | 57,245,463 | 464,297 | 18,386,582 | (185,000) | 116,116,490 |
| Restricted net assets: | | | | | | | | |
| Contributions from fundraising activities | 2,514,670 | 2,150,123 | 809,532 | 1,527,574 | 400,604 | - | - | 7,402,503 |
| Net assets released from restrictions used for: | - | - | - | - | - | - | - | - |
| Operating activities | (715,592) | (2,221,898) | (722,102) | (1,529,035) | (159,033) | - | - | (5,347,660) |
| Purchases of property and equipment | - | - | (140,200) | (575,000) | - | - | - | (715,200) |
| Increase (decrease) in restricted net assets | 1,799,078 | (71,775) | (52,770) | (576,461) | 241,571 | - | - | 1,339,643 |
| Restricted net assets, beginning of year | 3,452,893 | 10,125,106 | 1,195,656 | 11,136,249 | 1,147,800 | - | - | 27,057,704 |
| Restricted net assets, end of year | 5,251,971 | 10,053,331 | 1,142,886 | 10,559,788 | 1,389,371 | - | - | 28,397,347 |
| Increase(decrease) in total net assets | 3,826,435 | (1,402,051) | (1,487,442) | (14,998,574) | 161,200 | 3,804,491 | - | (10,095,941) |
| Total net assets, beginning of year | 55,529,468 | (13,679,730) | 13,866,656 | 82,803,825 | 1,692,468 | 14,582,091 | (185,000) | 154,609,778 |
| Total net assets, end of year | \$ 59,355,903 | \$ (15,081,781) | \$ 12,379,214 | \$ 67,805,251 | \$ 1,853,668 | \$ 18,386,582 | \$ (185,000) | \$ 144,513,837 |

Kennedy Krieger Institute, Inc., and Affiliates

Combining Balance Sheet

Year Ended June 30, 2021

| | Kennedy Krieger Children's Hospital, Inc | Hugo W. Moser Research Institute at Kennedy Krieger, Inc. | Kennedy Krieger Education & Community Services, Inc. | Kennedy Krieger Foundation, Inc. | PACT: Helping Children with Special Needs, Inc. | Madison Street Properties, Inc. | Consolidating Eliminations | Consolidated Totals |
|--|--|---|--|----------------------------------|---|---------------------------------|----------------------------|---------------------|
| Assets | | | | | | | | |
| Current assets: | | | | | | | | |
| Cash and cash equivalents | \$ 18,985,934 | \$ - | \$ - | \$ 17,565,251 | \$ 554,775 | \$ - | \$ - | \$ 37,105,960 |
| Patient receivables, net | 20,212,676 | \$ - | \$ 1,618,181 | - | 81,693 | - | - | 21,912,550 |
| Grant and contract receivable | (81,372) | \$ 3,394,792 | 798,476 | - | 448,729 | - | - | 4,560,625 |
| Tuition receivable | - | - | 4,215,042 | - | - | - | - | 4,215,042 |
| Pledges receivable | - | - | - | 632,700 | 3,000 | - | - | 635,700 |
| Due from affiliates | 64,364,219 | - | 7,523,866 | - | 207,167 | - | \$ (72,095,252) | - |
| Prepaid expenses and other | 2,667,666 | 662,598 | 185,000 | 1,722 | 1,697 | - | (185,000) | 3,333,683 |
| Total current assets | 106,149,123 | 4,057,390 | 14,340,565 | 18,199,673 | 1,297,061 | - | (72,280,252) | 71,763,560 |
| Non-current assets: | | | | | | | | |
| Property and equipment, net | - | - | - | - | - | 154,077,614 | - | 154,077,614 |
| Board designated endowment | - | - | - | 74,164,929 | 510,262 | - | - | 74,675,191 |
| Investments limited as to use | 8,591,405 | - | - | 2,079,845 | - | - | - | 10,671,250 |
| Pledges receivable, net | - | - | - | 265,268 | 12,500 | - | - | 277,768 |
| Total non-current assets | 8,591,405 | - | - | 76,510,042 | 522,762 | 154,077,614 | - | 239,701,823 |
| Total assets | \$ 114,740,528 | \$ 4,057,390 | \$ 14,340,565 | \$ 94,709,715 | \$ 1,819,823 | \$ 154,077,614 | \$ (72,280,252) | \$ 311,465,383 |
| Liabilities and net assets | | | | | | | | |
| Current liabilities: | | | | | | | | |
| Accounts payable and accrued expenses | \$ 43,935,097 | \$ 983,558 | \$ 234,683 | \$ 15,000 | \$ 26,195 | \$ 1,878,987 | - | \$ 47,073,520 |
| Deferred grant revenue | 2,147,223 | 1,570,096 | 239,226 | - | 101,160 | - | - | 4,057,705 |
| Due to affiliates | - | 15,183,466 | - | 11,890,890 | - | 45,020,896 | (72,095,252) | - |
| Line of credit / short term note | - | - | - | - | - | - | - | - |
| Current portion of long-term liabilities | - | - | - | - | - | 3,731,113 | - | 3,731,113 |
| Total Current Liabilities | 46,082,320 | 17,737,120 | 473,909 | 11,905,890 | 127,355 | 50,630,996 | (72,095,252) | 54,862,338 |
| Non-current Liabilities: | | | | | | | | |
| Tax-exempt bonds, net | - | - | - | - | - | 80,346,128 | - | 80,346,128 |
| Accrued pension | 9,486,342 | - | - | - | - | - | - | 9,486,342 |
| Interest rate swap | - | - | - | - | - | 8,518,399 | - | 8,518,399 |
| Other long-term liabilities | 3,642,398 | - | - | - | - | - | - | 3,642,398 |
| Total long-term liabilities | 13,128,740 | - | - | - | - | 88,864,527 | - | 101,993,267 |
| Total liabilities | 59,211,060 | 17,737,120 | 473,909 | 11,905,890 | 127,355 | 139,495,523 | (72,095,252) | 156,855,605 |
| Net assets: | | | | | | | | |
| Without donor restrictions | 52,076,575 | (23,804,836) | 12,671,000 | 71,667,576 | 544,668 | 14,582,091 | (185,000) | 127,552,074 |
| With donor restrictions | 3,452,893 | 10,125,106 | 1,195,656 | 11,136,249 | 1,147,800 | - | - | 27,057,704 |
| Total net assets | 55,529,468 | (13,679,730) | 13,866,656 | 82,803,825 | 1,692,468 | 14,582,091 | (185,000) | 154,609,778 |
| Total liabilities and net assets | 114,740,528 | 4,057,390 | 14,340,565 | 94,709,715 | 1,819,823 | 154,077,614 | (72,280,252) | 311,465,383 |

Kennedy Krieger Institute, Inc., and Affiliates
Statement of Operations
Year Ended June 30, 2021

| | Kennedy Krieger Children's Hospital, Inc | Hugo W. Moser Research Institute at Kennedy Krieger, Inc | Kennedy Krieger Education & Community Services, Inc. | Kennedy Krieger Foundation Inc. | Pact: Helping Children with Special Needs, Inc. | Madison Street Properties Inc. | Combining Eliminations | Combined Total |
|---|--|--|--|---------------------------------|---|--------------------------------|------------------------|----------------|
| Operating revenues: | | | | | | | | |
| Patient service revenue, net | \$ 185,576,337 | \$ 1,954,357 | \$ 1,065,993 | | \$ 116,070 | | | \$ 188,712,757 |
| Tuition revenue | | | 41,822,870 | | 326,260 | | | 42,149,130 |
| Grants and contract revenue | 7,812,296 | 22,741,302 | 4,504,091 | | 1,900,588 | | | 36,958,277 |
| Net assets released for operating activities | 623,310 | 1,803,499 | 393,852 | 411,370 | 284,244 | | (1,388,808) | 2,127,467 |
| Investment earnings used for operating activities | | 2,256,437 | | | | | | 2,256,437 |
| Unrestricted contributions from fundraising activities, net | | | | 2,326,692 | | | | 2,326,692 |
| Other operating revenues | 610,256 | 934,924 | 66,215 | | 388,025 | 36,792,562 | (37,848,229) | 943,753 |
| Total operating revenues | 194,622,199 | 29,690,519 | 47,853,021 | 2,738,062 | 3,015,187 | 36,792,562 | (39,237,037) | 275,474,513 |
| Operating expenses: | | | | | | | | |
| Salaries, wages and benefits | 140,215,376 | 19,159,624 | 37,029,999 | 969,663 | 2,436,858 | 8,139,730 | | 207,951,250 |
| Supplies, purchased services and other | 23,526,916 | 9,704,304 | 3,813,092 | 484,608 | 426,203 | 10,318,805 | (2,754,756) | 45,519,172 |
| Space costs, net | 23,441,849 | 5,030,824 | 7,100,147 | 251,511 | 148,760 | 3,370,493 | (36,482,281) | 2,861,303 |
| Depreciation | | | | | | 12,597,186 | | 12,597,186 |
| Rent | | | | | | | | - |
| Interest | | | | | | 2,366,273 | | 2,366,273 |
| Total operating expenses | 187,184,141 | 33,894,752 | 47,943,238 | 1,705,782 | 3,011,821 | 36,792,487 | (39,237,037) | 271,295,184 |
| Operating revenues over (under) expenses | 7,438,058 | (4,204,233) | (90,217) | 1,032,280 | 3,366 | 75 | - | 4,179,329 |
| Non-operating activity: | | | | | | | | |
| Investment return, net | 1,319,049 | | | 15,539,935 | 120,374 | 1,692 | | 16,981,050 |
| Gain (loss) on interest rate swap | | | | | | 1,777,019 | | 1,777,019 |
| Restricted fundraising expenses | | | | (1,276,854) | | | | (1,276,854) |
| Net non-operating activities | 1,319,049 | - | - | 14,263,081 | 120,374 | 1,778,711 | - | 17,481,215 |
| Excess of revenues (under) over expenses | \$ 8,757,107 | \$ (4,204,233) | \$ (90,217) | \$ 15,295,361 | \$ 123,740 | \$ 1,778,786 | \$ - | \$ 21,660,544 |

Kennedy Krieger Institute, Inc., and Affiliates
Combining Statement of Changes in Net Assets
Year Ended June 30, 2021

| | Kennedy Krieger Children's Hospital, Inc | Hugo W. Moser Research Institute at Kennedy Krieger, Inc. | Kennedy Krieger Education & Community Services, Inc. | Kennedy Krieger Foundation Inc. | PACT: Helping Children with Special Needs, Inc. | Madison Street Properties Inc. | Consolidating Eliminations | Consolidated Totals |
|---|---|---|--|--|---|---|-------------------------------|------------------------|
| Net assets without donor restrictions: | | | | | | | | |
| Excess of revenue over (under) expenses | \$ 8,757,107 | \$ (4,204,233) | \$ (90,217) | \$ 15,295,361 | \$ 123,740 | \$ 1,778,786 | \$ - | \$ 21,660,544 |
| Net assets released from restrictions used for property and equipment | - | - | - | - | - | 1,388,809 | - | 1,388,809 |
| Change in funded status of defined benefit plan | 10,914,760 | - | - | - | - | - | - | 10,914,760 |
| Increase (decrease) in net assets without donor restrictions | 19,671,867 | (4,204,233) | (90,217) | 15,295,361 | 123,740 | 3,167,595 | - | 33,964,113 |
| Net assets without donor restrictions, beginning of year | - | - | - | - | - | - | - | - |
| Net assets without donor restrictions, end of year | 32,404,708 | (19,600,603) | 12,761,217 | 56,372,215 | 420,928 | 11,414,496 | (185,000) | 93,587,961 |
| Net assets without donor restrictions, end of year | 52,076,575 | (23,804,836) | 12,671,000 | 71,667,576 | 544,668 | 14,582,091 | (185,000) | 127,552,074 |
| Net assets with donor restrictions: | | | | | | | | |
| Contributions with donor restrictions | 950,304 | 1,007,861 | 646,458 | 132,924 | 337,774 | - | - | 3,075,321 |
| Net assets released from restrictions used for: | - | - | - | - | - | - | - | - |
| Operating activities | (623,310) | (414,692) | (393,852) | (411,370) | (284,244) | - | - | (2,127,468) |
| Purchases of property and equipment | - | (1,388,807) | - | - | - | - | - | (1,388,807) |
| Increase (decrease) in net assets with donor restrictions | 326,994 | (795,638) | 252,606 | (278,446) | 53,530 | - | - | (440,954) |
| Net assets with donor restrictions, beginning of year | 3,125,899 | 10,920,744 | 943,050 | 11,414,695 | 1,094,270 | - | - | 27,498,658 |
| Net assets with donor restrictions, end of year | 3,452,893 | 10,125,106 | 1,195,656 | 11,136,249 | 1,147,800 | - | - | 27,057,704 |
| Increase (decrease) in total net assets | 19,998,861 | (4,999,871) | 162,389 | 15,016,915 | 177,270 | 3,167,595 | - | 33,523,159 |
| Total net assets, beginning of year | 35,530,607 | (8,679,859) | 13,704,267 | 67,786,910 | 1,515,198 | 11,414,496 | (185,000) | 121,086,619 |
| Total net assets, end of year | \$ 55,529,468 | \$ (13,679,730) | \$ 13,866,656 | \$ 82,803,825 | \$ 1,692,468 | \$ 14,582,091 | \$ (185,000) | \$ 154,609,778 |

Kennedy Krieger Institute, Inc., and Affiliates
Notes to Supplemental Consolidating Financial Statements
for the year ended June 30, 2022

1. Basis of Presentation and Accounting

The consolidating supplemental schedules have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

The Supplemental Consolidating Financial Statements presented on pages 37-39 were derived from and relate directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial positions and changes in net assets of the individual companies within the Institute and are not a required part of the consolidated financial statements. The individual affiliates within the Institute as presented within the supplemental consolidating financial statements are disclosed within Note 1 to the consolidated financial statements.