SHEPPARD AND ENOCH PRATT FOUNDATION, INC.
AND SUBSIDIARIES

Consolidated Financial Statements and Supplementary Information

June 30, 2024 and 2023

(With Independent Auditors' Report Thereon)

SHEPPARD AND ENOCH PRATT FOUNDATION, INC.
AND SUBSIDIARIES

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

Independent Auditors' Report

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

Opinion

We have audited the consolidated financial statements of Sheppard and Enoch Pratt Foundation, Inc. and its subsidiaries (the Company), which comprise the consolidated balance sheets as of June 30, 2024 and 2023, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of June 30, 2024 and 2023, and the results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

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

Responsibilities of Management for the Consolidated Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

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

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying supplementary information in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

KPMG LLP

Baltimore, Maryland
October 23, 2024

SHEPPARD AND ENOCH PRATT FOUNDATION, INC.
AND SUBSIDIARIES

Consolidated Balance Sheets

June 30, 2024 and 2023

Assets		**2024**	**2023**
Current assets:			
Cash and cash equivalents	$	101,765,890	66,783,376
Investments limited or restricted as to use		2,817,921	1,007,798
Accounts receivable, net		44,879,137	44,256,366
Prepaid expenses and other current assets		12,199,930	10,152,189
Total current assets		161,662,878	122,199,729
Investments limited or restricted as to use, less current portion		196,668,673	190,127,686
Property and equipment, net		325,738,396	333,781,578
Third-party payor settlements receivable		5,234,719	7,261,077
Operating right-of-use assets		15,934,587	18,794,793
Other assets		3,091,638	6,264,275
Total assets	$	708,330,891	678,429,138
Liabilities and Net Assets			
Current liabilities:			
Current maturities of long-term debt	$	6,174,834	10,851,758
Current portion of obligations under finance leases		239,239	514,647
Current portion of obligations under operating leases		3,661,478	3,688,980
Accounts payable		9,703,202	8,933,382
Accrued salaries, wages, and employee benefits		44,315,629	30,437,866
Self-insurance liabilities		9,715,205	7,074,413
Other accrued expenses		22,075,911	17,600,782
Total current liabilities		95,885,498	79,101,828
Long-term liabilities:			
Long-term debt, less current portion		151,441,924	157,802,388
Obligations under finance leases, less current portion		5,283,983	5,706,592
Obligations under operating leases, less current portion		13,742,836	16,553,282
Self-insurance liabilities, less current portion		2,628,224	4,840,688
Other long-term liabilities		4,576,810	4,839,655
Total liabilities		273,559,275	268,844,433
Net assets:			
Without donor restrictions		410,053,729	383,363,612
With donor restrictions		24,717,887	26,221,093
Total net assets		434,771,616	409,584,705
Total liabilities and net assets	$	708,330,891	678,429,138

See accompanying notes to consolidated financial statements.

SHEPPARD AND ENOCH PRATT FOUNDATION, INC.
AND SUBSIDIARIES

Consolidated Statements of Operations

Years ended June 30, 2024 and 2023

	2024	2023
Revenues, gains, and other support:		
Patient service revenue	$ 193,522,791	185,490,474
Residential and educational service revenue	214,094,965	189,124,643
Net service revenue	407,617,756	374,615,117
Net assets released from restrictions used for operations	1,141,108	2,039,203
Other operating revenue	77,776,595	80,976,039
Total revenues, gains, and other support	486,535,459	457,630,359
Expenses:		
Salaries and wages	271,403,704	260,542,166
Employee benefits	55,751,999	48,101,709
Expendable supplies	16,112,275	15,147,831
Purchased services	95,003,897	90,496,976
Interest	5,268,057	5,385,508
Repairs and maintenance	8,774,745	7,300,722
Depreciation and amortization	28,124,520	25,956,567
Total expenses	480,439,197	452,931,479
Operating income	6,096,262	4,698,880
Other income (expense):		
Investment income (loss)	364,262	(430,493)
Realized gains on investments, net	1,197,817	1,289,849
Loss related to pension settlement	—	(54,220,883)
Unrealized gains on investments, net	15,599,905	7,725,636
Other	2,529,343	(1,954,965)
Total other income (expense)	19,691,327	(47,590,856)
Excess (deficiency) of revenues over expenses	25,787,589	(42,891,976)
Other changes in net assets:		
Net assets released from restrictions used for purchases of property and equipment	552,528	733,368
Pension liability adjustment	—	50,372,249
Capital grants and other	350,000	3,738,116
Increase in net assets without donor restrictions	$ 26,690,117	11,951,757

See accompanying notes to consolidated financial statements.

SHEPPARD AND ENOCH PRATT FOUNDATION, INC.
AND SUBSIDIARIES

Consolidated Statements of Changes in Net Assets

Years ended June 30, 2024 and 2023

		2024	2023
Net assets without donor restrictions:			
Excess (deficiency) of revenues over expenses	$	25,787,589	(42,891,976)
Other changes in net assets:			
Net assets released from restrictions used for purchases of property and equipment		552,528	733,368
Pension liability adjustment		—	50,372,249
Capital grants and other		350,000	3,738,116
Increase in net assets without donor restrictions		26,690,117	11,951,757
Net assets with donor restrictions:			
Gifts and grants		502,791	905,368
Investment gain (loss)		28,794	(9,239)
Net realized gains on investments		51,717	50,737
Net unrealized gains (losses) on investments		672,222	319,777
Net assets released from restrictions for operations		(1,141,108)	(2,039,203)
Net assets released from restrictions for purchases of property and equipment		(552,528)	(733,368)
Other		(1,065,094)	—
Decrease in net assets with donor restrictions		(1,503,206)	(1,505,928)
Increase in net assets		25,186,911	10,445,829
Net assets, beginning of year		409,584,705	399,138,876
Net assets, end of year	$	434,771,616	409,584,705

See accompanying notes to consolidated financial statements.

SHEPPARD AND ENOCH PRATT FOUNDATION, INC.
AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years ended June 30, 2024 and 2023

		2024	2023
Cash flows from operating activities:			
Increase in net assets	$	25,186,911	10,445,829
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:			
Depreciation and amortization		28,124,520	25,956,567
Gifts and grants, net		1,703,411	1,133,836
Net realized gains on investments		(1,249,534)	(1,340,586)
Net unrealized (gains) on investments		(16,272,127)	(8,045,413)
Restricted investment (gains) losses on restricted net assets		(28,794)	9,239
Capital grants and other		(350,000)	(3,738,116)
Increase in accounts receivable, net		(622,771)	(630,040)
Increase in prepaid expenses and other assets		(2,047,741)	(1,694,813)
Decrease in third-party payor settlements receivable		2,026,358	—
Decrease in operating right-of-use assets, net		2,860,206	868,488
Decrease in obligations under operating leases		(2,837,948)	(561,880)
Increase (decrease) in accounts payable, accrued salaries, accrued expenses and other		18,931,880	(10,637,607)
Increase in self-insurance liabilities		428,328	1,169,518
Decrease in accrued pension liability		—	(9,714,066)
Net cash provided by operating activities		55,852,699	3,220,956
Cash flows from investing activities:			
Purchases of property and equipment		(18,331,914)	(23,341,328)
Increase in others assets and notes receivable		300,850	1,426,349
Proceeds from sale of property and equipment		1,050,351	12,700
Purchases of alternative investments		(30,670,228)	(26,837,317)
Sales of alternative investments		36,773,372	34,771,953
Decrease in investments limited or restricted as to use, net		2,038,185	11,452,409
Acquired cash		—	226,907
Net cash used in investing activities		(8,839,384)	(2,288,327)
Cash flows from financing activities:			
Payment of long-term debt principal		(11,037,388)	(6,144,343)
Payment on finance lease obligations		(698,017)	(908,553)
Capital grants and other		350,000	3,738,116
Gifts and grants, net		(916,425)	(966,113)
Net cash used in financing activities		(12,301,830)	(4,280,893)
Net increase (decrease) in cash and cash equivalents		34,711,485	(3,348,264)
Cash and cash equivalents, beginning of year		75,093,204	78,441,468
Cash and cash equivalents, end of year	$	109,804,689	75,093,204
Supplemental disclosure of noncash investing and financing activities:			
Noncash purchases of property and equipment	$	1,230,564	2,858,156
Restricted cash included in investments limited or restricted as to use, net		8,038,799	8,309,828
Hunt Valley lease modification		(189,971)	4,098,370

See accompanying notes to consolidated financial statements.

(1) Summary of Significant Accounting Policies

(a) Organization

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

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

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

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

On July 1, 2022, the organization acquired Omni House, Inc. a community based residential and outpatient service provider. The sole member of the company is Way Station, Inc. Omni House, Inc. was subsequently dissolved on June 30, 2024, which resulted in a write-off of goodwill of $2,839,111, that is included within depreciation and amortization on the consolidated statements of operations for the year ended June 30, 2024.

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

(b) Basis of Presentation

The consolidated financial statements are prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles (U.S. GAAP). All majority-owned and affiliated

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member entities are consolidated. All entities where Foundation exercises significant influence but for which it does not have control are accounted for under the equity method. All other entities are accounted for under the cost method. All significant intercompany accounts and transactions have been eliminated.

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

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

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

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

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

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

(c) Charity Care

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

(d) Cash and cash equivalents

Foundation considers all highly liquid investments with a maturity date of three months or less when purchased as cash equivalents. Cash and cash equivalents balances may exceed amounts insured by federal agencies, and therefore, bear risk of loss.

(e) Investments Limited or Restricted as to Use

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

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

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

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

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

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

(f) Pledges

Pledges, less an allowance for uncollectible amounts, are recorded as receivables in the year the pledge is made unless the pledge carries conditions that have not been met. Conditional pledges are recorded as contributions when the conditions of the pledge have been satisfied. Pledges receivable are recorded at net realizable value, which is calculated using an average discount rate of 3% at June 30, 2024 and 2023.

(g) Property and equipment, net

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

Gifts of long-lived assets such as land, buildings, or equipment are reported as other changes in net assets without donor restrictions, and are excluded from the excess (deficiency) of revenues over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

(h) Costs of Borrowing

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

(i) Estimated Self-Insurance Liability Claims

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

(j) Patient Service Revenue and Net Patient Accounts Receivable

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 606, *Revenue from Contracts with Customers* (FASB ASC 606) provides a principles-based framework for recognizing revenue to depict the transfer of promised goods or services to customers in an amount

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that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

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

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

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

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

Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change. Subsequent changes that are determined to be the result of an adverse change in the payor's or patient's ability to pay are recorded as bad debt expense. Subsequent changes in the estimated transaction prices for the years ended June 30, 2024 and 2023 were not significant to the consolidated financial statements.

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

The Company's revenues may be subject to adjustment as a result of examination by government agencies or contractors, and as a result of differing interpretation of government regulations, medical diagnosis, charge coding, medical necessity, or other contract terms. The resolution of these matters, if

(Continued)

any, often is not finalized until subsequent to the period during which the services were rendered (note 12).

(k) Residential and Educational Service Revenue

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

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

(l) Other Operating Revenue

Other operating revenue is primarily comprised of grant revenues without donor restrictions and business service revenue, which is recognized when earned.

(m) Impairment of Long-Lived Assets

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

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

In estimating the future cash flows for determining whether an asset is impaired and if expected future cash flows used in measuring assets are impaired, Foundation groups its assets at the lowest level for which there are identifiable cash flows independent of other groups of assets. The Company recorded no impairment charges for the years ended June 30, 2024 and 2023, respectively.

(n) Rental Income

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

(o) Excess (Deficiency) of Revenues over Expenses

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

(p) Income Taxes

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

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

(q) Leases

Effective July 1, 2022, the Company adopted FASB Accounting Standards Update (ASU) 2016-02, *Leases* (Topic 842), the primary impact of which required lessees to recognize right-of-use (ROU) assets and liabilities for most operating leases and present enhanced annual disclosures on key quantitative and qualitative information. The Company elected the practical expedient package to not reassess at adoption (i) existing contracts for whether they include a lease, (ii) the lease classification of any existing leases or (iii) initial indirect costs for existing leases. The Company did not elect the hindsight transitional practical expedient. Additionally, the Company elected not to recognize the lease assets and liabilities for leases with a term of twelve months or less and account for such leases using existing guidance for operating leases. The adoption had significant impacts relating to the recognition of lease liabilities and ROU assets for operating leases greater than one year on the consolidated balance sheet. Upon adoption, the Company recorded $19,663,281 in operating lease ROU assets, $20,738,809 in operating lease liabilities and a reduction of $1,075,528 in other long-term liabilities on the consolidated balance sheet as of the year ended June 30, 2023.

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

(r) Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(s) Going Concern

ASU 2014-15, *Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern,* requires management to evaluate an entity's ability to continue as a going concern within one year after the date that the financial statements are issued (or available to be issued, when applicable). Through the date of this report, management determined that there were no conditions or events that raise substantial doubt about the Company's ability to continue as a going concern and the Company will continue to meet its obligations through October 23, 2025.

(2) Charity Care and Community Services

Foundation maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges forgone for services and supplies furnished under its charity care policy and equivalent service statistics. The estimated cost of charity care provided during the years ended June 30, 2024 and 2023 was $6,065,202 and $7,437,150, respectively.

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

(3) Investments Limited or Restricted as to Use

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

		2024	2023
Board designated, without restrictions:			
Portion of pooled investments	$	170,925,264	155,963,685
Other investments		16,277,478	18,833,349
Held by Trustee:			
Under self-insurance trusts		190,706	5,176,358
Investments		1,971,924	—
With donor restrictions:			
Pooled investments		7,821,655	7,854,625
Restricted investments		2,299,567	3,307,467
Total investments limited or restricted as to use		199,486,594	191,135,484
Current portion		2,817,921	1,007,798
Total investments limited or restricted as to use, less current portion	$	196,668,673	190,127,686

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

		2024	2023
Board designated, without restrictions	$	170,925,264	155,963,685
With donor restrictions		7,821,655	7,854,625
Total	$	178,746,919	163,818,310

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

		2024	2023
Cash and cash equivalents	$	3,858,337	2,663,000
Corporate bonds		12,710,142	8,976,523
Other (primarily alternative funds under equity method)		162,178,440	152,178,787
Total	$	178,746,919	163,818,310

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

		2024	2023
Cash and cash equivalents	$	7,028,596	10,353,209
Mutual funds		5,050,653	4,474,426
Real estate held for future development, at cost		3,022,786	3,022,786
Other		1,175,443	982,928
Total	$	16,277,478	18,833,349

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

		2024	2023
Equity investments	$	190,706	79,795
Fixed income investments		1,971,924	5,096,563
Total	$	2,162,630	5,176,358

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

		2024	2023
Investment income (losses), net:			
Without donor restrictions	$	364,262	(430,493)
With donor restrictions		28,794	(9,239)
		393,056	(439,732)
Realized gains on investments, net:			
Without donor restrictions		1,197,817	1,289,849
With donor restrictions		51,717	50,737
		1,249,534	1,340,586

		2024	2023
Unrealized gains on investments, net:			
Without donor restrictions	$	15,599,905	7,725,636
With donor restrictions		672,222	319,777
Total unrealized gains		16,272,127	8,045,413
Total investment income, excluding other unrestricted investments and cash and cash equivalents		17,914,717	8,946,267
Investment income on other unrestricted investments and cash and cash equivalents		263,356	247,470
Total investment income	$	18,178,073	9,193,737

(4) Fair Value of Financial Instruments

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

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

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

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

The table below presents Foundation's assets and liabilities as of June 30, 2024, aggregated by the three-level valuation hierarchy:

		Level 1	Level 2	Level 3	Total
Assets:					
Cash and cash equivalents	$	12,559,369	—	—	12,559,369
Equities:					
Mutual funds		5,706,303	10,308,811	—	16,015,114
Fixed income:					
Collaterized mortgage obligations		—	3,979	—	3,979
Government issued bonds		—	12,706,163	—	12,706,163
Total assets	$	18,265,672	23,018,953	—	41,284,625
Liabilities:					
Interest rate swap	$	—	(29,121)	—	(29,121)

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

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

(Continued)

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

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

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

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

The carrying amount of cash and cash equivalents, accounts receivable, third-party payor settlements receivable or payable, other current assets, investments in alternative investments, accounts payable and accrued expenses approximate fair value because of the short term maturity of these instruments. The fair value of Foundation's long-term debt is estimated to approximate the carrying amount because interest rates are variable and determined frequently based on prevailing market conditions. Due to the subjective nature of the terms of the Foundation's notes receivable and finance lease obligations, their fair values cannot be estimated.

(5) Donor Restricted Net Assets

Donor restricted net assets consist of the following at June 30:

		2024	2023
Pledges receivable, net of unamortized discount of $64,000 at June 30, 2024 and $129,000 at June 30, 2023	$	1,467,746	2,280,732
Less allowance for uncollectible pledges		46,000	72,000
Net pledges receivable		1,421,746	2,208,732
Other investments (primarily property)		14,596,666	15,059,001
Pooled investments (note 3)		7,821,655	7,854,625
Restricted cash and investments		877,820	1,098,735
	$	24,717,887	26,221,093

The net realizable value of the unconditional pledges receivable at June 30, 2024 was calculated using an average discount rate of 3%. The net present value of pledges receivable and the expected collection period at June 30, 2024 are as follows:

2025	$	821,623
2026		642,143
2027		1,144
2028		1,111
2029		1,725
	$	1,467,746

(6) Property and Equipment

Property and equipment at June 30 are summarized as follows:

		2024	2023
Land	$	26,237,425	26,427,925
Land improvements		41,650,083	40,686,819
Buildings and building improvements		484,495,594	478,259,596
Furniture and equipment		98,024,989	100,551,208
Vehicles		11,342,141	11,230,788
Construction in Progress		12,232,700	7,495,514
Total		673,982,932	664,651,850
Less accumulated depreciation		348,244,536	330,870,272
	$	325,738,396	333,781,578

Assets under finance lease at June 30, 2024 and 2023 of $10,331,386 and $10,521,357, respectively, were included in buildings and building improvements and furniture and equipment in the table above. Accumulated depreciation of assets under finance leases totaled $5,965,797 and $5,509,927 at June 30, 2024 and 2023, respectively.

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

Depreciation expense for the years ended June 30, 2024 and 2023 was $25,196,400 and $25,737,996 respectively.

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

The payment of ground rent is subordinate to the payment of debt on the MEDCO loan. Foundation has recorded a reserve on the unpaid accrued rent. As of June 30, 2024 and 2023, Foundation has recorded total ground rent receivable in the accompanying consolidated balance sheets of $22,180,110 and $18,222,988, respectively, with a related reserve of $22,180,110 and $18,222,988, respectively.

(7) Other Assets

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

		2024	2023
Workers compensation excess insurance receivable	$	196,875	414,979
Notes receivable and net ground rent		1,449,399	1,449,399
Intangible assets		1,307,000	1,307,000
Goodwill		—	2,839,111
Unemployment trust		728,060	717,035
Other		146,527	240,298
		3,827,861	6,967,822
Less accumulated amortization		(736,223)	(703,547)
	$	3,091,638	6,264,275

(8) Long-Term Debt

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

		2024	2023
Maryland Health and Higher Educational Facilities Authority (MHHEFA) Revenue Bonds, Series 2017	$	151,737,000	156,276,000
MHHEFA Revenue Bonds Series – 2013		2,167,044	2,690,443
MHHEFA Revenue Bonds Series – 2014		—	2,896,363
MHHEFA Revenue Bonds Series – 2016		1,025,000	1,449,000
Bank notes		—	1,824,746
Mortgages on real estate		3,230,594	4,086,774
Other debt		—	37,113
		158,159,638	169,260,439
Less deferred financing costs		(542,880)	(606,293)
Less current portion		(6,174,834)	(10,851,758)
	$	151,441,924	157,802,388

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

The 2017 Series bonds are tax-exempt fixed rate bonds with an original principal amount of $178,748,000 bearing a fixed interest rate of 2.88% at June 30, 2024 and 2023. The initial term of the bonds provided by the direct placement loan arrangement is 15 years, and the final scheduled maturity of the bonds is June 1, 2048. The Series 2017 bonds are secured by a trust indenture and Obligated Group has granted the bank and MHHEFA a security interest in its revenues. The Series 2017 bonds require Obligated Group to satisfy certain measures of financial performance as long as the bonds are outstanding.

The 2013 Series bonds are bank qualified tax-exempt revenue bonds with an original principal amount of $7,200,000 issued for the purpose of reimbursing Way Station for certain capital expenditures associated with the acquisition and development of two properties in Frederick, Maryland, a property in Hagerstown, Maryland, and a property in Columbia, Maryland. The bonds were purchased by a bank, and Way Station was scheduled to make payments to Capital One over 15 years, at a fixed interest rate of 3.11%. The tax-exempt loan is secured by a deed of trust covering six of the Company’s properties in Frederick, Hagerstown, and Columbia, Maryland. Way Station’s ability to obtain additional borrowings is limited without the bank’s consent.

The 2014 Series bonds are bank qualified tax-exempt revenue bonds with an original principal amount of $4,430,000 issued for the purpose of refinancing Family Services existing mortgage debt. The bonds were purchased by a bank, and Family Services is required to make payments over 25 years at interest rates ranging from 2.75 to 3.40%. As part of the same transaction, the same bank loaned Family Services $1,683,000 in a taxable term bank note that is amortized over 25 years; however, it is due in 10 years, at fixed interest rates that vary from 4.25% in year one to 5.25% in subsequent years. On February 24, 2015, Family Services received a $676,540 term bank loan, bearing an interest rate of 4.70% with a term of nine years. The tax exempt and taxable term bank notes are secured by a deed in trust covering the Company’s properties, which require Family Services to satisfy certain measures of financial performance as long as the loans are outstanding. During November 2023 and March 2024, Family Services paid off the tax revenue bonds and the tax-exempt and taxable term bank note, respectively.

The 2016 Series bonds are variable rate debt with an original principal amount of $4,066,000 via a tax-exempt nonbank qualified direct purchase. The bonds accrue interest at a variable rate at 83% of the 30 Day London Interbank Offered Rate (LIBOR) plus 142 basis points and are being amortized over 10 years and have principal payments beginning November 2016 and terminating October 2026. The loan was amended in May 2023 to reflect the replacement of LIBOR with the Secured Overnight Financing Rate (SOFR) as the benchmark. The loan is secured by collateral, including, but not limited to, gross revenue, fixed assets (excluding buildings), and cash accounts. In conjunction with the refinance, Mosaic entered into a 10-year interest rate swap agreement with a third party under which the Company will make monthly payments at a fixed rate of 0.92% in exchange for payments based on LIBOR. The interest rate swap was recorded as a liability of ($29,121) and ($56,284) as of June 30, 2024 and 2023, respectively.

Community Services have mortgages on multiple properties with a total outstanding balance of $1,627,362 as of June 30, 2024 and $2,407,355 as of June 30, 2023. The interest rates and years of maturity range from 0% to 7.45%, and 2025 to 2037, respectively.

As of June 30, 2024 and 2023, Sheppard and Enoch Pratt Foundation, Inc. holds a $30 million variable rate line of credit. The available amount on the original line of credit has been reduced by $7.5 million related to letters of credit issued on behalf of the Health System. As of June 30, 2024 and 2023, there were no outstanding balances on the lines of credit.

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

2025	$	6,174,833
2026		6,027,558
2027		5,867,323
2028		5,754,083
2029		5,405,633
2030 and thereafter		128,930,208
	$	158,159,638

Interest payments were $5,115,390 and $5,226,722 in 2024 and 2023, respectively.

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

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

Effective July 1, 2006, Foundation elected to not allow employees hired on or after July 1, 2006 to participate in the Plan. Instead, such employees participate in a defined contribution plan based on their individual company programs. The new employee's defined contribution plan expense for Sheppard Pratt employees was $10,522,224 and $2,503,574 in 2024 and 2023, respectively. The retirement benefits for employees hired on or prior to June 30, 2006 under the Plan remain unchanged through December 31, 2020, when the Foundation elected to freeze the future accrual of benefits relating to the plan. Foundation may provide a discretionary contribution to these employees' defined contribution plan beginning January 1, 2021 and the Foundation contributed to the eligible participants of the defined contribution plan $2,171,137 and $2,002,347 in 2024 and 2023, respectively. Effective July 1, 2023, Foundation provides a matching contribution to these employee's defined contribution plan.

During the year ended June 30, 2023, the Foundation entered into a non-participating contract with an insurance company which irrevocably relieved the Foundation of its responsibility for the pension obligation. The Foundation transferred the Plan assets in connection with such transaction.

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

		2024	2023
Accumulated benefit obligation at the end of the year	$	—	—
Changes in benefit obligations:			
Projected benefit obligation at the beginning of the year	$	—	218,875,980
Interest cost		—	1,026,246
Actuarial loss		—	9,123,593
Actuarial gain due to refund from Midland		—	(1,421,843)
Benefits paid		—	(1,999,753)
Lump sum payments to participants		—	(74,740,528)
Payments to insurance company		—	(150,863,695)
Projected benefit obligation at the end of the year		—	—
Changes in plan assets:			
Fair value of plan assets at beginning of the year		—	209,161,914
Actual return on plan assets		—	3,327,348
Contributions to the plan		—	13,692,871
Benefits paid		—	(1,999,753)
Lump sum payments to participants		—	(74,740,528)
Payments to insurance company		—	(150,863,695)
Refund from insurance company		—	1,421,843
Fair value of plan assets at end of the year		—	—
Funded status	$	—	—

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

		2024	2023
Interest cost	$	—	1,026,246
Expected return on plan assets		—	(958,530)
Amortization of net loss		—	697,919
Settlement loss		—	54,220,883
Net pension expense	$	—	54,986,518

The components of net benefit income other than the service cost and the loss related to the pension settlement of $0 and $765,635 were recorded in other income (expense) in the consolidated statements of operations for the years ended June 30, 2024 and 2023, respectively.

The pension liability adjustment to net assets without donor restrictions represents the change in net unrecognized actuarial losses and unrecognized prior service costs. Those amounts were recognized in other income (expense) during the year ended June 30, 2023 as a result of the settlement accounting.

(a) Contributions

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

Foundation maintains a self-insured life, accident and health plan for employees of Health System, Physicians, Mosaic, Family Services and Way Station, which provides for monthly contributions in amounts sufficient to cover the costs of basic hospital, surgical and diagnostic benefits and administrative expenses. The life, accident, and health plan expense was $19,274,995 in 2024 and $20,244,760 in 2023.

(10) Leases

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

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

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

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

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

The following table presents the components of the ROU assets and liabilities related to leases and their classification in the consolidated balance sheets:

			2024	2023
Assets:				
Total operating lease assets	Operating right-of-use assets	$	15,934,587	18,794,793
Finance lease assets	Property and equipment, net		4,365,589	5,011,430
Total leased assets		$	20,300,176	23,806,223
Liabilities:				
Operating lease liabilities:				
Current	Current portion of obligations under operating leases	$	3,661,478	3,688,980
Long-term	Obligations under operating leases, less current portion		13,742,836	16,553,282
Total operating lease liabilities			17,404,314	20,242,262
Finance lease liabilities:				
Current	Current portion of obligations under finance leases		239,239	514,647
Long-term	Obligations under finance leases, less current portion		5,283,983	5,706,592
Total finance lease liabilities			5,523,222	6,221,239
Total lease liabilities		$	22,927,536	26,463,501

The following table presents the components of lease expense, which is recorded within purchased services in the consolidated statements of operations and changes in net assets for the years ended June 30, 2024 and 2023:

		2024	2023
Finance lease expense:			
Amortization of ROU assets	$	311,828	514,070
Interest on lease liabilities		161,626	166,524
Operating lease expense		4,101,733	3,975,895
Variable and short-term lease expense		1,398,523	1,805,543
Total lease expenses	$	5,973,710	6,462,032

(Continued)

The weighted average lease term and discount rate for operating and finance leases as of June 30, 2024 and 2023 are as follows:

	2024	2023
Weighted average remaining lease term for operating leases (years)	7.0	7.5
Weighted average remaining lease term for finance leases (years)	14.0	14.2
Weighted average discount rate for operating leases	2.90 %	2.88 %
Weighted average discount rate for finance leases	2.88	2.99

The following table reconciles the undiscounted cash flows to the operating lease liabilities recorded on the consolidated balance sheets as of June 30, 2024:

	Operating leases	Finance leases
2025	$ 4,106,143	395,166
2026	2,528,712	407,022
2027	2,333,774	419,232
2028	2,082,537	431,809
2029	1,984,041	444,763
2030 and thereafter	6,232,425	4,725,828
Total future minimum lease payments	19,267,632	6,823,820
Less amount of lease payments representing interest	(1,863,318)	(1,300,598)
Present value of future minimum lease payments	17,404,314	5,523,222
Less current obligations under leases	(3,661,478)	(239,239)
Long-term lease obligations	$ 13,742,836	5,283,983

(Continued)

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

		Operating leases	Finance leases
2025	$	4,213,240	686,628
2026		3,954,022	409,479
2027		2,271,345	421,334
2028		2,143,185	433,545
2029		1,887,551	446,121
2030 and thereafter		8,100,062	5,338,878
Total future minimum lease payments		22,569,405	7,735,985
Less amount of lease payments representing interest		(2,327,143)	(1,514,746)
Present value of future minimum lease payments		20,242,262	6,221,239
Less current obligations under leases		(3,688,980)	(514,647)
Long-term lease obligations	$	16,553,282	5,706,592

(11) Self-insurance Programs and Litigation

Foundation is from time to time subject to claims and suits arising in the ordinary course of business. In the opinion of management, the ultimate resolution of pending legal proceedings will not have a material effect on the consolidated financial statements. In this regard, Foundation maintains a self-insurance program for professional liability claims, and a related trust fund has been established for the purpose of setting aside assets based on actuarial funding recommendations. Under the trust agreement, the assets can only be used for the payment of professional and general liability claims, related expenses, and the cost of administering the trust. Certain claims made based professional and occurrence based general liability insurance coverages have been purchased to provide protection for claims in excess of the self-insured amounts. The assets of the trust are classified as investments limited as to use in the accompanying consolidated balance sheets in the amount of $190,706 and $79,795 at June 30, 2024 and 2023, respectively. The related claims liabilities of $3,580,184 and $3,589,795 as of June 30, 2024 and 2023, respectively, are recorded in current and long-term self-insurance liabilities on an undiscounted basis and represent estimates for asserted claims and unasserted claims arising from reported incidents and unreported incidents. Management believes that the provision for loss is adequate at June 30, 2024 and 2023; however, the ultimate liability may differ significantly. Management is aware of certain asserted and unasserted legal claims, none of which, in the opinion of management, are expected to result in losses in excess of insurance limits.

Health System and Physicians are also self-insured for unemployment claims and have established a letter of credit arrangement of $1,426,132 and $986,874 for 2024 and 2023, respectively, in accordance with the requirements of the Maryland Department of Employment and Training.

Also, Foundation is self-insured for workers' compensation claims up to $550,000 for both 2024 and 2023. Foundation has investments to fund workers' compensation claims of $0 and $5,096,563 at June 30, 2024 and 2023, respectively. Prior to October 2023, the investment was held in an account at a financial institution to secure the payment of claims. In the current year, this investment was liquidated and converted into a letter of credit. The related liabilities of $3,787,945 and $4,658,975 as of June 30, 2024 and 2023, respectively, are recorded in current and long-term self-insurance liabilities in the accompanying consolidated balance sheets. Foundation records outstanding losses and loss expenses for workers' compensation liability claims based on the estimates of the amount of reported losses together with a provision for losses incurred but not reported, the recommendations of an independent actuary, and management's judgment using its past experience and industry experience.

Foundation offers employees a self-insured health plan. Foundation maintains an accrual for claims that have been incurred but not reported to the plan administrator. The accrued liability for claims incurred but not reported is based on the historical claim lag period and current payment trends of health insurance claims. The accrued liability for health claims is $4,975,300 and $3,666,331, respectively, as of June 30, 2024 and 2023, and recorded in current self-insurance liabilities in the accompanying consolidated balance sheets.

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

(12) Rate Setting Matters and Business and Credit Concentrations

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

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

	2024	2023
Hospital and physician services	$ 193,522,791	185,490,474
Retreat services	24,225,843	22,665,724
Adolescent residential treatment centers	10,996,635	10,625,249
Special education	64,001,527	54,954,802
Community services	114,870,960	100,878,868
Total revenue from contract with customers	407,617,756	374,615,117
Other nonpatient care	78,917,703	83,015,242
Total operating revenue	$ 486,535,459	457,630,359

The mix of receivables and total net service revenue from patients and third parties as of June 30, 2024 and 2023 was as follows:

	Accounts receivable		Revenue	
	2024	2023	2024	2023
Medicare	8 %	8 %	5 %	7 %
Medicaid	35 %	24 %	50 %	50 %
Commercial insurers and HMO's	27 %	23 %	15 %	14 %
Local Government	4 %	20 %	16 %	15 %
Blue Cross/Blue Shield	6 %	7 %	9 %	9 %
Self-pay and other	20 %	18 %	5 %	5 %
	100 %	100 %	100 %	100 %

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

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

The Foundation is reimbursed for certain services to their Medicare and Medicaid program beneficiaries based upon cost reimbursement methodologies. The Maryland Medicaid program's inpatient reimbursement methodology is a prospective payment system, which is set at 94% of HSCRC rates. Medicaid outpatient services continue to be reimbursed on a cost report basis. Effective July 1, 2005, the Medicare program changed its reimbursement methodology to a prospective payment system. Health System has received either the final settlement or the notice of final settlement on Medicare cost reports through June 30, 2018, and on Medicaid cost reports for all programs through June 30, 2018. As of June 30, 2024 and 2023, the Company has recorded third-party payor settlements receivable of $5,234,719 and $7,261,077, respectively.

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

During 2024 and 2023, some of Foundation’s prior year third party cost reports were audited and settled, or tentatively settled, by third-party payors. Adjustments resulting from such audits and management reviews of unaudited years and open claims are reflected as adjustments to revenue in the year the adjustment becomes known. Although certain other prior year cost reports submitted to third-party payors remain subject to audit and retroactive adjustment, management does not expect any material adverse settlements.

(13) Functional Expenses

Members of Foundation provide healthcare, educational, and residential and psychiatric rehabilitative services to the communities they serve. Expenses related to providing these services, based on management’s estimates of expense allocations, are as follows for the years ended June 30, 2024 and 2023:

	2024									
	Program services									
	Healthcare services	Residential services	Education services	Rehabilitation and recovery	Community treatment	Families and communities	Community development	Program services	Supporting services	Total
Salaries and wages	$ 93,718,867	14,337,570	32,322,650	45,084,842	16,163,678	14,830,977	14,109,967	230,568,551	40,835,153	271,403,704
Employee benefits	17,750,731	2,726,184	6,676,365	8,646,057	3,039,547	2,493,739	2,979,210	44,311,833	11,440,166	55,751,999
Expendable supplies	7,062,536	1,102,180	1,389,051	4,028,432	99,319	666,387	1,027,632	15,375,537	736,738	16,112,275
Purchased services	26,230,840	3,333,652	5,473,300	15,009,046	1,722,668	3,249,470	4,035,949	59,054,925	35,948,972	95,003,897
Interest	4,148,057	437,579	162,921	87,248	7,498	40,971	—	4,884,274	383,783	5,268,057
Repairs and maintenance	3,974,702	510,998	635,867	1,406,295	117,159	20,347	81,769	6,747,137	2,027,608	8,774,745
Depreciation and amortization	13,594,678	1,546,398	1,524,925	3,045,263	298,884	119,008	185,912	20,315,068	7,809,452	28,124,520
	$ 166,480,411	23,994,561	48,185,079	77,307,183	21,448,753	21,420,899	22,420,439	381,257,325	99,181,872	480,439,197

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

(14) Certain Significant Risks and Uncertainties

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

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

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

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

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

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

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

The Company recognizes the increasing importance of cybersecurity in today's digital landscape. As a result, we have implemented various measures to mitigate the risk of cyber threats and protect our systems and data. However, it is important to note that no system is completely immune to cyberattacks, and there is always a possibility of unauthorized access, data breaches, or other cybersecurity incidents. In the event of a significant cyber incident, such as a data breach, there may be potential financial, operational, and reputational impacts on the Company. While we believe our cybersecurity measures are robust, there can be no assurance that they will prevent all cyber threats or that any future cyber incidents will not have a material adverse effect on our business, financial condition, or results of operations. Additionally, we maintain cyber insurance coverage to help mitigate the financial impact of potential cyber incidents.

(15) Endowment Net Assets

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

(a) Interpretation of Relevant Law

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

(1) The duration and preservation of the fund

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

(3) General economic conditions

(4) The possible effect of inflation and deflation

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

(6) Other resources of Foundation

(7) The investment policies of Foundation

(b) Net Asset Classification by Type of Endowment as of June 30, 2024

	Without donor restrictions	With donor restrictions	Total
Donor-restricted endowment funds	$ —	4,603,443	4,603,443
Board-designated endowment funds	157,771,271	—	157,771,271
	$ 157,771,271	4,603,443	162,374,714

Changes in endowment net assets for the year ended June 30, 2024:

	Without donor restrictions	With donor restrictions	Total
Endowment net assets, beginning of year	$ 148,129,687	4,401,987	152,531,674
Investment return:			
Net investment income	292,387	—	292,387
Net appreciation (realized and unrealized gain and losses)	14,682,393	19,315	14,701,708
Total investment return	14,974,780	19,315	14,994,095
Contributions	—	282,141	282,141
Appropriation of endowment assets for expenditure	(5,333,196)	(100,000)	(5,433,196)
	$ 157,771,271	4,603,443	162,374,714

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

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

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

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

(d) Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or SPMIFA requires Foundation to retain as a fund of perpetual duration as a result of unfavorable market fluctuations. During the years ended June 30, 2024 and 2023, the fair value did not fall below the specified amounts.

(e) Investment Strategies

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

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

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

(16) Liquidity

Foundation funds its operations through cash and investments. Foundation maintains a policy of structuring its financial assets to be available to meet its general expenditures and liabilities. Foundation has access to variable rate lines of credit in the amount of $30,000,000 less $7,500,000 used for the letters of credit referenced in note 8 to support liquidity.

Foundation's endowment funds consist of donor and board restricted endowments. Donor restricted endowments are restricted for specific purposes and, therefore, are not available for general expenditure. While it is not the intent of Foundation to utilize board restricted endowments to fund operations (other than spending policy), these funds, amounting to approximately $179,200,000, could be available to fund operations if needed. Foundation has an endowment spending rate policy of 4%. Approximately $5,500,000 of appropriations from this endowment will be available within the next 12 months to support liquidity.

The following is a reconciliation of current financial assets as of June 30, 2024 to financial assets available to fund general expenditures for the following fiscal year. General expenditures include all programmatic and supporting operating expenses.

	2024	2023
Financial assets at year end:		
Current assets:		
Cash	$ 101,765,890	66,783,376
Investments limited or restricted as to use	2,817,921	1,007,798
Accounts receivable, net	44,879,137	44,256,366
Prepaid expenses and other current assets	12,199,930	10,152,189
Total current assets	161,662,878	122,199,729
Other:		
Investments	13,820,585	12,608,783
Borrowings available under lines of credit	22,500,000	22,100,000
Subtotal	197,983,463	156,908,512
Less assets unavailable for general expenditures within one year:		
Investments limited or restricted as to use	(2,817,921)	(1,007,798)
Prepaid expenses	(10,198,092)	(8,370,964)
Financial assets available to meet cash needs for general expenditures within one year	$ 184,967,450	147,529,750

(17) Subsequent Events

Foundation has evaluated subsequent events through October 23, 2024, which is the date the financial statements were available to be issued. There were no subsequent events during this period.

SUPPLEMENTARY INFORMATION

SHEPPARD AND ENOCH PRATT FOUNDATION, INC.
AND SUBSIDIARIES

Consolidating Balance Sheet Information

June 30, 2024

	Obligated group								
Assets	**Sheppard Pratt Health System, Inc.**	**Sheppard Pratt Physicians, P.A.**	**Sheppard Pratt Investment, Inc.**	**Sheppard and Enoch Pratt Foundation, Inc.**	**Obligated Group combining eliminations**	**Combined Obligated Group subtotal**	**Sheppard Pratt Properties, LLC**	**Eliminations**	**Subtotal**
Current assets:									
Cash and cash equivalents	$ 70,418,897	593,777	—	3,124,669	—	74,137,343	2,596,455	—	76,733,798
Investments limited or restricted as to use	1,971,924	—	—	845,997	—	2,817,921	—	—	2,817,921
Accounts receivable, net	24,767,693	844,904	—	—	—	25,612,597	—	—	25,612,597
Due from affiliates	18,822,089	6,285,373	1,507,728	719,558	(9,167,299)	18,167,449	239,964	(4,744,323)	13,663,090
Prepaid expenses and other current assets	10,463,189	37,958	—	—	—	10,501,147	—	—	10,501,147
Total current assets	126,443,792	7,762,012	1,507,728	4,690,224	(9,167,299)	131,236,457	2,836,419	(4,744,323)	129,328,553
Investments limited or restricted as to use, less current portion	35,444,975	—	156,738,888	11,030,705	(9,558,185)	193,656,383	—	(11,328,908)	182,327,475
Property and equipment, net	255,700,503	—	—	—	—	255,700,503	12,932,142	—	268,632,645
Third-party payor settlements receivable	5,234,719	—	—	—	—	5,234,719	—	—	5,234,719
Operating right-of-use assets	7,124,910	—	—	—	—	7,124,910	—	—	7,124,910
Other assets	570,776	—	1,449,399	—	—	2,020,175	—	—	2,020,175
Total assets	$ 430,519,675	7,762,012	159,696,015	15,720,929	(18,725,484)	594,973,147	15,768,561	(16,073,231)	594,668,477
Liabilities and Net Assets									
Current liabilities:									
Current maturities of long-term debt	$ 4,668,000	—	—	—	—	4,668,000	117,329	—	4,785,329
Current portion of obligations under finance leases	239,239	—	—	—	—	239,239	—	—	239,239
Current portion of obligations under operating leases	1,603,991	—	—	—	—	1,603,991	—	—	1,603,991
Accounts payable	6,645,898	23,858	—	—	—	6,669,756	—	—	6,669,756
Accrued salaries, wages, and employee benefits	27,580,307	3,462,188	—	—	—	31,042,495	—	—	31,042,495
Due to affiliates	2,639,758	5,745,752	1,761,954	1,145,187	(9,167,299)	2,125,352	4,591,370	(4,744,322)	1,972,400
Self-insurance liabilities	7,559,067	584,094	—	—	—	8,143,161	—	—	8,143,161
Other accrued expenses	15,410,576	967,268	162,790	4,975	—	16,545,609	71,955	—	16,617,564
Total current liabilities	66,346,836	10,783,160	1,924,744	1,150,162	(9,167,299)	71,037,603	4,780,654	(4,744,322)	71,073,935
Long-term liabilities:									
Long-term debt, less current portion	146,665,751	—	—	—	—	146,665,751	1,485,904	—	148,151,655
Obligations under finance leases, less current portion	5,283,983	—	—	—	—	5,283,983	—	—	5,283,983
Obligations under operating leases, less current portion	6,445,303	—	—	—	—	6,445,303	—	—	6,445,303
Self-insurance liabilities	1,920,233	—	—	—	—	1,920,233	—	—	1,920,233
Other long-term liabilities	—	—	—	72,612	—	72,612	—	—	72,612
Total liabilities	226,662,106	10,783,160	1,924,744	1,222,774	(9,167,299)	231,425,485	6,266,558	(4,744,322)	232,947,721
Net assets (deficit):									
Without donor restrictions	194,299,385	(3,021,148)	157,771,271	4,596,933	—	353,646,441	9,502,003	(11,328,909)	351,819,535
With donor restrictions	9,558,184	—	—	9,901,222	(9,558,185)	9,901,221	—	—	9,901,221
Total net assets (deficit)	203,857,569	(3,021,148)	157,771,271	14,498,155	(9,558,185)	363,547,662	9,502,003	(11,328,909)	361,720,756
Total liabilities and net assets	$ 430,519,675	7,762,012	159,696,015	15,720,929	(18,725,484)	594,973,147	15,768,561	(16,073,231)	594,668,477

(Continued)

Schedule 1

SHEPPARD AND ENOCH PRATT FOUNDATION, INC.
AND SUBSIDIARIES

Consolidating Balance Sheet Information

June 30, 2024

	Mosaic Community Services, Inc.										
Assets	**Mosaic Community Services, Inc.**	**Alliance**	**Behavioral Health Partners**	**DuCHoDo**	**ReCHoDo**	**Eliminations**	**Total Mosaic Community Services, Inc.**	**Family Services Inc.**	**Way Station, Inc.**	**Consolidating eliminations**	**Consolidated totals**
Current assets:											
Cash and cash equivalents	$ 2,883,391	10,674,769	996,742	334,401	52,653	—	14,941,956	3,014,988	7,075,148	—	101,765,890
Investments limited or restricted as to use	—	—	—	—	—	—	—	—	—	—	2,817,921
Accounts receivable, net	4,762,870	3,024,989	913,856	—	—	—	8,701,715	5,367,008	5,197,817	—	44,879,137
Due from affiliates	4,943,759	25,368	286,852	—	4,114	(4,359,393)	900,700	1,253,553	568,117	(16,385,460)	—
Prepaid expenses and other current assets	733,167	81,768	14,844	—	110	—	829,889	146,079	722,815	—	12,199,930
Total current assets	13,323,187	13,806,894	2,212,294	334,401	56,877	(4,359,393)	25,374,260	9,781,628	13,563,897	(16,385,460)	161,662,878
Investments limited or restricted as to use, less current portion	5,290,653	—	—	—	—	—	5,290,653	44,000	9,006,545	—	196,668,673
Property and equipment, net	17,201,583	3,209,843	44,736	216,474	832,402	—	21,505,038	10,073,169	25,527,544	—	325,738,396
Third-party payor settlements receivable	—	—	—	—	—	—	—	—	—	—	5,234,719
Operating right-of-use assets	5,271,475	253,931	43,926	—	—	—	5,569,332	1,897,364	1,342,981	—	15,934,587
Other assets	510,386	299,023	—	—	63,716	—	873,125	—	198,338	—	3,091,638
Total assets	$ 41,597,284	17,569,691	2,300,956	550,875	952,995	(4,359,393)	58,612,408	21,796,161	49,639,305	(16,385,460)	708,330,891
Liabilities and Net Assets											
Current liabilities:											
Current maturities of long-term debt	$ 482,895	74,688	—	—	287,328	—	844,911	—	544,594	—	6,174,834
Current portion of obligations under finance leases	—	—	—	—	—	—	—	—	—	—	239,239
Current portion of obligations under operating leases	799,592	260,265	44,583	—	—	—	1,104,440	755,513	197,534	—	3,661,478
Accounts payable	1,623,159	247,808	12,774	(825)	2,938	—	1,885,854	646,358	501,234	—	9,703,202
Accrued salaries, wages, and employee benefits	4,299,590	1,283,569	112,059	—	—	—	5,695,218	2,834,428	4,743,488	—	44,315,629
Due to affiliates	4,689,386	772,322	5,581,568	812,003	2,850,641	(4,359,393)	10,346,527	1,044,489	3,022,047	(16,385,463)	—
Self-insurance liabilities	406,336	18,500	—	—	—	—	424,836	381,626	765,582	—	9,715,205
Other accrued expenses	1,972,756	307,392	8,158	3,583	3,582	—	2,295,471	2,247,217	915,656	3	22,075,911
Total current liabilities	14,273,714	2,964,544	5,759,142	814,761	3,144,489	(4,359,393)	22,597,257	7,909,631	10,690,135	(16,385,460)	95,885,498
Long-term liabilities:											
Long-term debt, less current portion	802,686	461,305	—	400,000	53,136	—	1,717,127	—	1,573,142	—	151,441,924
Obligations under finance leases, less current portion	—	—	—	—	—	—	—	—	—	—	5,283,983
Obligations under operating leases, less current portion	4,766,541	—	—	—	—	—	4,766,541	1,344,319	1,186,673	—	13,742,836
Self-insurance liabilities	208,290	—	—	—	—	—	208,290	60,444	439,257	—	2,628,224
Other long-term liabilities	268,689	762,410	—	—	177,499	—	1,208,598	82,778	3,212,822	—	4,576,810
Total liabilities	20,319,920	4,188,259	5,759,142	1,214,761	3,375,124	(4,359,393)	30,497,813	9,397,172	17,102,029	(16,385,460)	273,559,275
Net assets (deficit):											
Without donor restrictions	20,976,728	9,370,751	(3,458,186)	(663,886)	(2,422,130)	—	23,803,277	9,989,897	24,441,020	—	410,053,729
With donor restrictions	300,636	4,010,681	—	—	—	—	4,311,317	2,409,092	8,096,257	—	24,717,887
Total net assets (deficit)	21,277,364	13,381,432	(3,458,186)	(663,886)	(2,422,130)	—	28,114,594	12,398,989	32,537,277	—	434,771,616
Total liabilities and net assets	$ 41,597,284	17,569,691	2,300,956	550,875	952,994	(4,359,393)	58,612,407	21,796,161	49,639,306	(16,385,460)	708,330,891

See accompanying independent auditors' report.

SHEPPARD AND ENOCH PRATT FOUNDATION, INC.
AND SUBSIDIARIES

Consolidating Statement of Operations Information

Year ended June 30, 2024

	Obligated group								
	Sheppard Pratt Health System, Inc.	**Sheppard Pratt Physicians, P.A.**	**Sheppard Pratt Investment, Inc.**	**Sheppard and Enoch Pratt Foundation, Inc.**	**Obligated Group combining eliminations**	**Combined Obligated Group subtotal**	**Sheppard Pratt Properties, LLC**	**Eliminations**	**Subtotal**
Revenues, gains, and other support:									
Patient service revenue	$ 179,629,864	13,892,927	—	—	—	193,522,791	—	—	193,522,791
Residential and educational service revenue	99,224,452	(446)	—	—	—	99,224,006	—	—	99,224,006
Net service revenue	278,854,316	13,892,481	—	—	—	292,746,797	—	—	292,746,797
Net assets released from restrictions used for operations	738,805	237,254	—	—	—	976,059	—	—	976,059
Intercorporate revenue	245,849	—	—	—	—	245,849	171,572	(171,572)	245,849
Other revenue	18,053,587	1,060,468	1,154	177,990		19,293,199	478,590		19,771,789
Total revenues, gains, and other support	297,892,557	15,190,203	1,154	177,990	—	313,261,904	650,162	(171,572)	313,740,494
Expenses:									
Salaries and wages	168,101,510	11,657,704	—	—	—	179,759,214	—	—	179,759,214
Employee benefits	35,650,729	1,249,784	—	—	—	36,900,513	—	—	36,900,513
Expendable supplies	9,797,289	2,408	—	—	—	9,799,697	36	—	9,799,733
Purchased services	64,063,464	2,283,603	2,534	9,568	—	66,359,169	135,999	—	66,495,168
Intercorporate charges	(20,718,128)	1,367,232	—	—	—	(19,350,896)	—	(171,572)	(19,522,468)
Interest	4,928,221	—	—	—	—	4,928,221	57,942	—	4,986,163
Repairs and maintenance	6,048,402	—	—	—	—	6,048,402	47,980	—	6,096,382
Depreciation and amortization	20,273,673	—	—	—	—	20,273,673	471,683	—	20,745,356
Total expenses	288,145,160	16,560,731	2,534	9,568	—	304,717,993	713,640	(171,572)	305,260,061
Operating income (loss)	9,747,397	(1,370,528)	(1,380)	168,422	—	8,543,911	(63,478)	—	8,480,433
Other income (expense):									
Investment income	60,833	—	292,387	3	—	353,223	—	—	353,223
Realized gains on investments, net	90,458	—	1,049,719	—	—	1,140,177	—	—	1,140,177
Unrealized gains on investments, net	1,172,161	—	13,644,363	—	—	14,816,524	—	—	14,816,524
Other	127,884	—	(10,309)	1,448,368	—	1,565,943	—	—	1,565,943
Total other income (expense)	1,451,336	—	14,976,160	1,448,371	—	17,875,867	—	—	17,875,867
Excess (deficiency) of revenues over expenses	11,198,733	(1,370,528)	14,974,780	1,616,793	—	26,419,778	(63,478)	—	26,356,300
Other changes in net assets:									
Net assets released from restrictions used for purchases of property and equipment	20,000	—	—	—	—	20,000	—	—	20,000
Transfer (to) from affiliates	5,333,196	—	(5,333,196)	—	—	—	(358,384)	358,384	—
Capital grants and other	350,000	—	—	—	—	350,000	—	—	350,000
Increase (decrease) in net assets without donor restrictions	$ 16,901,929	(1,370,528)	9,641,584	1,616,793	—	26,789,778	(421,862)	358,384	26,726,300

(Continued)

Schedule 2

SHEPPARD AND ENOCH PRATT FOUNDATION, INC.
AND SUBSIDIARIES

Consolidating Statement of Operations Information

Year ended June 30, 2024

	Mosaic Community Services, Inc.										
	Mosaic Community Services, Inc.	**Alliance**	**Behavioral Health Partners**	**DuCHoDo**	**ReCHoDo**	**Eliminations**	**Total Mosaic Community Services, Inc.**	**Family Services Inc.**	**Way Station, Inc.**	**Consolidating eliminations**	**Consolidated totals**
Revenues, gains, and other support:											
Patient service revenue	$ —	—	—	—	—	—	—	—	—	—	193,522,791
Residential and educational service revenue	47,183,289	2,237,258	8,399,501	—	—	—	57,820,048	13,299,003	43,751,908	—	214,094,965
Net service revenue	47,183,289	2,237,258	8,399,501	—	—	—	57,820,048	13,299,003	43,751,908	—	407,617,756
Net assets released from restrictions used for operations	47,554	—	—	—	—	—	47,554	103,543	13,952	—	1,141,108
Intercorporate revenue	207,315	213,728	—	—		(421,043)	—	343,612	—	(589,461)	—
Other revenue	3,451,298	24,333,331	1,700	42,510	117,323	(1)	27,946,161	23,879,462	6,179,183		77,776,595
Total revenues, gains, and other support	50,889,456	26,784,317	8,401,201	42,510	117,323	(421,044)	85,813,763	37,625,620	49,945,043	(589,461)	486,535,459
Expenses:											
Salaries and wages	23,867,594	15,265,926	5,067,885	3,285	10,954	—	44,215,644	19,980,459	27,448,387	—	271,403,704
Employee benefits	4,767,462	3,330,444	1,021,262	—	—	—	9,119,168	3,585,385	6,146,933	—	55,751,999
Expendable supplies	2,383,037	984,096	2,363	—	—	(1)	3,369,495	1,348,279	1,594,768	—	16,112,275
Purchased services	11,361,315	4,583,487	816,017	28,028	131,599	—	16,920,446	6,411,976	5,176,307	—	95,003,897
Intercorporate charges	5,492,628	3,493,689	1,018,688	75,713	208,701	(421,043)	9,868,376	4,457,967	5,785,586	(589,461)	—
Interest	76,857	—	—	—	8,266	—	85,123	109,927	86,844	—	5,268,057
Repairs and maintenance	1,254,761	71,394	10,000	10,847	8,854	—	1,355,856	226,305	1,096,202	—	8,774,745
Depreciation and amortization	1,844,791	232,282	11,607	18,495	86,354	—	2,193,529	695,787	4,489,848	—	28,124,520
Total expenses	51,048,445	27,961,318	7,947,822	136,368	454,728	(421,044)	87,127,637	36,816,085	51,824,875	(589,461)	480,439,197
Operating income (loss)	(158,989)	(1,177,001)	453,379	(93,858)	(337,405)	—	(1,313,874)	809,535	(1,879,832)	—	6,096,262
Other income:											
Investment income	—	—	—	—	—	—	—	—	11,039	—	364,262
Realized gains on investments, net	—	—	—	—	—	—	—	—	57,640	—	1,197,817
Unrealized gains on investments, net	34,176	—	—	—	—	—	34,176	—	749,205	—	15,599,905
Other	423,956	—	—	—	—	—	423,956	269,683	269,761	—	2,529,343
Total other income	458,132	—	—	—	—	—	458,132	269,683	1,087,645	—	19,691,327
Excess (deficiency) of revenues over expenses	299,143	(1,177,001)	453,379	(93,858)	(337,405)	—	(855,742)	1,079,218	(792,187)	—	25,787,589
Other changes in net assets:											
Net assets released from restrictions used for purchases of property and equipment	8,283	—	—	—	—	—	8,283	—	524,245	—	552,528
Transfer from affiliates	—	—	—	—	—	—	—	—	—	—	—
Capital grants and other	—	—	—	—	—	—	—	—	—	—	350,000
Increase (decrease) in net assets without donor restrictions	$ 307,426	(1,177,001)	453,379	(93,858)	(337,405)	—	(847,459)	1,079,218	(267,942)	—	26,690,117

See accompanying independent auditors' report.

Schedule 3

SHEPPARD AND ENOCH PRATT FOUNDATION, INC.
AND SUBSIDIARIES

Consolidating Statement of Changes in Net Assets Information

Year ended June 30, 2024

	Obligated group								
	Sheppard Pratt Health System, Inc.	Sheppard Pratt Physicians, P.A.	Sheppard Pratt Investment, Inc.	Sheppard and Enoch Pratt Foundation, Inc.	Obligated Group combining eliminations	Combined Obligated Group subtotal	Sheppard Pratt Properties, LLC	Eliminations	Subtotal
Net assets without donor restrictions:									
Excess (deficiency) of revenues over expenses	$ 11,198,287	(1,370,082)	14,974,780	1,616,793	—	26,419,778	(63,478)	—	26,356,300
Other changes in net assets:									
Net assets released from restrictions used for purchases of property and equipment	20,000	—	—	—	—	20,000	—	—	20,000
Transfer (to) from affiliates	5,333,196	—	(5,333,196)	—	—	—	(358,384)	358,384	—
Capital grants and other	350,000	—	—	—	—	350,000	—	—	350,000
Increase (decrease) in net assets without donor restrictions	16,901,483	(1,370,082)	9,641,584	1,616,793	—	26,789,778	(421,862)	358,384	26,726,300
Net assets with donor restrictions:									
Gifts and grants	—	—	—	472,958	—	472,958	—	—	472,958
Investment gain	—	—	—	28,794	—	28,794	—	—	28,794
Net realized gains on investments	—	—	—	51,717	—	51,717	—	—	51,717
Net unrealized gains on investments	—	—	—	672,222	—	672,222	—	—	672,222
Other changes	(865,061)	—	—	—	865,061	—	—	—	—
Transfer (to) from affiliates	758,805	237,254	—	(1,006,342)	—	(10,283)	—	—	(10,283)
Net assets released from restrictions for operations	(738,805)	(237,254)	—	—	—	(976,059)	—	—	(976,059)
Net assets released from restrictions for purchases of property and equipment	(20,000)	—	—	—	—	(20,000)	—	—	(20,000)
Other	—	—	—	(1,065,094)	—	(1,065,094)	—	—	(1,065,094)
Increase (decrease) in net assets with donor restrictions	(865,061)	—	—	(845,745)	865,061	(845,745)	—	—	(845,745)
Increase (decrease) in net assets	16,036,422	(1,370,082)	9,641,584	771,048	865,061	25,944,033	(421,862)	358,384	25,880,555
Net assets (deficit), beginning of year	187,821,147	(1,651,066)	148,129,687	13,727,107	(10,423,246)	337,603,629	9,923,864	(11,687,293)	335,840,200
Net assets (deficit), end of year	$ 203,857,569	(3,021,148)	157,771,271	14,498,155	(9,558,185)	363,547,662	9,502,002	(11,328,909)	361,720,755

(Continued)

Schedule 3

SHEPPARD AND ENOCH PRATT FOUNDATION, INC.
AND SUBSIDIARIES

Consolidating Statement of Changes in Net Assets Information

Year ended June 30, 2024

	Mosaic Community Services, Inc.									
	Mosaic Community Services, Inc.	**Alliance**	**Behavioral Health Partners**	**DuCHoDo**	**ReCHoDo**	**Total Mosaic Community Services, Inc.**	**Family Services Inc.**	**Way Station, Inc.**	**Consolidating eliminations**	**Consolidated totals**
Net assets without donor restrictions:										
Excess (deficiency) of revenues over expenses	$ 299,143	(1,177,001)	453,379	(93,858)	(337,405)	(855,742)	1,079,218	(792,187)	—	25,787,589
Other changes in net assets:										
Net assets released from restrictions used for purchases of property and equipment	8,283	—	—	—	—	8,283	—	524,245	—	552,528
Transfer from affiliates	—	—	—	—	—	—	—	—	—	—
Capital grants and other	—	—	—	—	—	—	—	—	—	350,000
Increase (decrease) in net assets without donor restrictions	307,426	(1,177,001)	453,379	(93,858)	(337,405)	(847,459)	1,079,218	(267,942)	—	26,690,117
Net assets with donor restrictions:										
Gifts and grants	11,900	—	—	—	—	11,900	14,784	3,149	—	502,791
Investment gain	—	—	—	—	—	—	—	—	—	28,794
Net realized gains on investments	—	—	—	—	—	—	—	—	—	51,717
Net unrealized gains on investments	—	—	—	—	—	—	—	—	—	672,222
Other changes	—	—	—	—	—	—	—	—	—	—
Transfer from affiliates	9,283	—	—	—	—	9,283	1,000	—	—	—
Net assets released from restrictions for operations	(47,554)	—	—	—	—	(47,554)	(103,543)	(13,952)	—	(1,141,108)
Net assets released from restrictions for purchases of property and equipment	(8,283)	—	—	—	—	(8,283)	—	(524,245)	—	(552,528)
Other	—	—	—	—	—	—	—	—	—	(1,065,094)
Decrease in net assets with donor restrictions	(34,654)	—	—	—	—	(34,654)	(87,759)	(535,048)	—	(1,503,206)
Increase (decrease) in net assets	272,772	(1,177,001)	453,379	(93,858)	(337,405)	(882,113)	991,459	(802,990)	—	25,186,911
Net assets (deficit), beginning of year	21,004,593	14,558,433	(3,911,565)	(570,027)	(2,084,725)	28,996,709	11,407,529	33,340,267	—	409,584,705
Net assets (deficit), end of year	$ 21,277,365	13,381,432	(3,458,186)	(663,885)	(2,422,130)	28,114,596	12,398,988	32,537,277	—	434,771,616

Schedule 4

SHEPPARD AND ENOCH PRATT FOUNDATION, INC.
AND SUBSIDIARIES

Health Department Funding

Year ended June 30, 2024

Way Station, Inc. receives funding from Anne Arundel County Mental Health Agency, Inc. (AACMHA), Frederick County Health Department (FCHD), Howard County Health Department (HCHD), and Washington County Mental Health Authority (WCMHA) for rendering services in Carroll County, Frederick County, Howard County and Washington County, Maryland, respectively. Funding received for the year ended June 30, 2024 was as follows:

		FCHD							WCMHA	
		Crisis Response Services F324	Crisis Response Services F828	Crisis Response Services F846	Crisis Response Services F818	Specialized Services for Individuals Dually Diagnosed with Mental Illness and Developmental Disability	Specialized Community Residential Placement	Mental Health Services, Residential Crisis Program	Healthy Transitions Initiative	Mental Health Stabilization Services
Total revenue	$	1,215,047	107,283	35,396	52,345	157,601	55,389	306,727	126,082	97,339
Total expenses		(1,215,047)	(107,283)	(35,396)	(52,345)	(157,601)	(55,389)	(306,727)	(126,082)	(97,339)
Change in net assets	$	—	—	—	—	—	—	—	—	—

See accompanying independent auditors' report.