The Menninger Clinic and The Menninger Clinic Foundation

Consolidated Financial Statements

June 30, 2022

C O N T E N T S

Independent Auditor's Report

To the Board of Directors of
The Menninger Clinic and The Menninger Clinic Foundation

Opinion

We have audited the consolidated financial statements of The Menninger Clinic and The Menninger Foundation (the Organization), which comprise the consolidated statement of financial position as of June 30, 2022, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related consolidated notes to the financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Organization as of June 30, 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Other Matter

As discussed in Note 1 to the financial statements, the June 30, 2022 financial statements have been restated to correct a misstatement in beginning net assets. Our opinion is not modified with respect to the matter.

Responsibilities of Management for the Consolidated Financial Statements

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

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

Auditor's 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 auditor's 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 Organization'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 Organization'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.

The Board of Directors of
The Menninger Clinic and The Menninger Clinic Foundation

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The Consolidating Balance Sheet and Consolidating Statement of Operations and Changes in Net Assets is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Houston, Texas
December 19, 2022

The Menninger Clinic and
The Menninger Clinic Foundation
Consolidated Statement of Financial Position
June 30, 2022

ASSETS	
CURRENT ASSETS	
Cash	$ 5,008,840
Patient accounts receivable, net	1,997,551
Grant receivable	509,986
Prepaid expenses and other assets	568,916
Medical supplies	119,071
Operating contributions receivable, net	9,641
Assets limited as to use	8,032,476
Total current assets	16,246,481
PROPERTY AND EQUIPMENT, net	62,590,591
OTHER ASSETS	
Contributions receivable for capital additions and endowment	21,959
Assets limited as to use	62,338,231
Other long term assets	142,981
Total other assets	62,503,171
TOTAL ASSETS	$ 141,340,243
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES	
Accounts payable	$ 328,041
Related party payable	333,816
Accrued expenses	
Payroll and employee benefits	2,168,698
Other	4,572,440
Capital lease, current portion	251,246
Deferred revenue	1,642,492
Total current liabilities	9,296,733
LONG-TERM LIABILITIES	
Long term portion of capital leases	344,613
Long term portion of notes payable, net	14,919,975
Total liabilities	24,561,321
COMMITMENTS AND CONTINGENCIES	
NET ASSETS	
Without donor restrictions	56,125,664
With donor restrictions	60,653,258
Total net assets	116,778,922
TOTAL LIABILITIES AND NET ASSETS	$ 141,340,243

The Notes to Consolidated Financial Statements are an integral part of this statement.

The Menninger Clinic and
The Menninger Clinic Foundation

Consolidated Statement of Operations and Changes in Net Assets
Year Ended June 30, 2022

CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS	
OPERATING REVENUE, GAINS, AND OTHER SUPPORT	
Net patient service revenue	$ 62,976,304
Grant revenue	509,986
Contributions without donor restrictions	402,558
Special event revenue	308,991
Net operating investment loss	(5,335,257)
Other income, net	406,447
Net assets released from restrictions	2,635,088
Total operating revenue, gains, and other support	61,904,117
EXPENSES	
Program services	57,300,834
Management and general	9,486,475
Fundraising	3,062,923
Total expenses	69,850,232
Operating loss	(7,946,115)
OTHER INCOME (EXPENSE), net	
Net non-operating income	640,191
Excess of revenue, gains, and other support over expenses and changes in net assets without donor restrictions	(7,305,924)
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS	
Contributions and bequests	1,021,379
Net investment loss	(4,252,327)
Net assets released from restrictions for operations	(2,635,088)
Total changes in net assets with donor restrictions	(5,866,036)
CHANGES IN NET ASSETS	(13,171,960)
NET ASSETS, beginning of year, as restated	129,950,882
NET ASSETS, end of year	$ 116,778,922

The Notes to Consolidated Financial Statements are an integral part of this statement.

The Menninger Clinic and
The Menninger Clinic Foundation

Consolidated Statement of Functional Expenses
Year Ended June 30, 2022

	Program Services	Management and General	Fundraising	Total Expenses
Salaries and employee benefits	$ 32,784,808	$ 4,982,893	$ 1,508,361	$ 39,276,062
Purchased services	14,174,323	3,822,948	1,389,631	19,386,902
Supplies and other	5,856,563	507,952	121,760	6,486,275
Depreciation	3,894,708	161,099	40,275	4,096,082
Interest	275,097	11,583	2,896	289,576
Grants	315,335	-	-	315,335
Total expenses	$ 57,300,834	$ 9,486,475	$ 3,062,923	$ 69,850,232

The Notes to Consolidated Financial Statements
are an integral part of this statement.

The Menninger Clinic and
The Menninger Clinic Foundation
Consolidated Statement of Cash Flows
Year Ended June 30, 2022

CASH FLOWS FROM OPERATING ACTIVITIES	
Changes in net assets	$ (13,171,960)
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities	
Depreciation and amortization	4,096,082
Net realized and unrealized gain on investments	11,203,342
Contributions restricted for capital additions	2,288,332
Changes in operating assets and liabilities	
Patient accounts receivable	(241,852)
Grant receivable	(509,986)
Prepaid expenses and other assets	(350,301)
Medical supplies	16,981
Operating contributions receivable	336,509
Other long-term assets	49,391
Accounts payable and accrued expenses	2,115,355
Deferred revenue	(572,623)
Net cash provided by operating activities	5,259,270
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of property and equipment	(12,388,318)
Purchases of investments	(48,432,724)
Proceeds from sales of investments	46,441,519
Net change in cash held for investment	10,463,650
Net cash used in investing activities	(3,915,873)
CASH FLOWS FROM FINANCING ACTIVITIES	
Proceeds from notes payable	435,259
Repayments of notes payable	(212,257)
Proceeds from contributions restricted for capital additions	45,196
Net cash provided by financing activities	268,198
Net change in cash and cash equivalents	1,611,595
CASH AND CASH EQUIVALENTS, beginning of year	3,397,245
CASH AND CASH EQUIVALENTS, end of year	$ 5,008,840
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION	
Interest paid	$ 289,576
NON CASH INVESTING AND FINANCING ACTIVITIES	
Fixed assets acquired through accounts payable	$ 1,106,879
Fixed assets acquired through capital lease	$ 46,882

The Notes to Consolidated Financial Statements
are an integral part of this statement.

Note 1. Organization

The Menninger Clinic (the Clinic) is a Texas nonprofit corporation that was formed in 2002 and commenced operations in Houston, Texas in 2003. The Clinic provides specialty inpatient and outpatient mental health services and promotes research and education in the field of mental health. Additionally, the Clinic operates *The Gathering Place*, a psychosocial clubhouse founded as a refuge for adults with mental illness, *Pathfinder*, a community re- integration program and Menninger 360, a Psychiatric Assertive Community Treatment (PACT) Program.

The Clinic operates on a 46.5-acre campus in southwest Houston where the Clinic and The Menninger Clinic Foundation (the Foundation) collaborate with various organizations in the areas of mental health research, treatment, training, and advocacy. The campus is comprised of three patient service buildings, a commons building, a facilities building and a hospitality building, collectively totaling approximately 161,000 square feet.

The Menninger Clinic Membership Foundation, a Kansas nonprofit corporation (the Membership Foundation) and Baylor College of Medicine (Baylor), a Texas nonprofit corporation, are the members (Members) of the Clinic. The Clinic's Board of Directors consists of up to 15 directors, and the successor directors are appointed by affirmative vote of both Members.

The Foundation is a Texas nonprofit corporation formed in 2002 to promote medical science through research in the field of psychiatry and its related disciplines; to provide for the instruction of physicians, nurses, therapists, and educators in a broad and intensive understanding of the human personality; and to provide diagnosis, treatment, and care of patients, including those whose funds may not be adequate for such treatment. The Clinic is the sole member of the Foundation. The Foundation's Board of Directors consists of up to 100 directors, and the successor directors are appointed by the Clinic's Board of Directors.

Restatement

A prior period adjustment was made to the Clinic's consolidated financial statements as of June 30, 2021 and for the year then ended related to a life insurance policy owned by the Clinic as well as an adjustment related to expenses recorded in the incorrect period. The effect of the restatement included was a decrease in the change in net assets for the year ended June 30, 2021 and a decrease in beginning net assets as of July 1, 2021 by approximately $1,400,000.

Federal Income Tax Status

The Clinic and the Foundation are exempt from federal income taxes under §501(c)(3) of the Internal Revenue Code. The Clinic is classified as a public charity under §509(a)(1) and §170(b)(1)(A)(iii) and the Foundation is classified as a public charity under §509(a)(1) and §170(b)(1)(A)(vi).

The 2018 Community Health Needs Assessment (CHNA) and related Implementation Strategy as of November 15, 2019 was completed in March 2020 and made available to the public in April 2020. The completion of the CHNA is a triannual requirement under §501(r) of the Internal Revenue Code.

Basis of Presentation and Description of Business

These consolidated financial statements include the assets, liabilities, net assets and activities of the Clinic and the Foundation (collectively Menninger). Balances and transactions between the consolidated entities have been eliminated.

Cash

Cash includes demand deposits. Demand deposits exceed the federally insured limit per depositor per institution. Cash presented in the consolidated balance sheets and statements of cash flows excludes cash held for long-term investment purposes.

Grant Receivable

Grant receivables as of June 30, 2022 is related to a public assistance grant that was obligated in May 2022 in the amount of $509,986 and as such is included in the grant receivable line item in the statement of financial position.

Contributions Receivable

Contributions receivable that are expected to be collected within one year are reported at net realizable value. Amounts expected to be collected in future years are discounted to estimate the present value of future cash flows. An allowance for contributions receivable is provided when it is believed balances may not be collected in full. It is Menninger's policy to write off receivables against the allowance when management determines the receivable will not be collected. The allowance is determined using a combination of historical loss experience and individual account-by-account analysis of contributions receivable balances. It is possible that management's estimate regarding collectability will change in the near term resulting in a change in the carrying value of contributions receivable and beneficial interest.

Assets Limited as to Use

Assets limited as to use consist of investments and beneficial interest in charitable trusts, which are reported at fair value. Net investment return consists of interest and dividends, realized and unrealized gains and losses, net of external and direct internal investment expenses.

Property and Equipment

Property and equipment is reported at cost if purchased or at fair value at the date of gift if donated. Depreciation is calculated using the straight-line method over estimated useful lives of 3 to 10 years for furniture and equipment and 5 to 40 years for buildings and land improvements. Menninger capitalizes additions and improvements that have a tangible future economic life and a cost of more than $2,500.

Debt Issuance Costs

Debt issuance costs represent costs related to the issuance of the notes payable and are amortized over the term of the debt. Accumulated amortization is $6,231 at June 30, 2022. Unamortized debt issuance costs are reported as a direct reduction of the related debt.

Net Asset Classification

Net assets, revenue, gains, and losses are classified based on the existence or absence of donor-imposed restrictions, as follows:

- *Net assets without donor restrictions* are not subject to donor-imposed restrictions even though their use may be limited in other respects such as by contract or board designation.
- *Net assets with donor restrictions* are subject to donor-imposed restrictions. Restrictions may be temporary in nature, such as those that will be met by the passage of time or use for a purpose specified by the donor, or may be perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Net assets are released from restrictions when the stipulated time has elapsed, or purpose has been fulfilled, or both. Contributions of long-lived assets and of assets restricted for acquisition of long-lived assets are released when those assets are placed in service unless the donor also has placed a time restriction on the use of the long-lived asset, in which case the release occurs over the term of the time restriction. Donor-restricted endowment earnings are released when those earnings are appropriated in accordance with spending policies and are used for the stipulated purpose.

Net Patient Service Revenue and Net Patient Accounts Receivable

Net patient revenue is recognized as performance obligations are satisfied and are reported at the amount that reflects the consideration Menninger expects to receive in exchange for the services provided. These amounts are due from patients and third-party payers and include variable considerations such as implicit and explicit price concessions. Generally, patients are billed prior to service for inpatient care, Menninger 360, and Pathfinder and at the time of service for outpatient care. Self-pay inpatient and Menninger 360, Pathfinder, and outpatient assessment services require a deposit. Amounts paid in advance are recognized as deferred revenue. Deferred revenue at June 30, 2022, was $1,642,492.

Performance obligations are based on the nature of the services provided. Revenue is recognized for performance obligations satisfied over time based on actual charges incurred in relation to the total expected or actual charges. Menninger believes this method provides an appropriate depiction of the transfer of services over the term of performance obligations based on the inputs needed to satisfy the obligations. Generally, performance obligations satisfied over time relate to patients receiving inpatient care services or continuing care services such as outpatient assessments, Menninger 360 and Pathfinder. Performance obligations for inpatient care services are measured from admission to the point when there are no further services required for the patient, which is generally at the time of discharge.

Menninger provides other ancillary services such as meals and laundry for inpatients, which are included in the per diem rates and are not treated as separate performance obligations.

Because patient service obligations are related to contracts with a duration of less than one year, Menninger has elected to apply the exemption provided and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The unsatisfied or partially unsatisfied performance obligations referred to above are primarily related to inpatient care, outpatient assessments, adolescent PHP, and Pathfinder services at the end of the reporting period. The performance obligations for these contracts are generally completed within days or weeks of the end of the reporting period.

Menninger is utilizing the portfolio approach practical expedient for contracts related to net patient revenue. Menninger accounts for the contracts within each portfolio as a collective group, rather than individual contracts, based on the payment pattern expected in each portfolio category and the similar nature and characteristics of the patients within each portfolio. The portfolios consist of major payer classes for inpatient revenue and outpatient revenue. Based on historical collection trends and other analysis, Menninger has concluded that revenue for a given portfolio would not be materially different than if accounted for on a contract-by-contract basis.

Menninger has agreements with third-party payers that generally provide for payments to Menninger at amounts different from its established rates. For self-pay patients who do not qualify for charity care or discounted rates, Menninger recognizes revenue based on established rates, subject to certain discounts and implicit price concessions by Menninger. Menninger determines the transaction price based on standard charges for services provided, reduced by explicit price concessions provided to third-party payers, discounts provided to self-pay patients in accordance with Menninger's policy, and implicit price concessions provided to self-pay patients. Explicit price concessions are based on contractual agreements, discount policies and historical experience. Implicit price concessions represent differences between amounts billed and estimated consideration Menninger expects to receive from patients based on historical collection experience, current market conditions, and other factors.

Generally, patients who are covered by third-party payers are responsible for related co-pays, co-insurance, and deductibles, which vary in amount. The transaction price for patients with co-pays, co-insurance and deductibles is estimated based on historical collection experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any explicit price concessions, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to net patient revenue in the period of the change. For the year ended June 30, 2022, adjustments arising from a change in the transaction price were not significant. Subsequent changes that are determined to be the result of an adverse change in the patient's ability to pay are recorded as bad debt expense. Bad debt expense for the year ended June 30, 2022 was not significant.

Patient accounts receivable consist of amounts due for healthcare services provided. Menninger grants credit without collateral to its patients. Menninger's inpatients come from across the nation; outpatients are primarily local residents. Menninger's concentration of credit risk related to patient receivables is limited due to the diversity of patients and payers. Patient accounts receivable costs are amounts due from commercial insurance companies and private pay patients. Patient accounts receivable at June 30, 2022 and 2021 was $1,997,551 and $1,755,699, respectively. The percentage mix of receivables from the patients and third-party payers are as follows:

	2022
Commercial insurance, contract and other	15%
Private pay	85%
Total patient accounts receivable, net	100%

Private pay patients may elect to finance a portion of amounts due through a local bank. Menninger incurs fees based on 13% of the outstanding balance of financed receivables. The bank will advance up to 50% of amounts owed to Menninger and will advance remaining amounts as it receives payment from the patients. Patient accounts receivable related to this plan was $387,858 at June 30, 2022.

Charity Care Policy

Menninger has established a policy that defines charity services as those services for which no payment is anticipated. In assessing a patient's ability to pay, Menninger utilizes generally recognized minimum income guidelines relevant to the community in which the services are provided. No revenue is recognized for charity care, but the relevant costs and expenses incurred in providing these services are included in operating expenses. The cost of charity care is calculated based on the number of patient days provided for patients determined to qualify for charity care multiplied by the average cost per patient day. The cost of charity care provided was estimated to be $1.7 million for the year ended June 30, 2022. During the year ended June 30, 2022, there were no contributions received that were restricted for charity care.

Contributions and Bequests

Contributions and bequests are recognized as contribution revenue at fair value when an unconditional commitment is received from the donor. Contributions received with donor stipulations that limit their use are classified as restricted support. Conditional contributions are subject to one or more barriers that must be overcome before Menninger is entitled to receive or retain funding. Conditional contributions are recognized in the same manner when the conditions have been met. Contributions 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 classified as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, Menninger reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Grants

The Foundation recognizes grants as operating expenses in the period in which an unconditional commitment is made. Grants payable are all paid in the subsequent year.

Operating Income

Operating income includes transactions deemed by management to be ongoing, and major or central to the provision of services provided by the organization. Revenue and expenses to provide these services are reported as elements of operating income for the report period. Non-operating income includes unrealized investment gain (loss) not restricted by the donor.

Functional Allocation of Expenses

Expenses are reported by their functional classification. Program services are the direct conduct or supervision of activities that fulfill the purposes for which the organization exists. Fundraising activities include the solicitation of contributions of money, securities, materials, facilities, other assets, or time. Management and general activities are not directly identifiable with specific program or fundraising activities. Expenses that are attributable to more than one activity are allocated among the activities benefitted. Salaries and related costs are allocated on the basis of estimated time and effort expended. Depreciation, utilities, repairs and maintenance are allocated based on square footage. Technology costs are allocated based on the number of computing units per function.

Estimates

Management must make estimates and assumptions to prepare financial statements in accordance with generally accepted accounting principles. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, the amounts of reported revenue and expenses, and the allocation of expenses among various functions. Actual results could vary from the estimates that were used.

Recent Financial Accounting Pronouncement

In February 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*. Under this ASU, a lessee should recognize in the statement of financial position a lease liability and a lease asset representing its right to use the underlying asset for the term of the lease for both finance and operating leases. An entity may make an accounting policy election not to recognize lease assets and lease liabilities for leases with a term of 12 months or less. Recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee have not changed significantly. Qualitative and quantitative disclosures are required by lessees and lessors to enable users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. Menninger is required to adopt this ASU for fiscal year 2023. The Organization is currently evaluating the effect that ASU 2016-02 will have on its financial statements and related disclosures.

Note 2. Liquidity and Availability of Resources

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use within one year of June 30 comprise the following:

	2022
Financial Assets	
Cash	$ 5,008,840
Patient account receivable, net	1,997,551
Grant receivable	509,986
Operating contributions receivable, net	9,641
Assets limited as to use	70,370,707
Contributions receivable for capital additions and endowment	21,959
Total financial assets	77,918,684
Less	
Donor-restricted and board-designated endowment assets less appropriations	(47,717,242)
Donor-restricted for capital projects	(1,753,576)
Total financial assets available for general expenditure	$ 28,447,866

Menninger is substantially supported by net patient service revenue and gifts and regularly monitors liquidity required to meet its operating needs while striving to maximize the investment of available funds. For purposes of analyzing resources available to meet general expenditures over a 12-month period, Menninger considers all expenditures related to its ongoing activities of providing mental health care to its patients, related research and education related to mental health initiatives, as well as the conduct of services undertaken to support those activities, to be general expenditures. General expenditures also include annual debt service requirements.

Menninger has designated a portion of its resources without donor restrictions as board-designated reserves and endowments. These funds are invested for long-term appreciation, but remain available at the Board of Directors' discretion. Additionally at June 30, 2022, Menninger had a $2,500,000 line of credit available to be drawn upon.

Note 3. Assets Limited as to Use

The following summarizes the types of restrictions for those assets limited as to use:

	2022
Donor-restricted for endowment	$ 37,010,991
Board-designated for research, education, operations, and capital	18,708,813
Donor-restricted for capital projects	1,753,576
Donor-restricted for research, education, and operations	8,086,583
Total	65,559,963
Operating investments	4,810,744
Total assets limited as to use	$ 70,370,707

Assets limited to use consist of the following:

	2022
Fixed-income mutual funds	$ 27,205,474
Equity mutual funds	25,707,852
Cash	4,347,690
Common stock	10,701,888
Beneficial interest in charitable trusts	2,316,514
Other mutual funds	90,151
Corporate debt securities	1,138
Total assets limited as to use	$ 70,370,707

Beneficial Interest in Charitable Trusts

Menninger was named a beneficiary of a charitable trust, which was created in 2014 upon the death of the trust settler for a period of 45 years from the date of death. The trust will distribute 25% of the income each year and 25% of the principal at termination of the trust, which is May 5, 2059.

Menninger was named a beneficiary of a charitable trust, which was created in 1992 upon the death of the trust settler and has a 75% beneficial interest in the residue of the trust.

Custodial Risk

Cash deposits in excess of Federal Deposit Insurance Corporation insurance limits are exposed to custodial risk. Investments are exposed to various risks such as interest rate, market and credit risks. Because of these risks, it is at least reasonably possible that changes in the fair values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the consolidated balance sheets and consolidated statements of operations and changes in net assets.

Note 4. Fair Value Measurements

Generally accepted accounting principles require that certain assets and liabilities be reported at fair value and establish a hierarchy that prioritizes inputs used to measure fair value. Fair value is 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. The three levels of the fair value hierarchy are as follows:

- *Level 1* – Inputs are unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the reporting date.
- *Level 2* – Inputs are other than quoted prices included in Level 1, which are either directly observable or can be derived from or corroborated by observable market data at the reporting date.
- *Level 3* – Inputs are not observable and are based on the reporting entity's assumptions about the inputs market participants would use in pricing the asset or liability.

Assets measured at fair value at June 30, 2022 are as follows:

	Level 1	Level 2	Level 3	TOTAL
Assets limited as to use				
Domestic fixed-income mutual funds	$ 27,205,474	$ -	$ -	$ 27,205,474
Equity mutual funds				
International				
Exchange-traded funds	10,223,312	-	-	10,223,312
Large-cap	1,333,407	-	-	1,333,407
Domestic				
Exchange-traded funds	13,802,688	-	-	13,802,688
Large-cap	348,445	-	-	348,445
Common stock				
Domestic large-cap	8,270,461	-	-	8,270,461
International	2,431,427	-	-	2,431,427
Beneficial interest in charitable trusts	-	-	2,316,514	2,316,514
Other mutual funds	90,151	-	-	90,151
Corporate debt securities	-	1,138	-	1,138
Total assets measured at fair value	$ 63,705,365	$ 1,138	$ 2,316,514	$ 66,023,017

Valuation methods used for assets and liabilities measured at fair value are as follows:

- *Mutual funds* are valued at the reported net asset value of shares held at year end.
- *Exchange-traded funds* and *common stock* are valued at the closing price reported on the active market on which the individual securities are traded.
- *Beneficial interest in charitable trusts* are valued based on Menninger's percentage ownership in the fair value of the underlying assets of the trusts, as determined by the trustees.
- *Corporate debt securities* are valued using prices obtained from independent quotation bureaus that use computerized valuation formulas to calculate fair values.

These valuation methods may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while Menninger believes its valuation methods are appropriate, the use of different methods or assumptions could result in a different fair value measurement at the reporting date.

Changes in Level 3 assets measured at fair value during the year ended June 30 are as follows:

	Beneficial Interest in Charitable Trust
Balance at June 30, 2021	$ 2,567,715
Change in fair value of beneficial interest	(183,701)
Distribution from trust account	(67,500)
Balance at June 30, 2022	$ 2,316,514

Note 5. Property and Equipment

Property and equipment consists of the following:

	2022
Buildings	$ 40,994,131
Furniture and equipment	34,275,898
Land improvements	7,591,385
Land	5,201,574
Construction in progress	15,064,067
Property and equipment, at cost	103,127,055
Accumulated depreciation	(40,536,464)
Property and equipment, net	$ 62,590,591

Note 6. Notes Payable and Capital Leases

Notes payable consist of the following:

	2022
$17,050,000 loan for the construction of the Mental Health Epicenter, interest due monthly through March 2024, principal and interest due monthly beginning April 2024 through March 2031, secured by land and buildings; fixed interest rate of 3.1%.	$ 14,958,771
Less: unamortized debt issuance costs	(38,796)
Total notes payable	$ 14,919,975

Notes payable and capital leases are due in the fiscal year ended June 30 as follows:

	Capital Leases	Construction Note	TOTAL
2023	$ 251,246	$ -	$ 251,246
2024	234,845	611,317	846,162
2025	122,827	1,042,634	1,165,461
2026	25,844	1,024,285	1,050,129
2027	-	1,005,936	1,005,936
Thereafter	-	14,424,241	14,424,241
Total minimum lease payments	634,762	18,108,413	18,743,175
Less: interest	(38,903)	(3,149,642)	(3,188,545)
Less: unamortized debt issuance costs	-	(38,796)	(38,796)
Total notes payable and capital leases	$ 595,859	$ 14,919,975	$ 15,515,834

Capital Leases

The Organization leases certain third party vehicles and equipment under terms which constitute a capital lease. In accordance with ASC Top 840 – *Leases*, the assets are amortized using the straight-line method over the useful life of the asset. The amounts capitalized under the lease agreement for the vehicles and equipment purchased was $940,384 with a total accumulated depreciation of $257,125 as of June 30, 2022.

Line of Credit

Menninger has a $2,500,000 line of credit secured by land and buildings with a bank that expires March 31, 2023. Interest on the line of credit is at the bank's prime rate less 0.25% with a floor of 3.25%. No amounts were outstanding on this line of credit at June 30, 2022.

Note 7. Net Assets without Donor Restrictions

Net assets without donor restrictions are comprised of the following:

	2022
Property and equipment, net of depreciation and related debt	$ 35,436,833
Undesignated	1,657,829
Board-designated endowment for clinical support	16,042,830
Board-designated for capital projects reserve	1,732,912
Board-designated for clinical support reserve	1,255,260
Total net assets without donor restrictions	$ 56,125,664

The Board of Directors of Menninger does not have a specific policy in regard to establishing board-designated endowments or reserves. However, the Board of Directors may designate excess cash flow for reserves, specific projects, or endowments, as deemed prudent.

Note 8. Net Assets with Donor Restrictions

Net assets with donor restrictions are restricted as follows:

	2022
Subject to expenditure for specified purpose:	
Miracles in Mind Campaign and capital projects	$ 16,838,243
Donor-restricted for future periods	2,668,442
Mental health initiatives in the schools	1,363,263
Research and education	1,776,342
Substance use and schizophrenia treatment	1,223,369
The Gathering Place	59,620
Other	995,548
Donor-restricted endowments:	
Research and education	16,569,831
Children and family center	11,026,555
General endowment	6,011,720
Other	2,120,325
Total net assets with donor restrictions	$ 60,653,258

Note 9. Endowment Funds

The endowment was established to provide long-term support to the programs and operations of the Clinic. The endowment consists of donor-restricted endowment funds and funds the Board of Directors has designated to function as an endowment. Board-designated endowment funds are classified as *net assets without donor restrictions* internally designated to provide support for the organization generally for a long term, but not necessarily a specified period of time. The Board of Directors retains discretion over the use of these funds.

Donor-restricted endowment funds are maintained in accordance with explicit donor stipulations and are subject to the Texas Uniform Prudent Management of Institutional Funds Act (TUPMIFA). TUPMIFA provides guidelines about what constitutes prudent spending and explicitly requires consideration of preservation of the fund. The Board of Directors has interpreted TUPMIFA as requiring a focus on the entirety of donor-restricted endowment funds, including original gift amounts and net appreciation, allowing the Foundation to appropriate for expenditure or accumulate as much of an endowment fund as considered prudent for the uses, benefits, purposes, and duration or which the fund was established, subject to explicit donor stipulations.

As a result of this interpretation, Menninger classifies contributions to an endowment plus any donor-stipulated accumulations as *net assets with donor restrictions* required to be maintained in perpetuity. This amount is not reduced by investment losses or by appropriation and spending. The portion of the endowment not required to be maintained in perpetuity is also classified as *net assets with donor restrictions* until appropriated in accordance with spending policies and used for the stipulated purpose, if any.

Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Under this policy, as approved by the Foundation's Board of Directors, the endowment assets are invested in a manner that is intended to produce an annualized return that is at or above the internally derived aggregate benchmark. The minimum long-term objective is to obtain a rate-of-return that will preserve the real value of the endowment assets after program and research spending, investment expenses and inflation.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the 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). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy

The Foundation's spending policy will be consistent with its investment objective of achieving long-term real growth in its assets. In order to achieve such long-term real growth, the Foundation's goal is that total grants and expenses do not exceed the Foundation's total inflation-adjusted return on investments. The Board may draw down all or any portion of the endowment fund on demand.

Changes in net assets of the donor-restricted endowment funds are as follows:

	WITHOUT DONOR RESTRICTIONS	WITH DONOR RESTRICTIONS		
	BOARD-DESIGNATED ENDOWMENT	ACCCUMULATED EARNINGS, NET	REQUIRED TO BE MAINTAINED IN PERPETUITY	TOTAL
Endowment net assets, June 30, 2021	$ 24,446,993	$ 9,626,946	$ 31,252,605	$ 65,326,544
Contributions, bequests and special event revenue	711,550	-	45,196	756,746
Net investment return	(5,335,375)	(3,896,254)	-	(9,231,629)
Transfers to fund deficits	(1,290,243)	1,290,243	-	-
Appropriations for expenditure	(2,490,095)	(1,300,061)	-	(3,790,156)
Endowment net assets, June 30, 2022	$ 16,042,830	$ 5,720,874	$ 31,297,801	$ 53,061,505

Note 10. Patient Service Revenue

Menninger disaggregates revenue from contracts with customers by type of services and payor source as this depicts the nature, amount, timing, uncertainty, and cash flows as affected by economic factors. Revenue from contracts with customers consist of the following for the year ended June 30, 2022:

	OVER TIME					
	INPATIENT CARE-GENERAL	MENNINGER 360	OUTPATIENT	PATHFINDERS	INPATIENT AUXILARY SERVICES	TOTAL
Self-pay	$ 39,652,074	$ 5,070,280	$ 5,814,688	$ 2,847,611	$ 8,540,181	$ 61,924,834
Commercial insurance, contract and other	996,070	-	25,110	-	30,290	1,051,470
Total	$ 40,648,144	$ 5,070,280	$ 5,839,798	$ 2,847,611	$ 8,570,471	$ 62,976,304

Note 11. Related Party Transactions

Transactions with Members for the year ended June 30, 2022, include payments to Baylor for medical staff salaries and related benefits of approximately $11.8 million. These transactions are reflected as operating expenses in the consolidated financial statements. At June 30, 2022, accrued expenses due to Baylor were approximately $1.9 million. In addition, the Organization had payable due to a related party in the amount of $333,816 as of June 30, 2022.

Note 12. Employee Benefit Plans

Retirement Benefits

The Clinic is a participating employer in The Menninger Clinic 403(b) Retirement Savings Plan (the Savings Plan) to provide retirement benefits to eligible employees. Under the Savings Plan, all employees of the Clinic become participants in the plan following the completion of one year of service and are immediately vested. Employees received an employer matching contribution up to 5% of qualified earnings. The Clinic's contribution to the Savings Plan was approximately $1,109,000 for the year ended June 30, 2022.

Health Benefits

Menninger has a self-funded health benefit plan, which is administered by a third party. Menninger is primarily self-insured up to $125,000 per employee for health benefits with additional third-party coverage provided by an aggregate stop-loss policy, which limits the maximum individual and aggregate losses. Self-insurance costs are accrued based upon the aggregate of the liability for reported claims and an estimated liability for claims incurred, but not yet reported and are reported on an undiscounted basis.

Note 13. Commitments and Contingencies

Insurance

The Clinic maintains claims-made policies for its malpractice coverage to cover any claims in the ordinary course of business. Baylor provides coverage for its physicians who provide services to the Clinic under an agreement between the Clinic and Baylor. Primary limits of $1,000,000 per occurrence with an annual aggregate limit of $3,000,000 apply with no deductibles. Claims that are insured under the claims-made policies are covered only if the occurrence is reported prior to expiration of the policy period. In the event the current policies are not renewed or replaced with equivalent insurance coverage, claims based on occurrences during their term, but reported subsequently, will be uninsured. There are known incidents that have resulted in the assertion of claims, as well as claims from unknown incidents that may be asserted arising from services provided. Management does not expect such claims to have a material adverse effect on Menninger's financial position.

Lease Commitments

Leases that do not meet the criteria for capitalization are classified as operating leases, with related expenses recognized in the period incurred. The Clinic has entered into leases for office space, vehicles, and equipment for terms extending through 2027. Future minimum lease payments on the facility, vehicles, and equipment leases at June 30, 2022 are payable as follows:

2023	$	672,493
2024		418,052
2025		270,875
2026		211,954
2027		112,464
Total	$	1,685,838

Additionally, the Clinic has leases for certain facilities that may be terminated with minimal notice. Total rental expenses for all operating leases, including those requiring minimal notice, was approximately $717,000 for year ended June 30, 2022.

Note 14. Subsequent Events

Management has evaluated subsequent events through December 19, 2022, which is the date that the financial statements were available for issuance. As a result of this evaluation, no events were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.

Supplementary Information

The Menninger Clinic and
The Menninger Clinic Foundation
Consolidating Statement of Financial Position
June 30, 2022

	THE CLINIC	THE FOUNDATION	ELIMINATIONS	TOTAL
ASSETS				
CURRENT ASSETS				
Cash	$ 1,447,292	$ 3,561,548	$ -	$ 5,008,840
Patient accounts receivable, net	1,997,551	-	-	1,997,551
Grant receivable	509,986	-	-	509,986
Prepaid expenses and other assets	568,916	-	-	568,916
Medical supplies	119,071	-	-	119,071
Operating contributions receivable, net	-	9,641	-	9,641
Assets limited as to use	-	8,032,476	-	8,032,476
Due from the Clinic	-	6,054,221	(6,054,221)	-
Total current assets	4,642,816	17,657,886	(6,054,221)	16,246,481
PROPERTY AND EQUIPMENT, net	62,590,591	-	-	62,590,591
OTHER ASSETS				
Contributions receivable for capital additions and endowment	-	21,959	-	21,959
Assets limited as to use	-	62,338,231	-	62,338,231
Other long term assets	142,981	-	-	142,981
Total other assets	142,981	62,360,190	-	62,503,171
TOTAL ASSETS	$ 67,376,388	$ 80,018,076	$ (6,054,221)	$ 141,340,243
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts payable	$ 328,041	$ -	$ -	$ 328,041
Related party payable	-	333,816		333,816
Accrued expenses				
Payroll and employee benefits	2,168,698	-	-	2,168,698
Other	4,572,440	-	-	4,572,440
Capital leases, current portion	251,246			251,246
Deferred revenue	1,642,492	-	-	1,642,492
Due to the Foundation	6,054,221	-	(6,054,221)	-
Total current liabilities	15,017,138	333,816	(6,054,221)	9,296,733
LONG-TERM LIABILITIES				
Long term portion of capital leases, net	344,613	-	-	344,613
Long term portion of notes payable, net	14,919,975	-	-	14,919,975
Total liabilities	30,281,726	333,816	(6,054,221)	24,561,321
NET ASSETS				
Without donor restrictions	37,094,662	19,031,002	-	56,125,664
With donor restrictions	-	60,653,258	-	60,653,258
Total net assets	37,094,662	79,684,260	-	116,778,922
TOTAL LIABILITIES AND NET ASSETS	$ 67,376,388	$ 80,018,076	$ (6,054,221)	$ 141,340,243

The Menninger Clinic and
The Menninger Clinic Foundation

Consolidating Statement of Operations and Changes in Net Assets
Year Ended June 30, 2022

	THE CLINIC	THE FOUNDATION	ELIMINATIONS	TOTAL
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS				
OPERATING REVENUE, GAINS, AND OTHER SUPPORT				
Net patient service revenue	$ 62,976,304	$ -	$ -	$ 62,976,304
Grant revenue	509,986	-	-	509,986
Contributions without donor restrictions	-	402,558	-	402,558
Special event revenue	-	308,991	-	308,991
Net operating investment loss	-	(5,335,257)	-	(5,335,257)
Grants from the Foundation	2,062,546	-	(2,062,546)	-
Other income, net	406,447	-	-	406,447
Net assets released from restrictions	-	2,635,088	-	2,635,088
Total operating, revenue, gains, and other support	65,955,283	(1,988,620)	(2,062,546)	61,904,117
EXPENSES				
Grants to the Clinic	-	2,062,546	(2,062,546)	-
Program services	57,300,834	-	-	57,300,834
Management and general	9,486,475	-	-	9,486,475
Fundraising	-	3,062,923	-	3,062,923
Total expenses	66,787,309	5,125,469	(2,062,546)	69,850,232
Operating income (loss)	(832,026)	(7,114,089)	-	(7,946,115)
OTHER INCOME (EXPENSE), net				
Net non-operating income	640,191	-	-	640,191
Excess of revenue, gains, and other support over expenses and changes in net assets without donor restrictions	(191,835)	(7,114,089)	-	(7,305,924)
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS				
Contributions and bequests	-	1,021,379	-	1,021,379
Net investment loss	-	(4,252,327)	-	(4,252,327)
Net assets released from restrictions for operations	-	(2,635,088)	-	(2,635,088)
Total changes in net assets with donor restrictions	-	(5,866,036)	-	(5,866,036)
CHANGES IN NET ASSETS	(191,835)	(12,980,125)	-	(13,171,960)
NET ASSETS, beginning of year, as restated	37,286,497	92,664,385	-	129,950,882
NET ASSETS, end of year	$ 37,094,662	$ 79,684,260	$ -	$ 116,778,922