HAZELDEN BETTY FORD FOUNDATION
AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

Including Independent Auditors' Report

As of and for the Years Ended December 31, 2017 and 2016

HAZELDEN BETTY FORD FOUNDATION AND SUBSIDIARIES

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BAKER TILLY

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Hazelden Betty Ford Foundation and Subsidiaries
Center City, Minnesota

We have audited the accompanying consolidated financial statements of Hazelden Betty Ford Foundation and Subsidiaries (the "Foundation"), which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the related consolidated statements of operations, changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Hazelden Betty Ford Foundation and Subsidiaries as of December 31, 2017 and 2016, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information identified in the table of contents is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, changes in net assets, and cash flows of the individual subsidiaries, 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 consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Baker Tilly Virchow Krause, LLP

Minneapolis, Minnesota
April 24, 2018

HAZELDEN BETTY FORD FOUNDATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
As of December 31, 2017 and 2016
(in thousands)

	2017	2016
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 6,558	$ 2,158
Patient and other receivables, net of allowance for doubtful accounts of $6,524 and $6,095	26,335	26,679
Contributions receivable, net	1,520	1,289
Inventories	1,964	2,228
Prepaid expenses	920	824
Total current assets	37,297	33,178
PROPERTY AND EQUIPMENT, net	190,245	210,211
LONG-TERM INVESTMENTS	151,223	138,530
LONG-TERM CONTRIBUTIONS RECEIVABLE, net	7,098	5,651
BENEFICIAL INTEREST IN SPLIT INTEREST AGREEMENTS	1,433	1,440
GOODWILL	2,188	2,188
INTANGIBLE ASSETS, net	12,067	12,107
OTHER ASSETS, net	1,187	1,284
TOTAL ASSETS	$ 402,738	$ 404,589
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	$ 9,843	$ 14,546
Accrued expenses	15,543	16,730
Current portion of long-term debt	1,615	2,070
Line of credit	13,500	10,500
Current contract obligation	120	120
Total current liabilities	40,621	43,966
LONG-TERM DEBT, net of current portion	57,904	59,449
OTHER LONG-TERM LIABILITIES		
Other long-term liabilities	313	433
Long-term contract obligation	1,311	
Total other long-term liabilities	1,624	433
Total liabilities	100,149	103,848
NET ASSETS		
Unrestricted	257,024	257,060
Temporarily restricted	13,469	11,817
Permanently restricted	32,096	31,864
Total net assets	302,589	300,741
TOTAL LIABILITIES AND NET ASSETS	$ 402,738	$ 404,589

See accompanying notes to the consolidated financial statements.

HAZELDEN BETTY FORD FOUNDATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
For the Years Ended December 31, 2017 and 2016
(in thousands)

	2017	2016
OPERATING REVENUES		
Patient service revenue, net of contractual adjustments and patient aid	$ 148,402	$ 144,116
Less: Provision for bad debt	(9,209)	(7,292)
Patient service revenue, net	139,193	136,824
Publishing revenue, net	20,366	19,970
Tuition and workshops, net	3,187	3,127
Prevention program fees	1,813	1,647
Contributions	1,675	1,317
Other	1,567	1,643
Investment earnings, allocated to operations	1,283	1,438
Net assets released from restrictions - operations	6,174	5,071
Total operating revenues	175,258	171,037
OPERATING EXPENSES		
Salaries and wages	90,876	90,104
Benefits	26,955	25,767
Cost of sales - publishing	6,285	6,219
Purchased services and professional fees	18,401	19,266
Other	22,685	24,757
Total expenses before interest, depreciation, amortization and accretion	165,202	166,113
Income before interest, depreciation, amortization and accretion	10,056	4,924
Interest	2,697	1,888
Depreciation, amortization and accretion	20,985	19,085
Implementation of electronic health record non-recurring costs		2,229
Total interest, depreciation, amortization and accretion expense	23,682	23,202
Operating Loss	(13,626)	(18,278)
NONOPERATING GAINS (LOSSES)		
Investment earnings, net	358	398
Investment earnings, allocated to operations	(1,283)	(1,438)
Realized gains on investments	2,005	4,533
Other losses	(109)	(40)
Total nonoperating gains, net	971	3,453
DEFICIENCY OF REVENUES AND GAINS (LOSSES) OVER EXPENSES	$ (12,655)	$ (14,825)

HAZELDEN BETTY FORD FOUNDATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
For the Years Ended December 31, 2017 and 2016
(in thousands)

	2017	2016
UNRESTRICTED NET ASSETS		
Deficiency of revenues and gains (losses) over expenses	$ (12,655)	$ (14,825)
Net assets released from restrictions - capital	1,051	5,456
Change in unrealized gain on investments	11,568	5,256
Change in Unrestricted Net Assets	(36)	(4,113)
TEMPORARILY RESTRICTED NET ASSETS		
Contributions	8,063	10,201
Investment return	814	566
Net assets released from restrictions - operations	(6,174)	(5,071)
Net assets released from restrictions - capital	(1,051)	(5,456)
Change in Temporarily Restricted Net Assets	1,652	240
PERMANENTLY RESTRICTED NET ASSETS		
Contributions	232	55
Change in Permanently Restricted Net Assets	232	55
Total Change in Net Assets	1,848	(3,818)
NET ASSETS, BEGINNING OF YEAR	300,741	304,559
NET ASSETS, END OF YEAR	$ 302,589	$ 300,741

HAZELDEN BETTY FORD FOUNDATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2017 and 2016
(in thousands)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 1,848	$ (3,818)
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation, amortization and accretion	20,985	19,085
Realized and unrealized gain on investments	(13,573)	(9,789)
Loss on disposition of assets	109	42
Contributions restricted for endowment and plant	(1,662)	(6,919)
Provision for doubtful accounts	9,122	7,103
Other asset and liability changes, net	(14,597)	(8,227)
Net cash flows from operating activities	2,232	(2,523)
CASH FLOWS FROM INVESTING ACTIVITIES		
Property and equipment additions	(1,461)	(18,964)
Film and video additions	(37)	(206)
Increase in cash surrender value on life insurance policies	(9)	(7)
Withdrawal from assets limited as to use		9
Proceeds from sales of long-term investments	61,991	39,995
Purchases of long-term investments	(61,111)	(31,849)
Proceeds from sale of fixed assets	3	
Net cash flows from investing activities	(624)	(11,022)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from line of credit	12,500	16,500
Repayments of line of credit	(9,500)	(7,500)
Proceeds from issuance of long-term debt		3,150
Repayments of long-term debt	(2,029)	(5,493)
Contributions received restricted for endowment and plant	1,821	6,694
Net cash flows from financing activities	2,792	13,351
Change in cash and cash equivalents	4,400	(194)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,158	2,352
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 6,558	$ 2,158
SUPPLEMENTAL CASH FLOW INFORMATION		
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest, net of capitalized interest	$ 2,943	$ 1,680
Capitalized interest	$ 26	$ 927
Noncash investing and financing activities		
Property and equipment acquired through accounts payable	$ 486	$ 1,040

See accompanying notes to the consolidated financial statements.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

Founded in 1949, Hazelden Foundation, now known as Hazelden Betty Ford Foundation ("Foundation"), headquartered in Center City, Minnesota, is an internationally recognized nonprofit organization dedicated to helping people change their lives by providing high quality recovery and education services in alcohol and drug addiction and related illnesses. The Foundation's mission is to be a force of healing and hope for individuals, families, and communities affected by addiction to alcohol and other drugs.

Locations across the United States help people at all stages of the treatment and recovery process, supporting them with the Foundation's Twelve Step-based model that is the modern standard for addiction treatment and recovery services. The Foundation's recovery service programs have been continuously accredited by the Joint Commission since 1974.

The broad continuum of chemical addiction-related services provided by the Foundation is represented in the following table:

Site Name/Location	Prevention Programs	Residential	Day Treatment	Out-Patient	Recovery Housing	Children's Program
Hazelden - Beaverton, OR				√		
Hazelden - Center City,MN		√	√		√	
Hazelden - Chaska, MN				√		
Hazelden - Chelsea NY, NY				√		
Hazelden - Chicago, IL			√	√	√	
Betty Ford Center - Dallas, TX						√
Betty Ford Center - Denver, CO						√
Betty Ford Center - Los Angeles, CA				√		
Hazelden - Maple Grove, MN				√		
Hazelden - Naples, FL		√	√	√	√	
FCD - Newton, MA	√					
Hazelden - Plymouth, MN		√	√	√	√	
Betty Ford Center - Rancho Mirage		√	√	√	√	√
Betty Ford Center - San Diego, CA			√	√		
Hazelden - Springbrook, OR		√	√		√	
Hazelden - St. Paul, MN			√	√	√	
Hazelden - Tribeca NY, NY				√	√	

In addition, the Foundation publishes and distributes educational material through the Hazelden Publishing division, provides education and training programs for counselors and other professionals through the Hazelden Betty Ford Graduate School of Addiction Studies, and conducts various research and evaluation programs through the Butler Center for Research, and community services, all related to long-term addictions.

Basis of Presentation

The accompanying financial statements are prepared on the accrual basis of accounting and include the accounts of Hazelden Betty Ford Foundation and its wholly owned subsidiaries: Hazelden New York, a New York nonprofit corporation, Hazelden Chicago, an Illinois nonprofit corporation and Recovery Partners, P.C., a controlled, for-profit corporation (collectively, the Foundation). All significant intercompany transactions have been eliminated in consolidation.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Description of Net Assets

The Foundation segregates its net assets into the following three categories according to the existence or absence of donor-imposed restrictions:

Unrestricted - Unrestricted net assets include all assets, liabilities, related revenues and expenses arising from the care of patients, the sales of books and educational materials, tuition from the School and other operating activities. Unrestricted contributions, investment income and restricted funds expended for operations are reflected in this category.

Temporarily Restricted - Temporarily restricted net assets consist of unexpended gifts received from donors who have restricted their gifts for specific purposes or to use in a specific time period. When a donor restriction expires, that is, when a stipulated restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported as net assets released from restrictions.

Permanently Restricted - Permanently restricted net assets consist of restricted gifts and pledges whose principal balance is required by the donor to remain intact in perpetuity. Investment earnings on permanently restricted net assets are expended as directed by the donor with the approval of the Board of Trustees.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled, the stipulated time period has elapsed and/or board appropriation) are reported as reclassifications between the applicable classes of net assets.

Release of Restrictions on Net Assets for Acquisition of Land, Building and Equipment

Contributions of land, buildings and equipment are reported as revenues of the unrestricted net asset class. Contributions of cash or other assets to be used to acquire land, building and equipment are reported as revenues of the temporarily restricted net asset class; the restrictions are considered to be released at the time such long-lived assets are placed in service.

Cash and Cash Equivalents

Cash and cash equivalents consist of highly liquid investments with original maturities of 90 days or less, except for those held for long-term investment.

Allowance for Uncollectible Accounts and Provision for Bad Debts

All patient service revenue is produced from private pay, commercial insurance, or managed care insurance contracts. The primary collection risks relate to private pay accounts, including private pay for which the primary insurance carrier has paid the amounts covered by the applicable agreement, but patient responsibility amounts (deductibles and copayments) remain outstanding. The allowance for doubtful accounts relates primarily to private pay accounts over 90 days old. The allowance is calculated based on balances over 90 days and on historical experience and management's evaluation of outstanding accounts receivable at the end of each year. Accounts with balances over 120 days old determined to possess positive collectability attributes are forwarded to an external collection agency. The Foundation's collection policies include a review of all accounts against certain standard collection criteria and are written off when all reasonable collection efforts have been exhausted. Receivables are generally unsecured. The Foundation does not charge interest on accounts receivable balances that are past due.

(In thousands)

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The following is a summary of the allowance for doubtful accounts related to patient service revenue at December 31:

Allowance for Uncollectible Accounts	Balance at Beginning of Year	Provision for Uncollectible Accounts	Accounts Written Off, net of recoveries	Balance at End of Year
2017	$ 6,085	$ 9,209	$ (8,840)	$ 6,454
2016	3,500	7,292	(4,707)	6,085

Contributions Receivable

The following is a summary of contributions receivable at December 31:

	2017	2016
Contributions receivable due in the next twelve months	$ 2,332	$ 2,261
Contributions receivable due in one to five years	11,046	11,188
	13,378	13,449
Less: Allowance for doubtful accounts	(1,312)	(1,329)
Present value discount	(3,448)	(5,180)
	$ 8,618	$ 6,940

Unconditional contributions receivable are recognized as assets in the period pledged. Conditional promises to give are not recognized until the conditions are substantially met. Contributions receivable are recorded at fair value at the date of the gift. Annually, contributions receivable are discounted to the net realizable value as appropriate to reflect the estimated timing of receipt for contributions due more than one year from the date of receipt. Contributions receivable beyond one year are discounted primarily between 2.81% and 2.0% for 2017 and 5.4% and 1.2% for 2016. Contributions receivable due within one year are not discounted. The allowance for uncollectible contributions receivable is determined based on historical experience and specific identification.

Beneficial Interest in Split Interest Agreements

The Foundation is the beneficiary of various split-interest agreements that provide for payment of interest income to designated beneficiaries and remainder interest upon the maturity of the agreements. Assets are recorded at fair value based on the present value of assets expected to be received in the future using actuarial and other assumptions. The donor life expectancy and the discount rate ranging from 2% to 3%, based on the risk of each agreement, are used to estimate the fair value.

The Foundation was not gifted any new split interest agreements during 2017 or 2016.

Inventories

Inventories are valued at the lower of average cost, on a first-in, first-out (FIFO) basis, or market and consist principally of educational materials.

(In thousands)

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment

Property and equipment additions are recorded at cost if purchased and at fair value at the date of gift if contributed, and are depreciated using the straight-line method over the following estimated useful lives:

Land improvements	5 to 35 years
Buildings	7 to 40 years
Equipment	3 to 15 years
Leasehold improvements	5 to 8 years

Property and equipment of the Foundation consist of the following at December 31, 2017 and 2016:

	2017	2016
Land and land improvements	$ 22,534	$ 22,534
Buildings	230,177	230,093
Equipment	98,257	96,761
Leasehold improvements	2,084	2,279
Construction in progress	867	2,479
Subtotal	353,919	354,146
Less: Accumulated depreciation	(163,674)	(143,935)
Total	$ 190,245	$ 210,211

Depreciation and amortization expense totaled $20,974 and $19,074 for the years ended December 31, 2017 and 2016, respectively. The Foundation capitalizes property and equipment expenditures in excess of $5. There were no material commitments on construction in progress as of December 31, 2016 or 2017.

Carrying Value of Long-Lived Assets

Long-lived assets, such as property and equipment, are reviewed for impairment whenever events or changes in circumstances require that a long-lived asset be tested for possible impairment. The Foundation first compares undiscounted cash flows expected to be generated by the use and eventual disposition of the asset to the carrying value of the asset. If the carrying value of the long-lived asset is not recoverable on an undiscounted cash flow basis, the fair value is determined through various valuation techniques including, but not limited to discounted cash flow models, quoted market values and independent third-party appraisals. To date, no such impairment losses have been recorded.

Long-Term Investments

Investments are managed centrally and investment income, realized and unrealized gains and losses are allocated to the various categories of net assets based upon their interest in the commingled investments at fair value.

Investments include endowed funds, unrestricted funds and the temporary obligation of unexpended funds received from donors to help support Foundation services and other investments.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Goodwill

Goodwill represents the excess of the purchase price over the fair value of the net assets acquired. The Foundation tests goodwill annually for impairment or earlier upon the occurrence of certain events or substantive changes in circumstances that indicate goodwill is more likely than not impaired.

Intangible Assets, net

Intangible assets consist principally of a favorable ground lease contract, an option to purchase land, the rights to use the Betty Ford Center name and associated marks, the Betty Ford Center licenses to operate as a chemical dependency hospital and a children's program with copyrighted marketing components (Beamers rights). The ground lease is amortized over the life of the lease of 84 years. The option to purchase land is amortized over 84 years and the children's program is amortized over 10 years.

Intangibles with indefinite lives, including the Betty Ford Center name and associated marks as well as the Betty Ford Center licenses are tested annually or more frequently if circumstances indicate potential impairment, by comparing their fair values to their carrying amounts.

Other Assets

Other assets consist principally of curricula costs, film and video product development costs, the cash surrender value of life insurance policies and artwork. Curricula costs are amortized over three years. Film and video product development costs are amortized over the estimated periods during which benefits are realized.

Fine Arts and Antiques

The Foundation has elected to recognize contributions of fine arts and antiques in the financial statements although they are held for public exhibition in furtherance of educational and patient service purposes rather than for financial gain. They are valued at appraised value at the date of the gift.

Asset Retirement Obligations

The Foundation owns certain buildings that contain encapsulated asbestos material. A liability is recognized for the asset retirement obligation (ARO) related to the estimated remediation cost of such material. Subsequent to initial recognition, the Foundation records period-to-period changes in the ARO liability resulting from the passage of time and revisions to either the timing or the amount of the original estimate of undiscounted cash flows.

The estimates of the losses that are probable from environmental remediation liabilities for asbestos removal were calculated using the expected cash flow approach based upon estimated current market prices to remove the asbestos and using appropriate discount and inflation rates. It is reasonably possible that changes in this estimate could occur in the near term and that actual results could differ from this estimate and could have an impact on the financial statements.

(In thousands)

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Changes in the accrual for asset retirement obligations, which is included in other long-term liabilities on the consolidated balance sheets, during the years ended December 31, 2017 and 2016 are as follows:

	2017	2016
Balance, Beginning of the year	$ 313	$ 315
Abatements	(11)	(13)
Accretion expense	11	11
Balance, End of the year	$ 313	$ 313

Revenue Recognition

The Foundation recognizes patient care revenues when services are provided. Payments received in advance of service are included in accrued expenses.

The Foundation has agreements with third-party payers, which provide payments to the Foundation at amounts that generally differ from its established rates. Net patient revenue is reported at estimated net amounts due from patients and third-party payers for services rendered.

Net patient revenues are derived from the following payer sources:

	2017	2016
Blue Cross Blue Shield and Health Partners	51%	48%
Other insurance contracts	30%	31%
Self-pay	19%	21%
	100%	100%

Credit is granted without collateral to patients, most of whom are residents in the communities that the Foundation serves and are insured under third-party payer agreements. As of December 31, the mix of net patient accounts receivable consists of:

	2017	2016
Blue Cross Blue Shield and Health Partners	49%	49%
Other insurance contracts	42%	43%
Self-pay	9%	8%
	100%	100%

One third-party payer accounted for 37% and 37% of gross patient accounts receivable at December 31, 2017 and 2016, respectively.

(In thousands)

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenues related to professional services and educational materials are recognized when the service is provided or product is sold and delivered. Publishing revenue is reported net of certain costs as follows:

	2017	2016
Publishing educational materials (net of discounts of $8,498 and $9,115)	$ 21,303	$ 21,055
Returns and allowances	(497)	(578)
Shipping costs	(440)	(507)
	$ 20,366	$ 19,970

Tuition and workshops revenue are reported net of scholarships that totaled $905 and $1,108 in 2017 and 2016, respectively.

Charity Care

The Foundation provides services to individuals and families who seek and qualify for care but are unable to pay the full cost. The Foundation refers to this charity care as “patient aid.” The patient aid policy provides that the Foundation will annually establish a target amount of aid based on a minimum of six percent of budgeted net adjusted patient service revenue (budgeted gross charges less budgeted contractual discounts).

The estimated costs of providing charity care are based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on the Foundation’s total recovery care expenses divided by gross patient service revenue. The estimated costs to provide charity care were $7,430 and $6,175 in 2017 and 2016, respectively. The Foundation released from restriction $2,166 and $1,748 in 2017 and 2016, respectively, from donor contributions for patient aid.

Development Costs

Development costs are charged to expense in the period incurred.

MNCare Tax

The Foundation pays state tax in the state of Minnesota (MNCare Tax) on receipts. The tax is 2.0% of all non-Medicare and non-Medicaid receipts. The Foundation recognized approximately $1,655 and $1,507 of MNCare tax in total operating expenses for the years ended December 31, 2017 and 2016, respectively.

Advertising

Advertising costs are charged to operating expenses when incurred. Advertising costs totaled $805 and $962 for the years ended December 31, 2017 and 2016, respectively.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deficiency of Revenues and Gains (Losses) over Expenses

The consolidated statements of operations include the deficiency of revenues and gains (losses) over expenses as an indicator of operating performance. Changes in unrestricted net assets that are excluded from revenues and gains (losses) over expenses, consistent with industry practice include unrealized gains and losses on investments, gains and losses on other than trading securities, and contributions of (and assets released from donor restrictions related to) long-lived assets.

Tax Status

Hazelden Betty Ford Foundation and subsidiaries have received notification that they qualify as tax-exempt organizations under Section 501(c)(3) of the U.S. Internal Revenue Code and corresponding provisions of State law and, accordingly are not subject to federal or state income taxes. However, any unrelated business income may be subject to taxation. The Foundation is not currently under examination by any taxing jurisdiction.

Recovery Partners, P.C. is a for-profit corporation subject to federal and state income tax. Deferred tax liabilities are recognized for temporary differences that will result in taxable amounts in future years. Deferred tax assets are recognized for deductible temporary differences and tax operating loss and tax credit carry forwards. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax asset will not be realized. On December 22, 2017, the U.S. government enacted H.R.1, an act to provide for Reconciliation Pursuant to Titles II and V of the Concurrent Resolution on the Budget for Fiscal Year 2018, commonly referred to as the Tax Cuts and Jobs Act (TCJA). The TCJA contains significant changes to the corporate taxation, including, but not limited to, reducing the U.S. federal corporate tax rate to 21 percent effective January 1, 2018. Recovery Partners, P.C. remeasured its deferred tax assets and liabilities as of December 31, 2017 based on the rates at which they are expected to be utilized in the future. This remeasurement resulted no net change to the recorded amount of Recovery Partners, P.C.'s net deferred tax assets as Recovery Partners, P.C. continues to maintain a full valuation allowance against its deferred tax assets.

In accounting for uncertain tax positions, the Foundation addresses the determination of whether tax benefits claimed on a tax return should be recorded in the financial statements. Under this guidance, the Foundation may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities, based on the technical merit of the position. Examples of tax positions include the tax-exempt status of the Foundation and various tax positions related to potential sources of unrelated business taxable income.

There were no unrecognized tax benefits identified or recorded as liabilities, as of December 31, 2017 and 2016.

Use of Estimates

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

New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers.* This new accounting guidance was issued that outlines a single comprehensive model for organizations to use in accounting for revenue from contracts with customers. This guidance is effective for the Foundation's fiscal year beginning January 1, 2018. The Foundation is assessing the impact this new standard will have on its financial statements.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In January 2016, the FASB issued ASU No. 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. The new guidance supersedes the requirements to classify equity securities with readily determinable fair values into separate categories and requires equity securities to be measured at fair value with changes in fair value to be recognized within the performance indicator. The new guidance also eliminates the requirement to disclose the fair value of financial instruments measured at amortized cost for organizations that are not public business entities. The new guidance will become effective for the Foundation's fiscal year beginning after December 15, 2018. However, the new guidance permits early adoption of the provision that exempts private companies and not-for-profit organizations from having to disclose fair value information about financial instruments measured at amortized cost. The Foundation elected to early adopt that provision in its December 31, 2016 financial statements. The Foundation is assessing the impact the remaining provisions of this new standard will have on its financial statements.

In February 2016, the FASB issued ASU No. 2016-2, *Leases (Topic 842)*. The guidance requires lessees to recognize assets and liabilities for most leases in their statement of financial position. The Foundation is required to adopt the amendments for its fiscal years beginning January 1, 2019. Early application is permitted. Lessees (for capital and operating leases) and lessors (for sales-type, direct financing, and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Lessees and lessors may not apply a full retrospective transition approach. The Foundation is assessing the impact this new standard will have on its financial statements.

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958)*. The guidance intends to improve and simplify the current net asset classification requirements and information presented in financial statements and notes that is useful in assessing a not-for-profit's liquidity, financial performance and cash flows. The standard is effective for fiscal years beginning after December 15, 2017, with early adoption permitted. ASU 2016-14 is to be applied retroactively with transition provisions. The Foundation is assessing the impact this new guidance will have on its financial statements.

Reclassification

Certain amounts appearing in the 2016 financial statements have been reclassified to conform with the 2017 presentation. The reclassifications have no effect on previously reported amounts of total net assets or changes in net assets.

NOTE 2 - FAIR VALUE MEASUREMENTS

Fair value is defined as the exchange price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the assets or liability in an orderly transaction between market participants at the measurement date. Under this guidance, a three-level hierarchy is used for fair value measurements which are based on the transparency of information, such as the pricing source, used in the valuation of an asset or liability as of the measurement date.

Financial instruments measured and reported at fair value are classified and disclosed in one of the following three categories.

Level 1 - Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. This includes quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, or inputs that are derived principally from or corroborated by observable market data.

Level 3 - Inputs are unobservable for the asset or liability. Unobservable inputs reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability. The schedules within this note are not intended to indicate the volatility of the investments.

(In thousands)

NOTE 2 - FAIR VALUE MEASUREMENTS (CONTINUED)

The following table summarizes financial instruments measured at fair value on a recurring basis by classification within the three-level hierarchy as of December 31, 2017:

	Total	Level 1	Level 2	Level 3
ASSETS				
Long-term investments				
Short-term investments	$ 5,471	$ 5,471		
Equity securities:				
U.S. equities	13,158	13,158		
Mutual funds:				
U.S. equity funds	11,372	11,372		
Non U.S. equity funds	10,928	10,928		
Fixed income funds	21,807	21,807		
Hedge funds	11,799	11,799		
Real assets funds	6,382	6,382		
Alternative investment:				
Private equity fund	3,019			$ 3,019
Subtotal long-term investments	83,936	80,917		3,019
Beneficial interest in split interest agreements	1,433		$ 694	739
Total	$ 85,369	$ 80,917	$ 694	$ 3,758

Long-term investments measured at fair value	$ 83,936
Alternative investments measured using net asset value	67,287
Total	$ 151,223

Alternative investments are measured at fair value using the net asset value (NAV) per share (or its equivalent) of such investment funds as a practical expedient for fair value.

(In thousands)

NOTE 2 - FAIR VALUE MEASUREMENTS (CONTINUED)

The following table summarizes financial instruments measured at fair value on a recurring basis by classification within the three-level hierarchy as of December 31, 2016:

	Total	Level 1	Level 2	Level 3
ASSETS				
Long-term investments				
Short-term investments	$ 1,991	$ 1,991		
Equity securities:				
U.S. equities	14,611	14,611		
Mutual funds:				
U.S. equity funds	9,899	9,899		
Non U.S. equity funds	10,827	10,827		
Fixed income funds	21,512	21,512		
Hedge funds	9,541	9,541		
Real assets funds	3,849	3,849		
Alternative investment:				
Private equity fund	2,469			$ 2,469
Subtotal long-term investments	74,699	72,230		2,469
Beneficial interest in split interest agreements	1,440		$ 709	731
Total	$ 76,139	$ 72,230	$ 709	$ 3,200

Long-term investments measured at fair value	$ 74,699
Alternative investments measured using net asset value	63,831
Total	$ 138,530

Alternative investments are measured at fair value using the net asset value (NAV) per share (or its equivalent) of such investment funds as a practical expedient for fair value.

The following methods and assumptions were used to estimate the fair value for each class of financial instrument measured at fair value.

Short-term investments - The fair value of short-term investments, consisting primarily of money market funds, are classified as Level 1 if they are traded in an active market for which closing prices are readily available and as Level 2 if the funds are not traded on a regular basis.

Equity securities - Investments in equity securities are measured at fair value using quoted market prices. They are classified as Level 1 as they are traded in an active market for which closing stock prices are readily available.

(In thousands)

NOTE 2 - FAIR VALUE MEASUREMENTS (CONTINUED)

Mutual funds - Mutual funds are classified as Level 1 as they are traded in an active market for which closing prices are readily available.

Alternative investment - An investment in a private equity fund for which there is no readily determinable fair value is classified as Level 3 as the valuations are based on significant unobservable inputs.

Beneficial interest in split interest agreements - Some of the beneficial interest in irrevocable split interest agreements held or controlled by a third party are classified as Level 3 as the fair values are based on a combination of Level 2 inputs (interest rates and yield curves) and significant unobservable inputs (entity specific estimates of cash flows). Others are classified as Level 2 as the fair values are based on observable inputs, including interest rates, yield curves, life expectancy tables and contractual cash flows. The fair values are estimated using the income approach by calculating the present value of the future distributions the Foundation expects to receive over the term of the agreements.

While the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

The following table presents a reconciliation of financial instruments measured at fair value on a recurring basis using significant unobservable inputs (level 3) for the year ended December 31, 2017:

	Balances January 1, 2017	Realized and unrealized gains	Purchases	Sales	Balances December 31, 2017
Assets					
Private equity fund	$ 2,469	$ 550	$	$	$ 3,019
Beneficial interest in split interest agreements	731	8			739
Total	$ 3,200	$ 558	$	$	$ 3,758

The amount of total gains for the period included in change in net assets attributable to the change in unrealized gains relating to financial instruments still held at December 31, 2017	$ 558

The following table presents a reconciliation of financial instruments measured at fair value on a recurring basis using significant unobservable inputs (level 3) for the year ended December 31, 2016:

	Balances January 1, 2016	Realized and unrealized gains	Purchases	Sales	Balances December 31, 2016
Assets					
Private equity fund	$ 2,137	$ 332	$	$	$ 2,469
Beneficial interest in split interest agreements	1,022	39		(330)	731
Total	$ 3,159	$ 371	$	$ (330)	$ 3,200

The amount of total gains for the period included in change in net assets attributable to the change in unrealized gains relating to financial instruments still held at December 31, 2016	$ 360

(In thousands)

NOTE 2 - FAIR VALUE MEASUREMENTS (CONTINUED)

The fair value of certain funds has been estimated using the Net Asset Value ("NAV") as reported by the management of the fund as a practical expedient.

The following table lists the investments in alternative investments by manager and category:

	PIMCO StocksPlus Commingled Fund (Limited Partnership)	**Fir Tree International Value** Commingled Vehicle (offshore)	**Rimrock High Income Plus** Commingled Vehicle (offshore)	**Atlantic Trust MLP** Commingled Fund	**Silchester Intl Value Equity** Commingled Fund
Fair value, December 31, 2017	$14,438	$3,257	$6,856	$8,082	$17,757
Fair value, December 31, 2016	$11,812	$5,928	$6,553	$8,536	$14,016
Significant investment strategy	Futures-based S&P 500 Strategy	Hedge Fund Multi-Strategy	Opportunistic Fixed Income Multi-Strategy	Multi-Manager Master Limited Partnership	International Value Equity Strategy
Remaining life	N.A.	N.A.	N.A.	N.A	N.A
Dollar amount of unfunded commitments	None	None	None	None	None
Timing to draw down commitments	N.A.	N.A.	N.A.	N.A.	N.A
Redemption terms	Quarterly with 60 days notice*	Quarterly with 90 days notice	Quarterly with 45 days notice	Quarterly with 45 days notice	Monthly with 60 days notice
Redemption restrictions	Minimum redemption of $5 million**	Yes. Full redemption every 2 years on anniversary date (quarterly up to 10% a year)	None	None	Minimum redemption of $500
Redemption restrictions in place at year end	None	Yes	None	None	None

(In thousands)

NOTE 2 - FAIR VALUE MEASUREMENTS (CONTINUED)

	Energy Capital Partners Mezzanine Limited Partnership	**Wellington Emerging Markets** Commingled Vehicle	**Discovery Global Macro** Commingled Vehicle (offshore)	**Pine River** Commingled Vehicle (offshore)	**Lighthouse Global Long/Short Fund** Commingled Vehicle (offshore)
Fair value, December 31, 2017	$232	$3,521	$5,478	$0	$7,666
Fair value, December 31, 2016	$247	$0	$6,288	$3,258	$7,193
Significant investment strategy	Mezzanine investments in energy infrastructure	Emerging Markets Equity	Macro Hedge Fund Multi-Strategy	Hedge Fund Multi-Strategy	Multi-Manager Equity Long/Short
Remaining life	5 years + 2 potential 1 year extensions.	N.A	N.A.	N.A	N.A
Dollar amount of unfunded commitments	$116	None	None	None	None
Timing to draw down commitments	15% of Commitment ($75) for remaining fund term	N.A	N.A.	N.A	N.A
Redemption terms	None	Weekly	Quarterly with 90 days notice	Quarterly with 45 days notice	Monthly with 90 days notice
Redemption restrictions	Illiquid	None	None	Yes. 25% of shares may be redeemed each quarter.	None
Redemption restrictions in place at year end	Illiquid	None	None	Yes	None

* PIMCO reserves the right to require 60 days notice for withdrawals under adverse market conditions. Under normal circumstances, however, PIMCO will do their best to honor redemption requests received in writing from an authorized party at least 48 hours prior to the requested NAV date.

** Limited Partners should contact their PIMCO account manager to discuss redemption requests that do not meet the minimum $5 million requirement. Under normal circumstances the General Partner will approve all transactions received in good form with adequate notice that are scheduled to receive month-end NAV and will consider other requests on a case-by-case basis.

(In thousands)

NOTE 3 - RESTRICTIONS AND LIMITATIONS ON NET ASSET BALANCES

Temporarily restricted net assets as of December 31 are available for the following purposes:

	2017	2016
Patient aid	$ 850	$ 462
Prevention	1,729	2,132
Student aid	246	253
Research	1,659	1,868
Operations	42	17
Special projects	2,425	1,948
Contributions receivable	6,518	5,137
	$ 13,469	$ 11,817

Permanently restricted net assets as of December 31 with a description of how the resulting investment income is to be used are as follows:

	2017	2016
Patient aid	$ 15,222	$ 15,179
Operations	9,120	9,116
Prevention	1,379	1,328
Student aid	812	802
Research	4,413	4,413
Special projects and other	806	805
Total permanently restricted endowment investments	31,752	31,643
Contributions receivable	344	221
	$ 32,096	$ 31,864

(In thousands)

NOTE 4 - LONG-TERM INVESTMENTS

The following summarizes the Foundation's investments at December 31:

	2017		2016	
	Fair Value	Cost	Fair Value	Cost
Cash and short-term equivalents	$ 5,471	$ 5,468	$ 1,991	$ 1,989
Equity securities	13,158	10,338	14,611	11,287
Mutual funds	98,443	74,217	88,457	72,397
Fund of mutual funds	17,757	2,638	14,016	2,665
Alternative investments:				
Private equity fund	3,019	838	2,469	829
Mezzanine energy infrastructure fund	232	232	247	247
Hedge funds	13,143	12,250	16,739	15,442
	$ 151,223	$ 105,981	$ 138,530	$ 104,856

The Foundation's investment strategy incorporates a diversified asset allocation approach and maintains, within defined limits, exposure to the world equity, fixed income, commodities, real estate and private equity markets. The alternative investments were entered into to diversify the Foundation's portfolio, to provide predictability in overall earnings and to provide market neutral holdings.

Included in long-term investments are amounts held as a part of the Foundation's endowment funds. See Note 13.

Investment earnings are reported net of related expenses of $487 and $417 for the years ended December 31, 2017 and 2016, respectively.

Investments, in general, are subject to various risks, including credit, interest and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the consolidated financial statements.

(In thousands)

NOTE 4 - LONG-TERM INVESTMENTS (CONTINUED)

The following table shows gross unrealized losses and fair value of investments that are in an unrealized loss position, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2017 and 2016.

	2017			
	Less Than 12 Months		Greater Than 12 Months	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Equity securities	$ 1,931	$ 167	$	$
Mutual funds	16,482	823	20,442	1,673
Total temporarily impaired securities	$ 18,413	$ 990	$ 20,442	$ 1,673

	2016			
	Less Than 12 Months		Greater Than 12 Months	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Equity securities	$ 1,185	$ 92	$ 70	$ 1
Mutual funds			40,829	3,166
Total temporarily impaired securities	$ 1,185	$ 92	$ 40,899	$ 3,167

For each of the investment categories above, the Foundation considered factors such as the duration and severity of the decline in fair value from cost, and the Foundation's ability and intent to hold the investments for a reasonable period of time sufficient for a forecasted recovery of fair value in concluding that none of the investment categories above were considered to be other than temporarily impaired at December 31, 2017 and 2016.

(In thousands)

NOTE 5 – INTANGIBLE ASSETS

A majority of the intangible assets were acquired as part of the merger with Betty Ford Center and consist of the following at December 31:

	2017	2016
Ground lease, net	$ 572	$ 579
Options, net	2,272	2,300
Betty Ford trade name	5,741	5,741
Licenses	2,620	2,620
Betty Ford program	820	820
Beamer rights, net	42	47
	$ 12,067	$ 12,107

Accumulated amortization was $152 and $112 as of December 31, 2017 and 2016, respectively. Amortization expense was $39 and $40 in 2017 and 2016, respectively. Estimated future amortization expense is as follows:

2018	$ 39
2019	39
2020	39
2021	39
2022	39
Thereafter	2,691
	$ 2,886

(In thousands)

NOTE 6 - DEBT

Short Term Debt:

The Foundation has a $20,000 revolving unsecured line of credit agreement through December 31, 2017 at which time the maximum principal amount is reduced to $15,000 through September 26, 2018, the duration of the agreement. The interest rate is 1.5% plus the one-month LIBOR rate (3.125% at December 31, 2017 and 2.27% at December 31, 2016). At December 31, 2017 and 2016, the balance outstanding on the line of credit was $13,500 and $10,500, respectively.

Long-term debt consists of the following at December 31:

	2017	2016
City of Center City, Minnesota Fixed Rate Health Care Facilities Revenue Bonds, Series 2011	$ 18,425	$ 18,860
City of Center City, Minnesota Fixed Rate Health Care Facilities Revenue Bonds, Series 2014	36,910	37,530
Bank loans	2,494	3,377
	57,829	59,767
Bond premium	2,401	2,491
Less: Current portion	(1,615)	(2,070)
Deferred debt acquisition costs, net	(711)	(739)
	$ 57,904	$ 59,449

City of Center City, Minnesota Fixed Rate Health Care Facilities Revenue Bonds, Series 2014 - On July 1, 2014, the City of Center City, Minnesota issued $38,730 in fixed rate health care facilities revenue bonds on behalf of the Foundation. The proceeds were used to construct and equip an addition to the existing St. Paul, Minnesota campus, to construct and equip a new patient unit at the existing Center City, Minnesota campus and to redeem the City of Center City Revenue Bonds Series 2000, 2002 and 2005. The bonds mature in serial increments or are otherwise subject to mandatory sinking fund redemptions, beginning November 1, 2015 through November 1, 2044 at fixed interest rates ranging from 2.0% to 5.0%. Under the loan agreement, serial maturities or mandatory sinking fund redemptions beginning on November 1, 2015 through 2044 range from $595 to $2,435.

City of Center City, Minnesota Fixed Rate Health Care Facilities Revenue Bonds, Series 2011 - On November 1, 2011, the City of Center City, Minnesota issued $20,095 in fixed rate health care facilities revenue bonds on behalf of the Foundation. The proceeds were used to construct and equip an addition to the existing Plymouth, Minnesota campus. The bonds mature in serial increments or are otherwise subject to mandatory sinking fund redemptions, beginning November 1, 2014 through November 1, 2041 at fixed interest rates ranging from 1.5% to 5.0%. Under the loan agreement, serial maturities or mandatory sinking fund redemptions beginning on November 1, 2014 through 2041 range from $405 to $1,255.

NOTE 6 - DEBT (CONTINUED)

On June 27, 2014, the Foundation entered into a 3-year loan agreement with U.S. Bank to refinance a $2,940 outstanding loan with City National Bank from the Betty Ford Center merger. The agreement specifies quarterly principal payments of $245. The unsecured loan bears a fixed interest rate of 2.29% per annum and is due and payable on June 2, 2017. At December 31, 2017 and 2016, the balance outstanding on the loan was $0 and $490, respectively.

On July 1, 2016, the Foundation entered into a 6-year loan agreement with U.S. Bank to refinance the outstanding mortgage loans with Union Bank of California. The agreement specifies quarterly principal payments of $131. The unsecured loan bears a fixed interest rate of 2.97% per annum and is due and payable on June 30, 2022. At December 31, 2017 and 2016, the balance outstanding on the loan was $2,494 and $2,887, respectively.

Principal payments are due as follows (in thousands):

2018	$	1,615
2019		2,395
2020		2,455
2021		2,520
2022		2,454
Thereafter		46,390
	$	57,829

Interest expense totaled $2,697 and $1,888 for the years ended December 31, 2017 and 2016, respectively. Capitalized interest of $26 and $927 is included in interest paid for the years ended December 31, 2017 and 2016, respectively.

Costs of debt issuance are deferred and amortized on a straight-line basis over the term of the related indebtedness. Amortization expense of $28 and $29 was recorded for the years ended December 31, 2017 and 2016, respectively. The amount of accumulated amortization was $135 and $106 as of December 31, 2017 and 2016, respectively. The unamortized balance is included as a reduction to long-term debt on the balance sheet.

The debt agreements contain covenants which, among other matters, require the Foundation to maintain certain financial ratios. The Foundation was in compliance with all such covenants at December 31, 2017 and 2016.

NOTE 7 - CHARITY CARE AND COMMUNITY BENEFIT (UNAUDITED)

In meeting the Foundation's commitment to our mission and the underlying charitable purpose of our organization, the Foundation invests time, financial resources and energy to help people and communities understand and address addiction as a treatable chronic disease, and spread the word that recovery is possible. "Be of service" is an integral core value which the Foundation demonstrates in a variety of ways.

The Foundation provides treatment services to individuals and families who seek and qualify for care but are unable to pay the full cost. The Foundation patient aid policy provides that the Foundation will annually establish a target amount of patient financial assistance. The estimated costs to provide charity care were $7,430 and $6,175 in 2017 and 2016, respectively.

In addition to its annual provision for charity care (see Note 1), the Foundation provides a variety of other benefits for the public good including:

Graduate School of Addiction Studies

The Hazelden Betty Ford Graduate School of Addiction Studies prepares future leaders in addiction counseling through our three available degrees: Master of Arts in Addiction Counseling, Master of Arts in Addiction Counseling: Advanced Practice and Master of Arts in Addiction Studies: Integrated Recovery for Co-Occurring Disorders. The school emphasizes public engagement as a means of serving our constituent communities. In 2017, students provided more than 25,700 hours of clinical services at agencies reaching underserved and economically disadvantaged populations.

The school offers a full scholarship each year to a student who works at Chisago County Health and Human Services, and we provide continuing education to these Chisago County professionals at no cost. Fifty-five students graduated with master's degrees from the school in 2017. Overall, more than 92 percent of graduates who seek careers in the addiction treatment field find employment in their home communities or at regional or national treatment agencies. Faculty and graduate school leaders participate in public service events throughout the United States and make research, educational and scholarly contributions to the field of addiction treatment.

Butler Center for Research

The Butler Center for Research (BCR) is dedicated to improving recovery from addiction by conducting clinical and institutional research, collaborating with other research centers and communicating scientific findings. It is the Center's vision that sustained recovery for all who seek help will be achieved through advancements in knowledge and integration of research into practice.

NOTE 7 - CHARITY CARE AND COMMUNITY BENEFIT (UNAUDITED) (CONTINUED)

In 2017, the BCR participated in the following activities:

- As part of the Hazelden Betty Ford Foundation's commitment to evidence-based practice, more than 50 data analysis projects were conducted to inform clinical care and academic programming, identify treatment needs, drive data-based decision making, guide strategic planning and contribute to the field's knowledge of addiction treatment.
- In 2017, the BCR completed recruitment for the ongoing study to explore outcomes for patients in the organization's Comprehensive Opioid Response with the Twelve Steps (COR-12) program. It also completed data collection activities for a pilot study organized by the National Association of Addiction Treatment Providers on treatment outcomes for providers across the country. Analysis and reporting for these studies is under way, and preliminary work with the data has yielded some interesting and exciting findings. A new study was also initiated in partnership with Soberlink to investigate the effects of using mobile breathalyzer devices in addition to participation in the Hazelden Betty Ford Foundation's Connection program (which offers ongoing recovery services following treatment for substance use disorders).
- The BCR submitted a new scientific manuscript for publication in 2017; the paper outlined initial findings from the ongoing study of the organization's COR-12 program, which integrates the use of medications with Twelve Step Facilitation and other evidence-based addiction treatment practices.
- Research Updates were disseminated to professionals, educators, researchers, students and other stakeholders. These two-page summaries of scientific findings from the field of addiction treatment research are provided at no cost as a community benefit to policymakers, treatment professionals and the public at large. Research Updates are also available on the BCR web page at www.hazeldenbettyford.org/education/bcr/addiction-research. Five new Research Updates were created in 2017, including:
    - Substance Use Disorders among Legal Professionals
    - Applications of Positive Psychology to Substance Use Disorders
    - Prescription Rates of Opioid Analgesics in Medical Treatment Settings
    - Outcomes of Alcohol and Other Drug Dependency Treatment
    - Women and Alcohol
- In addition to the new Research Updates, the BCR published two white papers: "Adolescent Motivational Interviewing" and "What does it really mean to be providing medication-assisted treatment for opioid addiction?" The first paper was a case study exploring the use of motivational interviewing with adolescent patients in treatment for substance use disorders. The second was a paper explaining medication-assisted treatment for opioid use disorder. Both papers are available online at www.hazeldenbettyford.org/education/bcr/addiction-research.

NOTE 7 - CHARITY CARE AND COMMUNITY BENEFIT (UNAUDITED) (CONTINUED)

Medical and Professional Education

The Professionals in Residence (PIR) program and the Summer Institute for Medical Students (SIMS) give medical students, residents and health care and legal professionals an in-depth experience with the dynamics of the disease of addiction. Intensive one-week programs blend classes presented by Hazelden Betty Ford Foundation physicians and expert clinicians with time spent interacting with patients or family members and staff on treatment units or family programs. Participants learn about the latest research and evidence-based methods from our multidisciplinary faculty. A rotation on addiction for psychiatry, family medicine and internal medicine residents is available in Minnesota and California. A one-year accredited Addiction Medicine Fellowship is available at the Betty Ford Center in Rancho Mirage, California, and a Course on Addiction and Recovery Education (CARE) is available worldwide. The Minnesota and California sites offer customized programming for larger groups. In 2017, the Minnesota and California programs welcomed a total of 1,522 participants.

Institute for Recovery Advocacy

The Hazelden Betty Ford Institute for Recovery Advocacy is a leading national voice on all issues related to addiction prevention, treatment and recovery –uniquely capable of facilitating conversation among those in recovery, those still suffering, and the society at large. In 2017, the Institute's strategy was built on these pillars: 1) smashing stigma; 2) shaping public policy; and 3) educating people everywhere about the problem of addiction and the promise of recovery. The Institute's primary tactical focus in 2017 was the ongoing effort to confront the nation's opioid crisis and the need to prioritize addiction treatment coverage in any health care reform.

The Institute discussed its policy ideas and recommendations with Members of Congress and their staff on July 13, when a group of 10 Hazelden Betty Ford Foundation board and staff members fanned out across Capitol Hill, visiting 30 offices. The Institute, in partnership with the Association of Recovery in Higher Education, also organized and hosted America's Opioid Crisis: A National Town Hall, a free public event held July 12 on the campus of George Washington University in Washington, D.C. More than 800 attended, and the livestream had over 20,000 views and more than 1,000 comments, shares and reactions. In addition, the Institute, in collaboration with the Mary Christie Foundation, organized Substance Use on College Campuses: New Approaches to a Perennial Problem, an event held October 17 at the University of Maryland. It brought together six university presidents and system heads, along with researchers and other experts, to highlight solutions to the problem of substance use among college students, and inspired a white paper to be distributed to universities nationwide in 2018. A fourth major activity was hosting the AmeriCorps Boot Camp on Recovery, a national event to showcase the addiction recovery community's potential as a vital resource to AmeriCorps and state-run service initiatives. That event – held February 22 at Hazelden in St. Paul, in partnership with ServeMinnesota and the National Youth Recovery Foundation – sparked the beginning of what some states have now dubbed Recovery Corps.

The Institute also hosted, sponsored or provided speakers for numerous other events, including school and community forums as well as national and state conventions, highlighting solutions to the opioid crisis and the underlying, more longstanding problem of addiction, as well as the need for robust access to care. In addition, the Institute distributed its weekly Advocacy Update email to a national list of subscribers, while also producing blogs and audio-video content, providing or securing media interviews to support its advocacy agenda, and generating thousands of social media impressions and unique website visitors.

NOTE 7 - CHARITY CARE AND COMMUNITY BENEFIT (UNAUDITED) (CONTINUED)

Community Education and Relations

We presented free public talks at the Betty Ford Center's "Awareness Hour," an informative series held in Rancho Mirage, Calif., since 1976 on select Saturdays throughout the year; at our Minnesota Speaker Series held in St. Paul on select Tuesdays; at our Oregon Speaker Series held twice a month in the Portland metro area; and at our monthly Second Sunday speaker series held in Center City, Minnesota.

Our Speakers Bureau helped place the organization's wide array of spokespeople at many events throughout the country, with 108 different employees delivering 232 presentations in 26 states and two Canadian provinces.

We also provided education and support at our free, open-to-the-public Caring Families groups, facilitated once a month in St. Paul, Minnesota; once a month in Plymouth, Minnesota; and, as of December 2017, once a week in Fort Myers, Florida – as well as weekly in an online format at www.TheDailyPledge.org.

Our Visitors Program in Center City, Minnesota, scheduled and conducted 85 tours for 377 individuals. At the Betty Ford Center in Rancho Mirage, California, staff scheduled and conducted more than 100 tours.

Volunteers at facilities in California, Illinois, Florida, Minnesota, New York and Oregon donated 15,338 hours, valued at more than $370,000.

Educational scholarships from the Hazelden Betty Ford Foundation totaling $5,200 were awarded to students at six high schools in the Twin Cities and Center City areas of Minnesota.

The Foundation also continued its involvement with Partners for a Drug Free Chisago County in Minnesota, providing expertise, hosting meetings and allowing staff to serve on the organization's board. And, for the 23rd year, we co-sponsored and hosted our Women's Health Conference, a free, twice-annual community event that brings together medical providers and public health departments in Center City, Minnesota.

Publishing

Hazelden Publishing is the leading publisher of state-of-the-art resources for preventing, treating and managing addiction and closely related issues. Translating research into practice, we help organizations treat the whole client by offering information, guidance, tools and support to meet their unique needs. With 193 new offerings in 2017, our publications continue to provide inspiration, guidance and encouragement to millions around the world every day. In 2017, Hazelden Publishing generated 37 new products, 54 new distributed products, 10 new services and trainings, 9 new e-books, 7 new translation rights, 77 specialty products and 6 new subscriptions. If not for our mission and commitment, much of this material would not be published and available to consumers because of its limited appeal to mainstream publishers. Hazelden Publishing's materials also reach underserved populations, including many customers in the community treatment, faith-based and corrections markets.

In 2017, through its BookAid program, the Hazelden Betty Ford Foundation sent 1,900 packages of approximately 5,700 products that reached the lives of many thousands of people through libraries serving programs and institutions in need. BookAid resources were sent to individuals and organizations in the United States and around the world. The value of these products is in excess of $91,000, and they cost roughly $7,000 to ship.

NOTE 7 - CHARITY CARE AND COMMUNITY BENEFIT (UNAUDITED) (CONTINUED)

Children's Programs

The Betty Ford Center Children's Program provides prevention and education services to children and families with addiction. Programs are located in California, Texas and Colorado. No child has ever been turned away because of lack of financial ability to pay, and over 90 percent attend on scholarships. In 2017, 1,653 children and family members participated in the program.

Staff of the Children's Program also participated in the Red Ribbon Campaign at numerous schools in California, Texas and Colorado. Early prevention education and recovery awareness events were held in communities and schools, along with training sessions for school administrators, principals, counselors and teachers to provide information, resources and tools regarding the family disease of addiction. The training session, called *Tools for the Journey*, is also open to therapists, counselors, non-profits and other organizations that work with children.

Web and Social Networks

The corporate website, www.HazeldenBettyFord.org, continued to grow in 2017. "Thought for the Day" remained the most popular feature on the website, with an average of 8,000 visitors each day. "Thought for the Day" provides daily inspirational readings from one of six Hazelden Publishing meditation books.

Over 2 million individuals from across the world visited the website seeking information on a variety of addiction-related topics, including treatment, recovery, education, public advocacy and products in our online bookstore.

The Hazelden Betty Ford Foundation's social community—an online network for people interested in recovery—features discussion boards, chatrooms, blogs and online meetings accessible to anyone from anywhere in the world. The community, which can be found at www.TheDailyPledge.org, added 3,525 members in 2017, its second year, and now has a total of 7,250. It attracts 25,000 visitors and more than 200,000 page views annually. More than 1,000 times every month, members take the time to post a personal pledge to remain committed to recovery for another day.

The Hazelden Betty Ford Foundation's Facebook, Twitter, YouTube, LinkedIn and other social media accounts, which have over 78,000 followers, along with our online Alumni Network and award-winning mobile apps, offered additional access to recovery resources, providing daily inspiration, information and fellowship.

Resource Center

In 2017, the Foundation's Resource Center received a total of 88,942 calls and 1,473 online inquiries from people seeking information, assistance and products related to addiction issues.

(In thousands)

NOTE 7 - CHARITY CARE AND COMMUNITY BENEFIT (UNAUDITED) (CONTINUED)

Patient financial assistance and other costs to the Foundation of providing charity care and community benefits are as follows for the years ended December 31:

	2017	2016
Patient aid estimated cost	$ 7,430	$ 6,175
Minnesota Care Tax	1,655	1,507
Butler Center for research	535	659
Information center	397	414
Alumni services	792	1,152
Institute for Recovery Advocacy	308	443
Professionals in residence	267	258
Betty Ford Center Medical Education Initiative	63	93
Betty Ford Center Institute	303	176
Children’s Academy	378	354
Children’s Programs	1,296	1,225
Community relations	168	182
Graduate School scholarships	565	487
	$ 14,157	$ 13,125

NOTE 8 - FUNCTIONAL EXPENSES

Expenses related to providing the Foundation’s services are as follows for the years ended December 31:

	2017	2016
Recovery services	$ 126,871	$ 125,373
Publishing and educational services	17,148	16,520
Higher education and professional training	5,880	3,888
General and administration	35,487	39,558
Philanthropy	3,498	3,976
	$ 188,884	$ 189,315

NOTE 9 - CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Foundation to concentrations of credit risk consist principally of cash and cash equivalents, marketable securities and other investments and accounts receivable. The Foundation places substantially all of its cash and liquid investments with financial institutions and limits the amount of credit exposure to any one financial institution; however, cash balances may periodically exceed federally insured limits. At December 31, 2017 and 2016, approximately 97% of the Foundation's investments are held with one custodian. Patient receivables are due from a variety of sources located throughout the world, but primarily in the United States of America.

NOTE 10 - COMMITMENTS AND CONTINGENCIES

The Foundation is subject to asserted and unasserted claims encountered in the normal course of its operations. In the opinion of management and legal counsel, disposition of these matters will not have a material effect on the Foundation's financial condition or results of operations.

The Foundation is self-insured for employee health insurance and has obtained specific and aggregate stop-loss coverage to limit their ultimate exposure. The reserve for claims incurred, but not yet reported, was $2,268 and $1,718 as of December 31, 2017 and 2016 and is included in accrued expenses in the consolidated balance sheets.

The Foundation has a self-insured worker's compensation program for its California operations and has acquired reinsurance for claims in excess of $250 per occurrence on a claims-made basis. The reserve for claims incurred, but not yet reported was $1,050 and $1,550 as of December 31, 2017 and 2016 and is included in accrued expenses in the consolidated balance sheet.

The Foundation entered into a cancellable ground lease with Eisenhower Medical Center (EMC) in the amount of $1 per year with the lease term expiring in 2099. As part of the cancellable ground lease, EMC bills the Foundation for additional common area operating expenses. In addition, EMC provides certain services to support the Center's normal business operations.

The Foundation entered into a license agreement with Elizabeth B. Ford Charitable Trust ("Licensor") which granted an exclusive royalty-free license to utilize the name, full name, portrait, photograph or other likeness, the voice, autograph, the initials or other nicknames, if any, of the Licensor.

(In thousands)

NOTE 11 - RETIREMENT PLAN

The Foundation has a 401(k) plan with a safe harbor clause which includes employer matching contributions, in addition to employee contributions. The plan covers substantially all employees. Total employer contributions related to the plan were $4,565 and $4,276 in 2017 and 2016, respectively.

NOTE 12 - LEASE OBLIGATIONS

The Foundation leases space to support its operations in various locations throughout the country. The terms of the Foundation's leases require monthly payments and expire in varying dates ranging from 2017 through 2025. Rent expense typically includes monthly base rents and a share of taxes and operating expenses.

Total rent expense incurred during the year ended December 31, 2017 and 2016 was $1,495 and $1,169, respectively.

The Foundation also has equipment leases expiring in 2018. Total rental expense for 2017 and 2016 was $713 and $826, respectively.

Under all lease agreements, the Foundation's future minimum base lease payments are as follows:

2018	$	1,766
2019		1,804
2020		1,733
2021		1,344
2022		1,161
Thereafter		1,830
Total	$	9,638

(In thousands)

NOTE 13 - ENDOWMENTS

The Foundation's endowment consists of 55 individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. Net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. This footnote does not include endowment contributions receivable and therefore contributions and endowment net assets are reported below based on cash transactions, which differs from the presentation in the consolidated statement of operations and consolidated statement of changes in net assets.

The Board of Trustees of the Foundation has interpreted the Minnesota enacted version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as allowing 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, the Foundation classifies as permanently restricted net assets (a) the original value of the 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 as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the 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 the 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 the Foundation
7. The investment policies of the Foundation

Endowment net asset composition by type of fund consists of the following as of December 31, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (960)	$ 1,084	$ 31,752	$ 31,876
Board-designated endowment funds	-			
Total funds	$ (960)	$ 1,084	$ 31,752	$ 31,876

Endowment net asset composition by type of fund consists of the following as of December 31, 2016:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ (1,988)	$ 537	$ 31,643	$ 30,192
Board-designated endowment funds	50			50
Total funds	$ (1,938)	$ 537	$ 31,643	$ 30,242

(In thousands)

NOTE 13 - ENDOWMENTS (CONTINUED)

Change in endowment net assets for December 31, 2017 and 2016 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, December 31, 2015	$ 698	$ 272	$ 31,588	$ 32,558
Investment return:				
Investment income	251	26		277
Net appreciation (realized and unrealized)	1,681	540		2,221
Total investment return	1,932	566		2,498
Contributions			55	55
Other transfers	(3,180)	(203)		(3,383)
Appropriation of endowment assets for expenditure	(1,388)	(98)		(1,486)
Endowment net assets, December 31, 2016	$ (1,938)	$ 537	$ 31,643	$ 30,242
Investment return:				
Investment income	244	138		382
Net appreciation (realized and unrealized)	2,017	676		2,693
Total investment return	2,261	814		3,075
Contributions			109	109
Appropriation of endowment assets for expenditure	(1,283)	(267)		(1,550)
Endowment net assets, December 31, 2017	$ (960)	$ 1,084	$ 31,752	$ 31,876

During 2016, following a review of its endowment funds, the Foundation determined that a previous designation of $2,600 of board designated endowment funds was unable to be substantiated, and accordingly, undesignated the amount, which is included in Other Transfers in the above table. This change had no impact on the net assets or changes in net assets of the Foundation.

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 UPMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with generally accepted accounting principles, deficiencies of this nature that are reported in unrestricted net assets were $960 and $1,988 as of December 31, 2017 and 2016, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the governing board. Subsequent gains that restore the fair value of the assets of the endowment fund to the required level will be classified as an increase in unrestricted net assets.

NOTE 13 - ENDOWMENTS (CONTINUED)

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. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for a donor-specified period(s) as well as board-designated funds. Under this policy, as approved by the governing board, the endowment assets are invested in a manner that is intended to produce results that outperform a custom benchmark (the Allocation Index) consisting of the appropriate indices of each asset class and their proportional weighting in the portfolio.

The Allocation Index is constructed by selecting appropriate indices (e.g., S&P 500, Russell 2000, MSCI EAFE, etc.) and assigning beginning of the quarter weightings by asset class. The total return of the invested assets is expected to exceed the total return of the Allocation Index.

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 and How the Investment Objectives Relate to Spending Policy - The Foundation has a policy of appropriating for distribution each year 5% of its endowment fund's average fair value over the prior 12 quarters ended September 30, 2016 and 2015, respectively. In establishing this policy, the Foundation considered the long-term expected return on its endowment. Accordingly, over the long term, the Foundation expects the current spending policy to allow its endowment to grow at a rate sufficient to meet the Foundation's spending needs, while maintaining the inflation-adjusted principal of the endowment funds. The spending rate is only taken on the donor-restricted endowment funds. If actual earnings for any year are less than the current year spending rule, the deficiency is drawn from prior years' amounts that have accumulated but not been spent. Temporarily restricted investment earnings were insufficient to cover distributions, therefore, $1,283 and $1,388 was allocated from unrestricted non-operating investment earnings for 2017 and 2016, respectively.

NOTE 14 - SUBSEQUENT EVENTS

The Foundation has evaluated subsequent events through April 24, 2018 which is the date that the financial statements were issued.

SUPPLEMENTARY INFORMATION

HAZELDEN BETTY FORD FOUNDATION AND SUBSIDIARIES

CONSOLIDATING BALANCE SHEET
As of December 31, 2017
With Comparative Totals for December 31, 2016
(in thousands)

	2017							
ASSETS	**Hazelden Betty Ford Foundation**	**Hazelden New York**	**Hazelden Chicago**	**Recovery Partners P.C.**	**Sub-Total**	**Eliminations**	**Consolidated**	**2016 Comparative Totals**
CURRENT ASSETS								
Cash and cash equivalents	$ 6,455	$ 95		$ 8	$ 6,558		$ 6,558	$ 2,158
Patient and other receivables, net of allowance for doubtful accounts	26,076	280	$ (228)	207	26,335		26,335	26,679
Contributions receivable, net	1,520				1,520		1,520	1,289
Inventories	1,964				1,964		1,964	2,228
Prepaid expenses	870	50			920		920	824
Total current assets	36,885	425	(228)	215	37,297		37,297	33,178
PROPERTY AND EQUIPMENT, net	179,347	9,763	1,135		190,245		190,245	210,211
INTER-COMPANY ACCOUNTS RECEIVABLE	96,072	23,203	29,974	7,762	157,011	$ (157,011)		
LONG-TERM INVESTMENTS	151,223				151,223		151,223	138,530
LONG-TERM CONTRIBUTIONS RECEIVABLE, net	7,098				7,098		7,098	5,651
BENEFICIAL INTEREST IN SPLIT INTEREST AGREEMENTS	1,433				1,433		1,433	1,440
GOODWILL	2,188				2,188		2,188	2,188
INTANGIBLE ASSETS, net	12,067				12,067		12,067	12,107
OTHER ASSETS, net	1,179		8		1,187		1,187	1,284
TOTAL ASSETS	$ 487,492	$ 33,391	$ 30,889	$ 7,977	$ 559,749	$ (157,011)	$ 402,738	$ 404,589

HAZELDEN BETTY FORD FOUNDATION AND SUBSIDIARIES

CONSOLIDATING BALANCE SHEET
As of December 31, 2017
With Comparative Totals for December 31, 2016
(in thousands)

	2017							
LIABILITIES AND NET ASSETS	**Hazelden Betty Ford Foundation**	**Hazelden New York**	**Hazelden Chicago**	**Recovery Partners P.C.**	**Sub-Total**	**Eliminations**	**Consolidated**	**2016 Comparative Totals**
CURRENT LIABILITIES								
Accounts payable	$ 9,345	$ 361	$ 95	$ 42	$ 9,843		$ 9,843	$ 14,546
Accrued expenses	15,436	26	25	56	15,543		15,543	16,730
Current portion of long-term debt	1,615				1,615		1,615	2,070
Line of credit	13,500				13,500		13,500	10,500
Contract obligation	120				120		120	120
Total current liabilities	40,016	387	120	98	40,621		40,621	43,966
INTER-COMPANY PAYABLES	60,494	47,033	41,360	8,124	157,011	$ (157,011)		
LONG-TERM DEBT, net of current portion	57,904				57,904		57,904	59,449
OTHER LONG-TERM LIABILITIES								
Asset Retirement Obligation	313				313		313	433
Long-Term contractual obligation	1,311				1,311		1,311	
Total other long-term liabilities	1,624				1,624		1,624	433
Total liabilities	160,038	47,420	41,480	8,222	257,160	(157,011)	100,149	103,848
NET ASSETS (DEFICIT)								
Unrestricted (deficit)	282,411	(14,439)	(10,703)	(245)	257,024		257,024	257,060
Temporarily restricted	13,190	274	5		13,469		13,469	11,817
Permanently restricted	31,853	136	107		32,096		32,096	31,864
Total net assets (deficit)	327,454	(14,029)	(10,591)	(245)	302,589		302,589	300,741
TOTAL LIABILITIES AND NET ASSETS	$ 487,492	$ 33,391	$ 30,889	$ 7,977	$ 559,749	$ (157,011)	$ 402,738	$ 404,589

HAZELDEN BETTY FORD FOUNDATION AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF OPERATIONS
For the Year Ended December 31, 2017
With Comparative Totals for the Year Ended December 31, 2016
(in thousands)

	2017									
	Hazelden Betty Ford Foundation									
	HBFF Excluding Graduate School of Addiction Studies	Graduate School of Addiction Studies	Total Hazelden Betty Ford Foundation	Hazelden New York	Hazelden Chicago	Recovery Partners P.C.	Subtotal	Eliminations	Consolidated	2016 Comparative Totals
OPERATING REVENUES										
Patient service revenue, net of contractual adjustments and patient aid	$ 140,746		$ 140,746	$ 3,064	$ 4,171	$ 421	148,402		$ 148,402	$ 144,116
Less: Contractual adjustments	-						-			
Less: Provision for bad debt	(8,711)		(8,711)	(133)	(280)	(85)	(9,209)		(9,209)	(7,292)
Patient service revenue, net	132,035		132,035	2,931	3,891	336	139,193		139,193	136,824
Publishing revenue, net	20,364		20,364		2		20,366		20,366	19,970
Tuition and workshops, net	274	$ 2,913	3,187				3,187		3,187	3,127
Prevention program fees	1,813		1,813				1,813		1,813	1,647
Contributions	1,675		1,675				1,675		1,675	1,317
Other	1,459	67	1,526	6	15	2,724	4,271	$ 2,704	1,567	1,643
Investment earnings allocated to operations	472	799	1,271	7	5		1,283		1,283	1,438
Net assets released from restrictions - operations	5,648	120	5,768	347	59		6,174		6,174	5,071
Total operating revenues	163,740	3,899	167,639	3,291	3,972	3,060	177,962	2,704	175,258	171,037
OPERATING EXPENSES										
Salaries and wages	84,145	1,686	85,831	1,580	1,324	2,141	90,876		90,876	90,104
Benefits	25,118	519	25,637	487	408	423	26,955		26,955	25,767
Cost of sales - publishing	6,283		6,283		2		6,285		6,285	6,219
Purchased services and professional fees	19,814	52	19,866	509	280	450	21,105	2,704	18,401	19,266
Other	21,160	245	21,405	694	538	48	22,685		22,685	24,757
Fundraising support	(227)	-	(227)	169	58					
Corporate support	(3,598)	987	(2,611)	1,505	1,106					
Total expenses before interest, depreciation, amortization and accretion	152,695	3,489	156,184	4,944	3,716	3,062	167,906	2,704	165,202	166,113
Income before interest, depreciation, amortization and accretion	11,045	410	11,455	(1,653)	256	(2)	10,056		10,056	4,924
Interest	2,697		2,697				2,697		2,697	1,888
Depreciation, amortization and accretion	20,039	248	20,287	572	126		20,985		20,985	19,085
Implementation of electronic health record non-recurring costs	-		-				-			2,229
Total interest, depreciation, amortization and accretion expense	22,736	248	22,984	572	126		23,682		23,682	23,202
Operating Loss	(11,691)	162	(11,529)	(2,225)	130	(2)	(13,626)		(13,626)	(18,278)
NONOPERATING GAINS (LOSSES)										
Investment earnings	358		358				358		358	398
Investment earnings allocated to operations	(1,283)		(1,283)				(1,283)		(1,283)	(1,438)
Realized gains on investments	2,003		2,003				2,003		2,003	4,533
Other losses	(107)		(107)				(107)		(107)	(40)
Total nonoperating gains (losses), net	971		971				971		971	3,453
DEFICIENCY OF REVENUES AND GAINS (LOSSES) OVER EXPENSES	$ (10,720)	$ 162	$ (10,558)	$ (2,225)	$ 130	$ (2)	$ (12,655)	$ -	$ (12,655)	$ (14,825)