The Menninger Clinic and
The Menninger Clinic Foundation

Consolidated Financial Statements
and Independent Auditors' Report
for the years ended June 30, 2017 and 2016

The Menninger Clinic and The Menninger Clinic Foundation

Table of Contents

Independent Auditors' Report

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

We have audited the accompanying financial statements of The Menninger Clinic and The Menninger Clinic Foundation, which comprise the consolidated balance sheets as of June 30, 2017 and 2016 and the related consolidated statements of operations and changes in net assets and of cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 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 our audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Menninger Clinic and The Menninger Clinic Foundation as of June 30, 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.

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Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. Supplementary information in the consolidating balance sheets as of June 30, 2017 and 2016 and the consolidating statements of operations and changes in net assets for the years ended June 30, 2017 and 2016 is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in our audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

Blazek & Vetterling

November 27, 2017

The Menninger Clinic and The Menninger Clinic Foundation

Consolidated Balance Sheets as of June 30, 2017 and 2016

	2017	2016
ASSETS		
Current assets:		
Cash	$ 1,801,317	$ 2,044,801
Patient accounts receivable, net of allowance for doubtful accounts of $1,269,961 in 2017 and $1,613,744 in 2016	823,346	776,045
Prepaid expenses and other assets	1,288,768	664,972
Medical supplies	161,375	167,051
Operating pledges receivable, net *(Note 3)*	2,674,078	1,563,743
Assets limited as to use *(Notes 4 and 5)*	6,965,000	7,537,969
Total current assets	13,713,884	12,754,581
Operating pledges receivable, net *(Note 3)*	2,780,453	5,346,739
Note receivable from affiliate *(Note 10)*	804,133	1,034,669
Cash designated for long-term maintenance *(Note 8)*	3,142,163	2,635,850
Cash restricted and designated for capital additions	13,478,878	7,798,053
Pledges receivable for capital additions *(Note 3)*	4,646,756	6,561,754
Assets limited as to use *(Notes 4 and 5)*	47,813,294	47,684,754
Property and equipment, net *(Note 6)*	53,279,766	55,803,220
TOTAL ASSETS	$ 139,659,327	$ 139,619,620
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	$ 286,254	$ 701,860
Interest payable	75,088	64,850
Accrued expenses:		
Payroll and employee benefits	2,515,095	3,079,848
Other *(Note 10)*	1,065,101	1,226,355
Grants payable	408,000	
Current portion of long-term debt *(Note 7)*	2,246,540	901,639
Patient deposits and refunds payable	980,530	858,702
Total current liabilities	7,576,608	6,833,254
Notes payable – long-term portion *(Note 7)*	16,529,370	18,747,758
Derivative agreements *(Notes 5 and 7)*	977,585	1,307,251
Total liabilities	25,083,563	26,888,263
Commitments and contingencies *(Notes 14 and 15)*		
Net assets *(Notes 8 and 9)*:		
Unrestricted	63,527,575	63,437,289
Temporarily restricted	28,672,754	26,918,633
Permanently restricted	22,375,435	22,375,435
Total net assets	114,575,764	112,731,357
TOTAL LIABILITIES AND NET ASSETS	$ 139,659,327	$ 139,619,620

See accompanying notes to consolidated financial statements.

The Menninger Clinic and The Menninger Clinic Foundation

Consolidated Statements of Operations and Changes in Net Assets for the years ended June 30, 2017 and 2016

	2017	2016
UNRESTRICTED NET ASSETS:		
UNRESTRICTED REVENUE, GAINS, AND OTHER SUPPORT:		
Net patient service revenue	$ 51,673,972	$ 55,755,184
Unrestricted gifts	691,305	3,148,589
Special event revenue	562,702	522,545
Operating investment return *(Note 4)*	748,290	196,566
Net assets released from restrictions	3,106,526	4,919,673
Total unrestricted revenue, gains, and other support	56,782,795	64,542,557
EXPENSES:		
Salaries and employee benefits	32,322,093	32,482,380
Purchased services	16,013,919	16,703,896
Supplies and other	6,016,246	6,653,325
Depreciation and amortization	3,401,867	3,359,790
Grants *(Note 10)*	1,609,316	952,443
Interest expense	878,395	958,168
Provision for doubtful accounts	28,589	760,921
Total expenses *(Note 11)*	60,270,425	61,870,923
Operating income	(3,487,630)	2,671,634
Non-operating investment return *(Note 4)*	2,352,842	(1,633,202)
Change in value of derivative agreements *(Note 7)*	329,666	56,499
Redesignation		(69,489)
Net assets released for capital projects	895,408	840,000
Excess of revenue, gains, and other support over expenses and change in unrestricted net assets	90,286	1,865,442
TEMPORARILY RESTRICTED NET ASSETS:		
Gifts and bequests	3,569,270	11,740,282
Investment return *(Note 4)*	2,186,785	(19,001)
Redesignation		69,489
Net assets released for capital projects	(895,708)	(840,000)
Net assets released from restrictions for operations	(3,106,226)	(4,919,673)
Change in temporarily restricted net assets	1,754,121	6,031,097
CHANGES IN NET ASSETS	1,844,407	7,896,539
Net assets, beginning of year	112,731,357	104,834,818
Net assets, end of year	$ 114,575,764	$ 112,731,357

See accompanying notes to consolidated financial statements.

The Menninger Clinic and The Menninger Clinic Foundation

Consolidated Statements of Cash Flows for the years ended June 30, 2017 and 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	$ 1,844,407	$ 7,896,539
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:		
Depreciation	3,373,985	3,331,909
Provision for doubtful accounts	28,589	760,921
Net realized and unrealized (gain) loss on investments	(4,596,207)	2,957,060
Change in value of beneficial trusts	171,661	(766,025)
Change in value of derivative agreements	(329,666)	(56,499)
Contributions for capital additions	(2,883,628)	(1,845,240)
Amortization of bond issuance costs	27,882	27,881
Changes in operating assets and liabilities:		
Patient accounts receivable	(75,890)	(927,972)
Prepaid expenses and other assets	(623,796)	(172,698)
Medical supplies	5,676	(25,868)
Pledges receivable (excluding capital)	1,455,951	(6,569,714)
Accounts payable and accrued expenses	(1,141,613)	373,510
Interest payable	10,238	(25,407)
Grants payable	408,000	
Patient deposits and refunds payable	121,828	(117,348)
Charitable trust liabilities		(19,811)
Net cash provided (used) by operating activities	(2,202,583)	4,821,238
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(850,531)	(639,398)
Payments received on note receivable from affiliate	230,536	69,489
Purchases of investments	(33,898,055)	(11,937,826)
Proceeds from sales of investments	32,913,348	9,756,653
Net change in cash held for investment	5,853,682	(1,889,554)
Net cash provided (used) by investing activities	4,248,980	(4,640,636)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments of notes payable	(901,369)	(2,325,073)
Proceeds from contributions received for capital additions	4,798,626	4,362,309
Net cash provided by financing activities	3,897,257	2,037,236
NET CHANGE IN CASH	5,943,654	2,217,838
Cash, beginning of year	12,478,704	10,260,866
Cash, end of year	$ 18,422,358	$ 12,478,704

Supplemental disclosure of cash flow information:

Interest paid	$877,084	$983,575

See accompanying notes to consolidated financial statements.

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 May 2003. The Clinic provides specialty inpatient 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 and Pathfinder, a community re-integration program. Outpatient services are available and will be expanded with the development of a new outpatient facility.

The Clinic operates on a 46.5-acre "Mental Health Epicenter" 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 Mental Health Epicenter 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, a Texas nonprofit corporation (Baylor), 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.

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).

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation – The 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 includes demand deposits. Demand deposits exceed the federally insured limit per depositor per institution. Cash presented in the statement of cash flows excludes cash held for long-term investment purposes.

Patient accounts receivable are reported at their estimated net collectible value, after adjustments for contractual allowances and allowances for doubtful accounts. In evaluating the collectability of accounts receivable, Menninger analyzes its history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for doubtful accounts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, Menninger analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), Menninger records a provision for doubtful accounts in the period of service based on its past experience. The difference between the standard rates (or the discounted rates, if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts. It is possible that management's estimate regarding collectability of receivables will change in the near term resulting in a change in the carrying value of patient accounts receivable.

Pledges 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 pledges 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 receivables will not be collected. The allowance is determined using a combination of historical loss experience and individual account-by-account analysis of pledges 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 pledges receivable and beneficial interest.

Assets limited as to use consist of investments and beneficial interest in charitable trust, which are reported at fair value. Investment return includes realized and unrealized gains and losses, interest and dividends, net of investment management fees and is included in the change in unrestricted net assets unless the income is restricted by the donor. Investment return whose use is restricted by the donor is reported as temporarily restricted until appropriated for use by the Board of Directors of the Foundation in accordance with donor restrictions.

Beneficial interest in charitable trust is reported at the fair value of Menninger's estimated share of the trust assets. Changes in the beneficial interest are reported as investment return in the statement of operations and changes in net assets.

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 10 to 40 years for buildings and land improvements.

Bond issuance costs represent costs related to the issuance of the notes payable and are amortized over the term of the bonds. Accumulated amortization is $178,986 and $151,104 at June 30, 2017 and 2016, respectively. Unamortized bond issuance costs are reported as a direct reduction of the related debt.

Derivative agreements – The Clinic utilizes interest rate swap agreements to hedge interest rate exposures on debt. Interest rate swap agreements are recognized as assets or liabilities at fair value in the consolidated balance sheets and changes in the fair value of the interest rate swap agreements are recognized as change in value of derivative agreements in the consolidated statements of operations and changes in net assets.

Net asset classification – Contributions, investment return, and the related net assets are classified based on the existence or absence of donor-imposed restrictions, as follows:

- *Unrestricted net assets* include those net assets whose use is not restricted by donor-imposed stipulations, even though their use may be limited in other respects, such as by contract or board designation and aggregate deficiencies of endowment funds.
- *Temporarily restricted net assets* include contributions and investment return restricted by the donor for specific purposes or time periods. When a purpose restriction is accomplished or a time restriction ends, temporarily restricted net assets are released to unrestricted net assets.
- *Permanently restricted net assets* include contributions that donors have restricted in perpetuity. The related investment return is temporarily restricted to support the programs and operations stipulated by the donor.

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers, and others for services rendered. The Clinic has entered into payment agreements with certain third-party payers that provide for payments to the Clinic at rates that include discounts from established charges.

Charity care policy – The Clinic 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, the Clinic 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 $2,800,000 and $3,500,000 for the years ended June 30, 2017 and 2016, respectively. During the years ended June 30, 2017 and 2016, contributions restricted for charity care were $275 and $100,000, respectively.

Gifts and bequests are recognized as 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 recognized in the same manner when the conditions are substantially met. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are 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 to Members – The Foundation recognizes grants to Members as operating expenses in the period in which an unconditional commitment is made.

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 and changes in value of derivative agreements.

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.

Reclassifications – Certain reclassifications have been made to the prior year financial statements to conform with the current presentation.

Recent financial accounting pronouncement – In August 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities.* The amendments in this ASU are the first phase of changes aimed at providing more useful information to users of not-for-profit financial statements. Under this ASU, net assets will be presented in two classes: *net assets with donor restrictions* and *net assets without donor restrictions* and underwater endowments will be grouped with *net assets with donor restrictions.* New or enhanced disclosures will be required about the nature and composition of net assets, and the liquidity and availability of resources for general operating expenditures within one year of the balance sheet date. Expenses will be required to be presented by both nature and function and investment return will be presented net of external and direct internal investment expenses. Absent explicit donor stipulations, restrictions on long-lived assets will expire when assets are placed in service. The ASU is effective for fiscal periods beginning after December 15, 2017, but early adoption is permitted. Adoption of this ASU will significantly impact the presentation and disclosures of the financial statements.

NOTE 3 – PLEDGES RECEIVABLE

Pledges receivable are as follows:

	2017	2016
Pledges receivable – capital campaign	$ 4,703,870	$ 6,742,128
Pledges receivable – operating	5,553,529	6,959,400
Total pledges receivable	10,257,399	13,701,528
Discount to net present value at 1% to 5%	(104,110)	(104,110)
Allowance for doubtful pledges receivable	(52,002)	(125,182)
Pledges receivable, net	$ 10,101,287	$ 13,472,236

Pledges receivable at June 30, 2017 are expected to be collected as follows:

Within one year	$ 4,166,899
In one to five years	6,090,500
Total pledges receivable	$ 10,257,399

NOTE 4 – ASSETS LIMITED AS TO USE

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

	2017	2016
Donor-restricted for endowment	$ 25,830,818	$ 23,784,261
Board-designated for research, education, and operations	11,177,637	15,797,343
Donor-restricted for research, education, and operations	17,769,839	15,641,119
Total	$ 54,778,294	$ 55,222,723

Assets limited as to use consist of the following:

	2017	2016
Equity mutual funds	$ 17,678,105	$ 10,922,978
Common stock	12,976,080	9,600,539
Fixed-income mutual funds	7,406,053	6,341,950
Corporate debt securities	6,386,819	6,332,496
Cash	5,121,578	10,975,260
Real estate and infrastructure mutual funds	2,362,343	
Beneficial interest in charitable trust	1,925,019	2,096,680
Other mutual funds	922,297	243,154
Multi-strategy fund		8,709,666
Total assets limited as to use	$ 54,778,294	$ 55,222,723

Beneficial Interest in Charitable Trust

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.

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 could 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.

Investment return includes earnings on cash and consists of the following:

	2017	2016
Interest and dividends	$ 1,093,966	$ 920,643
Change in beneficial interests	(171,661)	766,025
Net realized and unrealized gain (loss)	4,596,207	(2,957,060)
Investment management fees	(230,595)	(185,245)
Investment return, net	5,287,917	(1,455,637)
Less:		
Operating investment return	(748,290)	(196,566)
Temporarily restricted investment return	(2,186,785)	19,001
Non-operating investment return	$ 2,352,842	$ (1,633,202)

NOTE 5 – 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, 2017 are as follows:

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Assets limited as to use:				
Equity mutual funds:				
International:				
Large-cap	$ 8,910,064			$ 8,910,064
ETF	5,569,995			5,569,995
Domestic:				
Mid-cap	1,787,429			1,787,429
Large-cap	873,663			873,663
SPDR S&P 500 ETF	494,686			494,686
Other	42,268			42,268
Common stock – domestic large-cap	12,976,080			12,976,080
Domestic fixed-income mutual funds	7,406,053			7,406,053
Corporate debt securities		$ 6,386,819		6,386,819
Real estate and infrastructure mutual funds	2,362,343			2,362,343
Other mutual funds	922,297			922,297
Beneficial interest in charitable trust			$ 1,925,019	1,925,019
Total assets measured at fair value	$ 41,344,878	$ 6,386,819	$ 1,925,019	$ 49,656,716

Assets measured at fair value at June 30, 2016 are as follows:

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Assets limited as to use:				
Equity mutual funds:				
International:				
Large-cap	$ 5,869,998			$ 5,869,998
ETF	2,652,300			2,652,300
Domestic:				
Mid-cap	1,457,327			1,457,327
Large-cap	609,917			609,917
SPDR S&P 500 ETF	285,344			285,344
Other	48,092			48,092
Common stock – domestic large-cap	9,600,539			9,600,539
Domestic fixed-income mutual funds	6,341,950			6,341,950
Corporate debt securities		$ 6,332,496		6,332,496
Other mutual funds	243,154			243,154
Multi-strategy fund (a)			$ 8,709,666	8,709,666
Beneficial interest in charitable trust			2,096,680	2,096,680
Total assets measured at fair value	$ 27,108,621	$ 6,332,496	$ 10,806,346	$ 44,247,463

Liabilities measured at fair value at June 30, 2017 are as follows:

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Derivative agreements	$ 0	$ 977,585	$ 0	$ 977,585

Liabilities measured at fair value at June 30, 2016 are as follows:

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Derivative agreements	$ 0	$ 1,307,251	$ 0	$ 1,307,251

(a) The multi-strategy fund's investment objective is to generate consistent capital appreciation over the long term, with relatively low volatility and a low correlation with traditional equity and fixed-income markets. The fund seeks to accomplish this objective by allocating its assets primarily among professionally selected investment funds that are managed by experienced portfolio managers who invest in a variety of markets and employ, as a group, a range of investment techniques and strategies. Investment funds generally pursue *"absolute return"* in that they seek to achieve positive returns, by, for example, taking long and short positions and by engaging in various hedging strategies, regardless of the performance of the traditional equity and fixed-income markets. Additionally, from time to time the fund may use derivative instruments, such as total return swaps, structured notes or other structured products, to gain exposure to the returns of investment funds or otherwise seek to replicate exposure to investment funds or investment fund strategies. The fund may invest, to a limited extent, in registered investment companies, including exchange-traded funds. The fund is commonly referred to as a *"fund of hedge funds."* Redemption of shares is allowed with written notice at the end of each quarter and may take up to 60 days for proceeds to be available. A repurchase fee is assessed at 1.5% if funds have not been invested for a year.

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

- *Multi-strategy fund* uses net asset value per share (or its equivalent) to determine the fair value of the investment in the fund, which does not have a readily determinable fair value. The fair value of this investment is based on information provided by the general partners and corporate directors of each fund. Management takes into consideration consultation with its investment managers and audited financial information to determine overall reasonableness of the reported fair values.
- *Derivative agreements* are valued by using independent quotation bureau valuation models, which include cash flow analysis, credit spread and benchmark rate curves.

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:

	MULTI-STRATEGY FUND	BENEFICIAL INTEREST CHARITABLE TRUST	TOTAL
Balance at June 30, 2015	$ 11,344,824	$ 1,452,766	$ 12,797,590
Realized gains reinvested	58,500		58,500
Redemptions	(1,234,014)		(1,234,014)
Unrealized loss	(1,459,644)		(1,459,644)
Change in fair value of beneficial interest		766,025	766,025
Distribution from trust account		(122,111)	(122,111)
Balance at June 30, 2016	8,709,666	2,096,680	10,806,346
Redemptions	(8,305,596)		(8,305,596)
Realized loss	(404,070)		(404,070)
Change in fair value of beneficial interest		(97,539)	(97,539)
Distribution from trust account		(74,122)	(74,122)
Balance at June 30, 2017	$ 0	$ 1,925,019	$ 1,925,019

NOTE 6 – PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	2017	2016
Buildings	$ 38,096,974	$ 38,011,289
Furniture and equipment	24,139,159	23,679,967
Land improvements	7,415,149	7,415,149
Land	5,201,574	5,201,574
Construction in progress	726,830	490,757
Property and equipment, at cost	75,579,686	74,798,736
Accumulated depreciation	(22,299,920)	(18,995,516)
Property and equipment, net	$ 53,279,766	$ 55,803,220

NOTE 7 – NOTES PAYABLE

Notes payable consist of the following:

	2017	2016
$21 million tax-exempt bonds for construction of the Mental Health Epicenter, interest only due through September 2013, principal and interest due monthly October 2013 through October 2020, secured by land and buildings; interest rate of 65% of 30-day LIBOR plus 1.79% with a floor of 2.75%. Interest rate is 2.75% at June 30, 2017.	$ 17,850,000	$ 18,690,000
$14 million tax-exempt bonds for construction of the Mental Health Epicenter, interest due monthly with principal payments annually October 2012 through October 2017, secured by land and buildings; interest rate of 65% of 30-day LIBOR plus 1.79% with a floor of 2.75%. Interest rate is 3.02% at June 30, 2017.	1,406,540	1,406,540
Capital lease obligation for pharmaceutical equipment.		61,369
Total	19,256,540	20,157,909
Less: Unamortized bond issuance costs	(480,630)	(508,512)
Total notes payable	$ 18,775,910	$ 19,649,397

The tax-exempt bonds contain various covenants related to fiscal operations and financial performance, including limitations on additional borrowing. Interest expense of $878,239 and $958,167 was recognized in 2017 and 2016, respectively.

Maturities of the notes payable are as follows:

2018	$ 2,246,540
2019	840,000
2020	840,000
2021	15,330,000
Total	$ 19,256,540

Derivative agreements **–** The Clinic is party to two interest rate swap agreements with two banks that effectively convert its variable rate bonds to a fixed rate as of April 1, 2012. The swap agreements have a notional amount of $17,850,000 at June 30, 2017 and extend through October 27, 2020. Under the terms of the agreement, the Clinic pays an effective interest rate of 4.505%. The changes in fair value of the derivative agreements were gains of approximately $330,000 and $56,000 in 2017 and 2016, respectively.

Capital lease obligation – The Clinic entered into a five-year agreement for the purchase of pharmaceutical management equipment, including a service agreement. The equipment cost approximately $378,000 and is included in equipment at June 30, 2017 with accumulated depreciation of $194,000. The obligation was fully satisfied during the year ended June 30, 2017.

NOTE 8 – NET ASSETS

Menninger's net assets are as follows:

	2017			
	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
Undesignated	$ 3,519,884			$ 3,519,884
Board-designated endowment for				
Clinic support	19,798,628			19,798,628
Board-designated for maintenance reserve	3,142,163			3,142,163
Board-designated for capital projects	2,744,439			2,744,439
Property and equipment, net of related debt	34,503,856			34,503,856
Miracles in Mind Campaign – Phase II		$ 13,098,075		13,098,075
Mental health initiatives in the schools		5,074,068		5,074,068
Research and education		2,873,547		2,873,547
Donor-restricted for future periods		2,005,019		2,005,019
Substance abuse and schizophrenia treatment		1,243,131		1,243,131
The Gathering Place		375,001		375,001
Other donor-restricted		367,135		367,135
Donor-restricted endowments:				
Children and family center	(181,395)	962,535	$ 8,722,412	9,503,552
Research and education		1,073,696	7,253,462	8,327,158
General endowment		1,160,693	4,640,188	5,800,881
Other endowments		439,854	1,759,373	2,199,227
Total net assets	$ 63,527,575	$ 28,672,754	$ 22,375,435	$ 114,575,764

	2016			
	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
Undesignated	$ 2,226,524			$ 2,226,524
Board-designated endowment for				
Clinic support	22,729,077			22,729,077
Board-designated for maintenance reserve	2,635,850			2,635,850
Property and equipment, net of related debt	36,153,823			36,153,823
Miracles in Mind Campaign – Phase II		$ 10,449,564		10,449,564
Mental health initiatives in the schools		6,714,583		6,714,583
Research and education		3,258,735		3,258,735
Donor-restricted for future periods		3,130,870		3,130,870
Substance abuse and schizophrenia treatment		1,225,354		1,225,354
The Gathering Place		316,451		316,451
Other donor-restricted		106,265		106,265
Donor-restricted endowments:				
Children and family center	(3,982)	381,547	$ 8,722,412	9,099,977
Research and education	(177,863)	473,060	7,253,462	7,548,659
General endowment	(108,722)	603,168	4,640,188	5,134,634
Other endowments	(17,418)	259,036	1,759,373	2,000,991
Total net assets	$ 63,437,289	$ 26,918,633	$ 22,375,435	$ 112,731,357

NOTE 9 – ENDOWMENT FUNDS

The Foundation has donor-restricted endowment funds which are maintained in accordance with explicit donor stipulations. The Board of Directors of the Foundation has interpreted the Texas Uniform Prudent Management of Institutional Funds Act (TUPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies the original value of gifts donated to the permanent endowment as permanently restricted net assets. 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 TUPMIFA. In accordance with TUPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the funds
- The purposes of the Foundation and the donor-restricted endowment funds
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Foundation
- The investment policies of the Foundation

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 a 1% higher return than the composite for the equity managers and a 0.5% greater return than the composite for the fixed-income managers. 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 has a policy of appropriating for distribution each year an amount not to exceed 5% of its endowment fund's fair value as measured as of December 31 of the preceding fiscal year. In situations where there are significant, unusual, or non-recurring needs for funding of programs, education or research, the Board of Directors of the Foundation has the authority to approve the appropriation of unrestricted or temporarily restricted funds for distribution in excess of 5%.

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

	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL
Endowment net assets, June 30, 2015	$ 19,855,027	$ 4,691,889	$ 22,375,435	$ 46,922,351
Gifts, bequests and special event revenue	3,674,964			3,674,964
Redesignation	122,111			122,111
Investment return:				
Interest and dividends	274,415	430,651		705,066
Net realized and unrealized loss	(1,410,996)	(1,107,614)		(2,518,610)
Investment management fees	(56,352)	(103,813)		(160,165)
Net investment return	(1,192,933)	(780,776)		(1,973,709)
Appropriations for expenditure	(1,833,040)	(2,194,302)		(4,027,342)
Endowment net assets, June 30, 2016	20,626,129	1,716,811	22,375,435	44,718,375
Gifts, bequests and special event revenue	1,180,868			1,180,868
Redesignation	(2,692,915)			(2,692,915)
Investment return:				
Interest and dividends	725,831	318,861		1,044,692
Net realized and unrealized gain	2,353,488	2,133,629		4,487,117
Investment management fees	(104,167)	(111,779)		(215,946)
Net investment return	2,975,152	2,340,711		5,315,863
Appropriations for expenditure	(4,107,497)	(420,744)		(4,528,241)
Endowment net assets, June 30, 2017	$ 17,981,737	$ 3,636,778	$ 22,375,435	$ 43,993,950

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 TUPMIFA requires the Foundation to retain as a fund of perpetual duration. Deficiencies of this nature are reported in unrestricted net assets and result from unfavorable market fluctuations and continued appropriations for certain programs deemed prudent by the Board of Directors of the Foundation. At June 30, 2017 and 2016, there are deficiencies of $181,395 and $307,985, respectively.

NOTE 10 – RELATED PARTY TRANSACTIONS

The Clinic granted to Baylor College of Medicine (Baylor) approximately $400,000 for both years ended June 30, 2017 and 2016, respectively, for research and development programs. Other transactions with Members for the years ended June 30, 2017 and 2016 include payments to Baylor for medical staff salaries and related benefits of approximately $11 million and $13 million, respectively. These transactions are reflected as operating expenses in the consolidated financial statements. In 2014, the Clinic entered into a note receivable for $1.5 million with Menninger Foundation Kansas of which $230,536 was repaid during 2017 and $69,489 was repaid during 2016.

	2017	2016
Note receivable from affiliate – Menninger Foundation Kansas	$ 804,133	$ 1,034,669
Accrued expenses – Baylor	$ 649,278	$ 1,053,386

NOTE 11 – FUNCTIONAL EXPENSES

Expenses were incurred in the following functional categories:

	2017	2016
Programs:		
Mental and behavioral health services	$ 51,370,068	$ 54,031,483
Grants	1,609,316	952,443
General and administrative	5,678,557	5,228,738
Fundraising	1,612,484	1,658,259
Total	$ 60,270,425	$ 61,870,923

NOTE 12 – CONCENTRATION

Credit risk – The Clinic grants credit without collateral to its patients, some of which are insured under third-party payer agreements. The percentage mix of receivables from the patients and third-party payers are as follows:

	2017	2016
Contracts and other insured	22%	35%
Patients	78%	65%
Total	100%	100%

Contributions – At June 30, 2017, 84% of pledges receivable were due from three donors, and 77% of pledges receivable were due from two donors at June 30, 2016.

NOTE 13 – 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. One year of service is credited for eligibility purposes for a plan year in which an employee works 1,000 or more hours. Prior to January 1, 2009, under the Savings Plan an eligible employee received a base employer contribution of 5% of qualified earnings following the end of each calendar quarter and was not required to contribute in order to receive benefits. Effective January 1, 2009, the Savings Plan was amended whereby the employer's contribution became a matching contribution up to 5% of qualified earnings. The Clinic's contribution to the Savings Plan was approximately $634,000 and $822,000 for the years ended June 30, 2017 and 2016, respectively.

Health benefits – Menninger has a self-funded health benefit plan, which is administered by a third-party. Menninger is primarily self-insured up to $100,000 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 14 – 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 leases for certain facilities that may be terminated with minimal notice. Total rental expenses for all operating leases were approximately $488,000 and $400,000 for the years ended June 30, 2017 and 2016, respectively.

NOTE 15 – SUBSEQUENT EVENTS

Subsequent to year end, the Clinic purchased an outpatient practice for $264,000 and assumed a related 10-year lease with an annual rental of $86,000.

Additionally, the Board has approved the construction of a new building on the campus that is expected to cost $16.1 million and has executed a contract with the architect totaling $1,032,000. Construction is expected to begin in January 2018.

Management has evaluated subsequent events through November 27, 2017, which is the date that the financial statements were available for issuance. As a result of this evaluation, no other events were identified that are required to be disclosed or would have a material impact on reported net assets or changes in net assets.

The Menninger Clinic and The Menninger Clinic Foundation

Consolidating Balance Sheet as of June 30, 2017

	THE CLINIC	THE FOUNDATION	ELIMINATIONS	TOTAL
ASSETS				
Current assets:				
Cash	$ 1,539,983	$ 261,334		$ 1,801,317
Patient accounts receivable, net	823,346			823,346
Prepaid expenses and other assets	1,288,768			1,288,768
Medical supplies	161,375			161,375
Operating pledges receivable, net		2,674,078		2,674,078
Assets limited as to use		6,965,000		6,965,000
Due from the Foundation	5,170,412		$ (5,170,412)	
Total current assets	8,983,884	9,900,412	(5,170,412)	13,713,884
Operating pledges receivable, net		2,780,453		2,780,453
Note receivable from affiliate	804,133			804,133
Cash designated for long-term maintenance	3,142,163			3,142,163
Cash restricted and designated for capital additions		13,478,878		13,478,878
Pledges receivable for capital additions		4,646,756		4,646,756
Assets limited as to use		47,813,294		47,813,294
Property and equipment, net	53,279,766			53,279,766
TOTAL ASSETS	$ 66,209,946	$ 78,619,793	$ (5,170,412)	$ 139,659,327
LIABILITIES AND NET ASSETS				
Current liabilities:				
Accounts payable	$ 246,734	$ 39,520		$ 286,254
Interest payable	75,088			75,088
Accrued expenses:				
Payroll and employee benefits	2,515,095			2,515,095
Other	1,065,101			1,065,101
Grant payable	408,000			408,000
Current portion of long-term debt	2,246,540			2,246,540
Patient deposits and refunds payable	980,530			980,530
Due to the Clinic		5,170,412	$ (5,170,412)	
Total current liabilities	7,537,088	5,209,932	(5,170,412)	7,576,608
Notes payable – long-term portion	16,529,370			16,529,370
Derivative agreements	977,585			977,585
Total liabilities	25,044,043	5,209,932	(5,170,412)	25,083,563
Net assets:				
Unrestricted	41,165,903	22,361,672		63,527,575
Temporarily restricted		28,672,754		28,672,754
Permanently restricted		22,375,435		22,375,435
Total net assets	41,165,903	73,409,861		114,575,764
TOTAL LIABILITIES AND NET ASSETS	$ 66,209,946	$ 78,619,793	$ (5,170,412)	$ 139,659,327

The Menninger Clinic and The Menninger Clinic Foundation

Consolidating Statement of Operations and Changes in Net Assets for the year ended June 30, 2017

	THE CLINIC	THE FOUNDATION	ELIMINATIONS	TOTAL
UNRESTRICTED NET ASSETS:				
UNRESTRICTED REVENUE, GAINS, AND OTHER SUPPORT:				
Net patient service revenue	$ 51,673,972			$ 51,673,972
Unrestricted gifts		$ 691,305		691,305
Special event revenue		562,702		562,702
Operating investment return	6,728	741,562		748,290
Grants from the Foundation	6,252,190		$ (6,252,190)	
Net assets released from restrictions		3,106,526		3,106,526
Total unrestricted revenue, gains, and other support	57,932,890	5,102,095	(6,252,190)	56,782,795
EXPENSES:				
Grants to the Clinic		6,252,190	(6,252,190)	
Salaries and employee benefits	31,106,898	1,215,195		32,322,093
Purchased services	15,937,124	76,795		16,013,919
Supplies and other	5,781,197	235,049		6,016,246
Depreciation and amortization	3,401,867			3,401,867
Grants	1,209,316	400,000		1,609,316
Interest expense	878,395			878,395
Provision for doubtful accounts	28,589			28,589
Total expenses	58,343,386	8,179,229	(6,252,190)	60,270,425
Operating income	(410,496)	(3,077,134)	0	(3,487,630)
Non-operating investment return		2,352,842		2,352,842
Change in value of derivative agreements	329,666			329,666
Redesignation	230,536	(230,536)		
Net assets released for capital projects		895,408		895,408
Excess of revenue, gains, and other support over expenses and change in unrestricted net assets	149,706	(59,420)		90,286
TEMPORARILY RESTRICTED NET ASSETS:				
Gifts and bequests		3,569,270		3,569,270
Investment return		2,186,785		2,186,785
Net assets released for capital projects		(895,408)		(895,408)
Net assets released from restrictions for operations		(3,106,526)		(3,106,526)
Change in temporarily restricted net assets		1,754,121		1,754,121
CHANGES IN NET ASSETS	149,706	1,694,701	0	1,844,407
Net assets, beginning of year	41,016,197	71,715,160		112,731,357
Net assets, end of year	$ 41,165,903	$ 73,409,861	$ 0	$114,575,764

The Menninger Clinic and The Menninger Clinic Foundation

Consolidating Balance Sheet as of June 30, 2016

	THE CLINIC	THE FOUNDATION	ELIMINATIONS	TOTAL
ASSETS				
Current assets:				
Cash	$ 2,044,801			$ 2,044,801
Patient accounts receivable, net	776,045			776,045
Prepaid expenses and other assets	664,972			664,972
Medical supplies	167,051			167,051
Operating pledges receivable, net		$ 1,563,743		1,563,743
Assets limited as to use		7,537,969		7,537,969
Due from the Foundation	4,738,332		$ (4,738,332)	
Total current assets	8,391,201	9,101,712	(4,738,332)	12,754,581
Operating pledges receivable, net		5,346,739		5,346,739
Note receivable from affiliate	1,034,669			1,034,669
Cash designated for long-term maintenance	2,635,850			2,635,850
Cash restricted for capital additions		7,798,053		7,798,053
Pledges receivable for capital additions		6,561,754		6,561,754
Assets limited as to use		47,684,754		47,684,754
Property and equipment, net	55,803,220			55,803,220
TOTAL ASSETS	$ 67,864,940	$ 76,493,012	$ (4,738,332)	$ 139,619,620
LIABILITIES AND NET ASSETS				
Current liabilities:				
Accounts payable	$ 662,340	$ 39,520		$ 701,860
Interest payable	64,850			64,850
Accrued expenses:				
Payroll and employee benefits	3,079,848			3,079,848
Other	1,226,355			1,226,355
Current portion of long-term debt	901,639			901,639
Patient deposits and refunds payable	858,702			858,702
Due to the Clinic		4,738,332	$ (4,738,332)	
Total current liabilities	6,793,734	4,777,852	(4,738,332)	6,833,254
Notes payable – long-term portion	18,747,758			18,747,758
Derivative agreements	1,307,251			1,307,251
Total liabilities	26,848,743	4,777,852	(4,738,332)	26,888,263
Net assets:				
Unrestricted	41,016,197	22,421,092		63,437,289
Temporarily restricted		26,918,633		26,918,633
Permanently restricted		22,375,435		22,375,435
Total net assets	41,016,197	71,715,160		112,731,357
TOTAL LIABILITIES AND NET ASSETS	$ 67,864,940	$ 76,493,012	$ (4,738,332)	$ 139,619,620

The Menninger Clinic and The Menninger Clinic Foundation

Consolidating Statement of Operations and Changes in Net Assets for the year ended June 30, 2016

	THE CLINIC	THE FOUNDATION	ELIMINATIONS	TOTAL
UNRESTRICTED NET ASSETS:				
UNRESTRICTED REVENUE, GAINS, AND OTHER SUPPORT:				
Net patient service revenue	$ 55,755,184			$ 55,755,184
Unrestricted gifts		$ 3,148,589		3,148,589
Special event revenue		522,545		522,545
Operating investment return	5,203	191,363		196,566
Grants from the Foundation	5,447,734		$ (5,447,734)	
Net assets released from restrictions		4,919,673		4,919,673
Total unrestricted revenue, gains, and other support	61,208,121	8,782,170	(5,447,734)	64,542,557
EXPENSES:				
Grants to the Clinic		5,447,734	(5,447,734)	
Salaries and employee benefits	31,466,976	1,015,404		32,482,380
Purchased services	16,431,394	272,502		16,703,896
Supplies and other	6,486,291	167,034		6,653,325
Depreciation and amortization	3,359,790			3,359,790
Grants	552,443	400,000		952,443
Interest expense	958,168			958,168
Provision for doubtful accounts	760,921			760,921
Total expenses	60,015,983	7,302,674	(5,447,734)	61,870,923
Operating income	1,192,138	1,479,496	0	2,671,634
Non-operating investment return		(1,633,202)		(1,633,202)
Change in value of derivative agreements	56,499			56,499
Redesignation		(69,489)		(69,489)
Net assets released for capital projects		840,000		840,000
Excess of revenue, gains, and other support over expenses and change in unrestricted net assets	1,248,637	616,805		1,865,442
TEMPORARILY RESTRICTED NET ASSETS:				
Gifts and bequests		11,740,282		11,740,282
Investment return		(19,001)		(19,001)
Redesignation		69,489		69,489
Net assets released for capital projects		(840,000)		(840,000)
Net assets released from restrictions for operations		(4,919,673)		(4,919,673)
Change in temporarily restricted net assets		6,031,097		6,031,097
CHANGES IN NET ASSETS	1,248,637	6,647,902	0	7,896,539
Net assets, beginning of year	39,767,560	65,067,258		104,834,818
Net assets, end of year	$ 41,016,197	$ 71,715,160	$ 0	$112,731,357