

**McGladrey & Pullen**

Certified Public Accountants

## **The REACH Healthcare Foundation**

Consolidated Financial Report

12.31.08

## Contents

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Independent Auditor's Report	1
<hr/>	
Consolidated Financial Statements	
Consolidated Statements of Financial Position	2
Consolidated Statements of Activities	3
Consolidated Statements of Cash Flows	4
Notes to Consolidated Financial Statements	5

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# McGladrey & Pullen

Certified Public Accountants

## Independent Auditor's Report

To the Board of Directors  
The REACH Healthcare Foundation  
Merriam, Kansas

We have audited the accompanying consolidated statement of financial position of The REACH Healthcare Foundation as of December 31, 2008, and the related consolidated statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of The REACH Healthcare Foundation for the year ended December 31, 2007, were audited by other auditors whose report, dated May 19, 2008, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of The REACH Healthcare Foundation as of December 31, 2008 and the consolidated changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

*McGladrey & Pullen, LLP*

Kansas City, Missouri  
July 1, 2009

The REACH Healthcare Foundation

Consolidated Statements of Financial Position  
December 31, 2008 and 2007

	2008	2007
<b>Assets</b>		
Cash	\$ 145,040	\$ 98,956
Accrued interest receivable	249,933	285,781
Prepaid expenses and deposits	24,931	18,776
Investments (Notes 2 and 3)	96,237,705	142,169,087
Furniture, fixtures and equipment, less accumulated depreciation of \$115,031 and \$103,357 for 2008 and 2007, respectively	273,718	60,583
<b>Total assets</b>	<b>\$ 96,931,327</b>	<b>\$ 142,633,183</b>
<b>Liabilities and Net Assets</b>		
Liabilities		
Accounts payable	\$ 32,159	\$ 15,847
Accrued expenses	90,872	137,676
Grants payable	3,350,588	2,891,962
<b>Total liabilities</b>	<b>3,473,619</b>	<b>3,045,485</b>
Commitments and contingency (Notes 4 and 7)		
Net assets		
Unrestricted (Note 3)	93,439,325	139,493,848
Temporarily restricted (Note 8)	18,383	93,850
<b>Total net assets</b>	<b>93,457,708</b>	<b>139,587,698</b>
<b>Total liabilities and net assets</b>	<b>\$ 96,931,327</b>	<b>\$ 142,633,183</b>

See Notes to Consolidated Financial Statements.

The REACH Healthcare Foundation

Consolidated Statements of Activities  
Years Ended December 31, 2008 and 2007

	2008	2007
Changes in unrestricted net assets		
Revenue and gains (losses)		
Investment income (loss) (Note 2)	\$ (39,372,247)	\$ 15,295,316
Net assets released from restrictions (Note 8)	100,467	106,150
<b>Total unrestricted revenue, gain (losses) and other support</b>	<b>(39,271,780)</b>	<b>15,401,466</b>
Expenses		
Grants and program expenses	5,630,972	4,922,483
Operating expenses (Note 5)	1,151,771	995,894
<b>Total expenses</b>	<b>6,782,743</b>	<b>5,918,377</b>
<b>Change in unrestricted net assets</b>	<b>(46,054,523)</b>	<b>9,483,089</b>
Changes in temporarily restricted net assets		
Contributions (Note 8)	25,000	200,000
Net assets released from restrictions (Note 8)	(100,467)	(106,150)
<b>Change in temporarily restricted net assets</b>	<b>(75,467)</b>	<b>93,850</b>
<b>Change in net assets</b>	<b>(46,129,990)</b>	<b>9,576,939</b>
Net assets, beginning of year	139,587,698	130,010,759
Net assets, end of year	<b>\$ 93,457,708</b>	<b>\$ 139,587,698</b>

See Notes to Consolidated Financial Statements.

The REACH Healthcare Foundation

Consolidated Statements of Cash Flows  
Years Ended December 31, 2008 and 2007

	2008	2007
<b>Cash Flows from Operating Activities</b>		
Change in net assets	\$ (46,129,990)	\$ 9,576,939
Adjustments to reconcile change in net assets to net cash (used) by operating activities:		
Depreciation	24,763	29,327
Loss on sale and disposal of furniture, fixtures, and equipment	2,723	-
Realized gains on investments	(4,043,027)	(5,214,403)
Unrealized (gains) losses on investments	44,780,749	(8,505,928)
Changes in assets and liabilities:		
(Increase) decrease in:		
Accrued interest receivable	35,848	(14,589)
Prepaid expenses and deposits	(6,155)	(3,517)
Increase (decrease) in:		
Accounts payable	16,312	1,577
Accrued expenses	(46,804)	15,417
Grants payable	458,626	(44,556)
<b>Net cash (used in) operating activities</b>	<b>(4,906,955)</b>	<b>(4,159,733)</b>
<b>Cash Flows from Investing Activities</b>		
Purchases of furniture, fixtures and equipment	(242,371)	(25,255)
Proceeds from sale of furniture, fixtures and equipment	1,750	-
Purchases of investments	(35,296,328)	(29,728,229)
Proceeds from sales and maturities of investments	40,489,988	33,747,266
<b>Net cash provided by investing activities</b>	<b>4,953,039</b>	<b>3,993,782</b>
<b>Net increase (decrease) in cash</b>	<b>46,084</b>	<b>(165,951)</b>
<b>Cash</b>		
Beginning of year	98,956	264,907
End of year	<u>\$ 145,040</u>	<u>\$ 98,956</u>

See Notes to Consolidated Financial Statements.

## The REACH Healthcare Foundation

### Notes to Consolidated Financial Statements

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#### Note 1. Nature of Organization and Significant Accounting Policies

Nature of organization: The REACH Healthcare Foundation was created as a Kansas not-for-profit organization in August 2003, pursuant to an agreement (Settlement Agreement) between Health Midwest and the Kansas Attorney General, in connection with the sale of assets by Health Midwest to HCA, Inc. (HCA). Health Midwest, a Missouri public benefit corporation, operated various not-for-profit hospitals and other health care facilities in Kansas and Missouri which were among the assets sold to HCA, a for-profit company. The Agreement provided that two foundations would be established and that the net proceeds of the sale, as defined, would be distributed 80% to the Missouri foundation (Health Care Foundation of Greater Kansas City or HCF) and 20% to the Kansas Foundation (REACH or the Foundation). Community Health Group (CHG), successor to Health Midwest, made distributions to the two foundations pursuant to the Settlement Agreement.

The Foundation's stated purpose is to fund, conduct or take part in programs to improve, protect and/or restore individual, community and public health within specified communities in Eastern Kansas and the Greater Kansas City metropolitan area, with particular emphasis on individuals who are medically indigent or underserved.

The initial Board of Directors was appointed by Health Midwest, various elected officials and governing bodies in the Kansas state government and specified county governments. Subsequent Board members are nominated by a Community Advisory Committee (CAC), and elected by the Foundation's Board of Directors. CAC members are appointed by governing bodies in the Kansas state government and specified county governments.

A summary of the significant accounting policies follows:

Principles of consolidation: The Foundation is conducting a joint initiative with HCF, called Project Ready Smile, to improve the oral health of very young children, through a wholly owned limited liability company formed in November 2007. The consolidated financial statements include the accounts of The REACH Healthcare Foundation and its wholly owned subsidiary Project Ready Smile, LLC (hereinafter together referred to as "the Foundation"). All material intercompany accounts and transactions are eliminated in consolidation.

Net assets: Revenue is classified as unrestricted, temporarily restricted or permanently restricted, depending on donor specifications.

*Unrestricted net assets* – The unrestricted net assets represent resources over which the Foundation Directors have discretionary control and are used to carry out operations of the Foundation in accordance with its by-laws. The historic dollar value of net assets represents the market value of assets at the date of contribution from CHG. The Board is limited to expending these assets, as defined in Note 3.

*Temporarily restricted net assets* – Temporarily restricted net assets represents resources available for use currently or in the future, but expendable only for purposes specified by the donor or within a donor-designated time period. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

## The REACH Healthcare Foundation

### Notes to Consolidated Financial Statements

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#### Note 1. Nature of Organization and Significant Accounting Policies (Continued)

*Permanently restricted net assets* – Permanently restricted net assets are those contributions whose use by the Foundation is limited by donor-imposed stipulations that the corpus be held in perpetuity. The earnings from these net assets are available for use for either unrestricted or temporarily restricted purposes as specified by the donor. The Foundation does not currently have any permanently restricted net assets.

Tax status: The Foundation received a determination letter from the Internal Revenue Service (IRS) dated May 12, 2004 which states that the Foundation is exempt from Federal income tax under section 501(c)(3) of the Internal Revenue Code. The Foundation was treated as a publicly supported organization during the advance ruling period ending December 31, 2007. In 2008, the Foundation submitted to the IRS the required information regarding the advance ruling period. This information indicates that the Foundation qualifies as a publicly supported organization. The IRS sent the Foundation a final determination letter in 2008 confirming its publicly supported organization status. In order to maintain its status as a publicly supported organization, the Foundation must maintain certain ratios of public support to total revenue, among other requirements. In future years, if the Foundation does not meet the requirements for continued treatment as a publicly supported organization, it will be classified as a private foundation. Private foundations are subject to excise taxes of one to two percent on investment income (as defined) and mandatory minimum annual distribution requirements.

The Foundation is subject to income taxes on unrelated business income generated from certain partnership investments.

Furniture, fixtures and equipment: Furniture, fixtures and equipment are stated at cost if purchased or fair value if donated. Depreciation is provided by the straight-line method over the estimated useful lives of the assets.

Investments and concentrations of credit risk: Investments are presented at fair value as determined by methodologies relevant to each asset class with any related gain or loss reported in the statement of activities. Marketable securities held by a custodian are valued by the custodian based on quoted market prices. Alternative investments, principally private equity and real estate funds, are valued using the most recent valuation available by the respective external fund manager. The fair value of certain alternative investments, such as private equity interests, is estimated based on valuations provided by external investment managers as of a prior quarter, adjusted for cash receipts and disbursements through December 31. The Foundation compares this carrying value to the December 31 audited financial statements provided by the respective Fund's external auditors and believes the carrying value of these financial instruments is a reasonable estimate of fair value.

Financial instruments, which potentially subject the Foundation to significant concentrations of credit risk, consist principally of cash and investments. The Foundation maintains its bank accounts at an institution where accounts up to \$250,000 are insured by the Federal Deposit Insurance Corporation (FDIC). The Foundation has a sweep investment account which is not insured by the FDIC, but is collateralized by a Federal National Mortgage Association obligation.

Investment securities, in general, are exposed to various risks such as interest rate, credit, and overall market volatility. Due to the risk associated with certain investment securities, it is at least reasonably possible that changes in risk could occur in the near term and those changes could materially affect the amounts reported in the statements of financial position.

## The REACH Healthcare Foundation

### Notes to Consolidated Financial Statements

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#### Note 1. Nature of Organization and Significant Accounting Policies (Continued)

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

Financial instruments: Financial instruments consist of cash, interest receivable, investments, grants payable, accounts payable and accrued liabilities. The carrying amounts reported in the statements of financial position for these financial instruments approximate their fair value. Management's estimate of the fair value of investments is further described above and in Note 2.

#### Note 2. Investments

The composition of investments is as follows:

	<u>Cost</u>	<u>Fair Value</u>	<u>Excess of Fair Value Over (Under) Cost</u>
<b>December 31, 2008:</b>			
Money market and cash equivalents	\$ 5,615,550	\$ 5,648,687	
Fixed income securities	27,461,785	28,279,016	
Equities	60,827,151	44,892,570	
Partnership interest in alternative investments	<u>18,481,892</u>	<u>17,417,432</u>	
Balance, end of year	<u>\$ 112,386,378</u>	<u>\$ 96,237,705</u>	(16,148,673)
Balance, beginning of year	<u>\$ 113,537,011</u>	<u>\$ 142,169,087</u>	<u>28,632,076</u>
Unrealized (losses) for 2008			<u>\$ (44,780,749)</u>

The REACH Healthcare Foundation

Notes to Consolidated Financial Statements

**Note 2. Investments (Continued)**

	Cost	Fair Value	Excess of Fair Value Over (Under) Cost
December 31, 2007:			
Money market and cash equivalents	\$ 1,143,644	\$ 1,365,333	
Fixed income securities	31,665,057	33,696,164	
Equities	65,178,644	88,150,652	
Partnership interest in alternative investments	<u>15,549,666</u>	<u>18,956,938</u>	
Balance, end of year	<u>\$ 113,537,011</u>	<u>\$ 142,169,087</u>	28,632,076
Balance, beginning of year	<u>\$ 112,341,645</u>	<u>\$ 132,467,793</u>	20,126,148
Unrealized gain for 2007			<u>\$ 8,505,928</u>

Investment income (loss) is comprised of the following:

	2008	2007
Interest and dividend income	\$ 2,024,540	\$ 2,301,177
Realized gains	4,043,027	5,214,403
Unrealized gains (loss)	(44,780,749)	8,505,928
Investment expenses	(659,065)	(726,192)
	<u>\$ (39,372,247)</u>	<u>\$ 15,295,316</u>

Fair value measurements: Effective January 1, 2008, the Foundation adopted Statement No. 157, *Fair Value Measurements*, which provides a framework for measuring fair value under generally accepted accounting principles. Statement No. 157 applies to all financial instruments that are being measured and reported on a fair value basis.

As defined in Statement No. 157, 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. In determining fair value, the Foundation uses various methods including market, income and cost approaches. Based on these approaches, the Foundation often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable inputs. The Foundation utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques the Foundation is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

## The REACH Healthcare Foundation

### Notes to Consolidated Financial Statements

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#### Note 2. Investments (Continued)

Level 1 – Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Level 1 also includes U.S. Treasury and federal agency securities and federal agency mortgage-backed securities, which are traded by dealers or brokers in active markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 – Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or similar assets or liabilities.

Level 3 – Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker traded transactions. Level 3 valuation incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

For the fiscal year ended December 31, 2008, the application of valuation techniques applied to similar investments has been consistent. The fair value of investment securities is the market value based on quoted market prices, when available, or market prices provided by recognized broker dealers. If listed prices or quotes are not available, fair value is based upon externally developed models that use unobservable inputs due to the limited market activity of the instrument.

The table below presents the balances of investments measured at fair value on a recurring basis.

	December 31, 2008			
	Total	Level 1	Level 2	Level 3
Investments	\$ 96,237,705	\$ 54,239,414	\$ 22,888,681	\$ 19,109,610

The changes in Level 3 investments measured at fair value on a recurring basis are summarized as follows:

	Investments
Balance, December 31, 2007	\$ 23,421,134
Total net (losses) included in change in net assets	(6,591,230)
Purchases, sales, issuances and settlements, net	(132,535)
Transfers into/out of Level 3	2,412,241
Balance, December 31, 2008	<u>\$ 19,109,610</u>
Net unrealized (losses) included in change in net assets for the year relating to investments held at December 31, 2008	<u>\$ (4,092,978)</u>

## The REACH Healthcare Foundation

### Notes to Consolidated Financial Statements

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#### Note 2. Investments (Continued)

All gains and losses (realized and unrealized) included in change in net assets above relate to assets still held at December 31, 2008.

#### Note 3. Investment and Spending Policies

As discussed in Note 1, the Foundation operates pursuant to a settlement agreement governing the spending of the distributions received towards its formation. The board of directors of the Foundation has interpreted that the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as adopted by the State of Kansas applies to the Foundation, and in accordance with UPMIFA, the Foundation considers the following factors in determining whether to expend or accumulate funds:

- 1) The duration and preservation of the Foundation's net assets
- 2) The purpose of the Foundation
- 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

The Settlement Agreement, as amended, provides that funds may be expended on grants in any fiscal year of the Foundation no more than the greater of (i) the net appreciation, realized and unrealized, in the fair market value of the Foundation's assets over the historic dollar value of such assets, calculated in accordance with the Uniform Management of Institutional Funds Act in effect in Kansas on the effective date of the Asset Purchase Agreement, or (ii) an amount equal to 7% of the fair market value of the Foundation's assets established as of the end of the third quarter of the immediately preceding fiscal year of the Foundation, and shall be determined by calculating the average of the market value of the Foundation's assets as of that quarter and each of the 11 consecutive quarters immediately preceding it. The Foundation Board has resolved that the historic dollar value of distributions received from CHG to be \$109,048,413. Additional distributions may be received in the future subject to certain contingencies (Note 7). From time to time, as at December 31, 2008, the fair value of the fund's assets may fall below the historic dollar value threshold.

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a relatively predictable and stable payout stream that increases over time at least as fast as the general rate of inflation, while also preserving, and if possible enhancing, the inflation-adjusted (real) value of the corpus in perpetuity. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results to earn an average annual inflation-adjusted (real) total return of at least 5 percent, net of all investment-related expenses, over the long term (rolling 10- and 15-year periods). Actual returns in any given year may vary from this amount.

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. The Foundation monitors the performance of the

## The REACH Healthcare Foundation

### Notes to Consolidated Financial Statements

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#### Note 3. Investment and Spending Policies (Continued)

fund against a benchmark comprising the Wilshire 5000 Index and the Barclays Capital Government/Credit Index, weighted according to the fund's overall equity/fixed income allocation. The fund's investment performance is expected to outperform this benchmark over rolling 10- to 15- year periods.

The Foundation has a policy of appropriating for distribution 5 percent of the fund's average fair value over the prior three years, as determined at the end of each quarter. The Fund's actual spending rate is expected to vary annually around the 5 percent target rate, depending upon program needs and changes in the Fund's average market value. The Foundation attempts to keep the actual spending rate from the Fund in any one fiscal year below 6 percent of the three year average of ending market values of the Fund. In establishing this policy, the Foundation considered the long-term expected return on its investments. Accordingly, over the long-term, the Foundation expects the current spending policy to preserve and possibly enhance the value of the corpus adjusted for the effects of inflation. This is consistent with the Foundation's objective to balance the needs of current and future generations of beneficiaries of the Foundation.

#### Note 4. Leases

The Foundation leases office space under a noncancellable operating lease expiring in September 2014. Total rent expense under all operating leases for the years ended December 31, 2008 and 2007 was \$89,985 and \$73,975, respectively.

Minimum annual rental payments under the operating lease as of December 31, 2008 are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2009	\$ 152,049
2010	152,049
2011	152,049
2012	152,049
2013	152,976
Thereafter	116,818
	<u>\$ 877,990</u>

## The REACH Healthcare Foundation

### Notes to Consolidated Financial Statements

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#### Note 5. Operating Expenses

Operating expenses by natural classification for the years ended December 31, 2008 and 2007 are as follows:

	2008	2007
Payroll and related expenses	\$ 740,702	\$ 614,520
Accounting and audit fees	32,027	15,550
Books, subscriptions and reference	5,750	5,906
Computer services and expenses	24,226	20,869
Depreciation	24,763	29,327
Equipment leasing and expense	11,472	11,402
Insurance	15,072	14,263
Legal fees	71,464	61,440
Loss on sale and disposal of furniture, fixtures, and equipment	2,723	-
Marketing	23,698	19,790
Meeting expense	18,140	26,414
Membership dues	9,689	8,965
Miscellaneous	6,173	6,415
Occupancy	83,902	67,720
Postage, shipping and delivery	2,818	2,795
Printing and copying	13,613	14,363
Professional fees, other	12,499	33,724
Staff development	12,026	9,175
Supplies	7,980	6,867
Telephone and telecommunications	9,426	7,847
Travel	23,608	18,542
	<u>\$ 1,151,771</u>	<u>\$ 995,894</u>

#### Note 6. Employee Benefit Plans

The Foundation sponsors a retirement savings plan which includes salary deferral features described in Section 401(k) of the Internal Revenue Code. The Plan is available to all employees, who may contribute up to the statutory limit. The Foundation matches 100% of employee contributions up to 6% of employee compensation. The Foundation may also make annual discretionary contributions. The Foundation contributed \$41,336 and \$47,088 to the Plan for the years ended December 31, 2008 and 2007, respectively.

The Foundation also adopted a 457(b) Deferred Compensation Plan effective April, 2008 for the benefit of selected management or highly compensated key employees. Under the Plan, participating employees may defer and contribute to the Plan a percentage of their compensation subject to Internal Revenue Code limits. The Foundation may at its discretion make matching or additional non-elective contributions to the Plan on behalf of each eligible participant. Participants are fully vested in the Foundation contributions at age 65. Participants also vest in

## The REACH Healthcare Foundation

### Notes to Consolidated Financial Statements

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#### **Note 6. Employee Benefit Plans (Continued)**

Foundation contributions at a rate of 20% after 2 years of service and then an additional 20% each year thereafter, until fully vested after 6 years. Total expense under the Plan for the years ended December 31, 2008 and 2007 was \$10,000 and \$5,000, respectively.

#### **Note 7. Contingency**

Under the terms of the agreement between Health Midwest and the Kansas Attorney General (Settlement Agreement), CHG, the successor to Health Midwest, held back an amount from the net proceeds of the assets sale to provide for certain contingencies including potential liabilities as defined in the Asset Purchase Agreement (APA). As a condition to accepting distributions from CHG, REACH and HCF entered into an agreement with CHG to accept joint and several liability for any liabilities under the APA. The Settlement Agreement requires that after three years, and every two years thereafter, CHG is to analyze whether there are cash reserves in excess of the amount necessary to satisfy the remaining anticipated liabilities, and that such surplus be distributed 20% to REACH and 80% to HCF. Management believes the remaining cash reserves held by CHG are sufficient to provide for any future liabilities and, consequently, no provision for any such liabilities is included in the financial statements.

#### **Note 8. Net Asset Restrictions**

The Foundation and HCF have agreed to work cooperatively on certain initiatives that relate to the missions of both organizations. In each case, one of the organizations takes the lead role and administers the initiative. The other organization makes a grant to the lead organization, representative of the amount allocated based on a written agreement. Pursuant to such agreements, HCF made grants to the Foundation totaling \$25,000 and \$200,000 for the years ended December 31, 2008 and 2007, respectively, and the Foundation made grants to HCF totaling \$130,000 and \$700,000 for the years ended December 31, 2008 and 2007, respectively. Temporarily restricted net assets represent the unspent amount of HCF grants for the Project Ready Smile joint initiative. Net assets were released from restrictions by incurring expenses for this initiative.

#### **Note 9. New Pronouncements**

In July 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with Statement No. 109, *Accounting for Income Taxes*. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, including positions that the organization is exempt from income taxes or not subject to income taxes on unrelated business income. FIN 48 also provides guidance on derecognition of tax benefits, classification on the balance sheet, interest and penalties, accounting in interim periods, disclosure, and transition. In December 2008, the FASB provided for a deferral of the effective date of FIN 48 for certain nonpublic enterprises to annual financial statements for fiscal years beginning after December 15, 2008. The Foundation has elected this deferral and, accordingly, will be required to adopt FIN 48 in its 2009 annual financial statements. Prior to adoption of FIN 48, the Foundation will continue to evaluate its uncertain tax

**The REACH Healthcare Foundation**

**Notes to Consolidated Financial Statements**

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**Note 9. New Pronouncements (Continued)**

positions and related income tax contingencies under Statement No. 5, *Accounting for Contingencies*. SFAS No. 5 requires the Foundation to accrue for losses it believes are probable and can be reasonably estimated. Management is currently assessing the impact of FIN 48.

**Note 10. Reclassifications**

Certain reclassifications were made to the 2007 statement of activities to conform to the 2008 presentation. These reclassifications had no effect on the change in net assets.