

# **The REACH Healthcare Foundation**

Accountants' Report and Consolidated Financial Statements

December 31, 2010 and 2009



# The REACH Healthcare Foundation

December 31, 2010 and 2009

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## Independent Accountants' Report

Board of Directors  
The REACH Healthcare Foundation  
Merriam, Kansas

We have audited the accompanying consolidated statements of financial position of The REACH Healthcare Foundation as of December 31, 2010 and 2009, and the related consolidated statements of activities, cash flows and functional expenses for the years 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 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 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 audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The REACH Healthcare Foundation as of December 31, 2010 and 2009, and the changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*BKD, LLP*

June 27, 2011

**The REACH Healthcare Foundation**  
**Consolidated Statements of Financial Position**  
**December 31, 2010 and 2009**

**Assets**

	<b>2010</b>	<b>2009</b>
Cash	\$ 83,615	\$ 239,402
Interest receivable	11,723	36,536
Prepaid expenses and deposits	28,977	27,101
Investments	125,185,946	111,949,344
Property and equipment, net of accumulated depreciation; 2010 - \$241,705, 2009 - \$178,542	152,635	214,032
Total assets	\$ 125,462,896	\$ 112,466,415

**Liabilities and Net Assets**

**Liabilities**

Accounts payable	\$ 15,816	\$ 41,671
Accrued expenses	113,303	97,750
Grants payable	2,889,006	3,226,505
Total liabilities	3,018,125	3,365,926

**Net Assets**

Unrestricted	122,444,771	109,100,489
Total liabilities and net assets	\$ 125,462,896	\$ 112,466,415

**The REACH Healthcare Foundation**  
**Consolidated Statements of Activities**  
**Years Ended December 31, 2010 and 2009**

	<u>2010</u>	<u>2009</u>
<b>Changes in Unrestricted Net Assets</b>		
Revenues and gains		
Investment return	\$ 12,782,927	\$ 22,005,071
Distribution from Community Health Group	6,780,000	-
Net assets released from restrictions	-	28,383
	<u>19,562,927</u>	<u>22,033,454</u>
Total revenues and gains		
Expenses		
Grants and program	5,515,935	5,717,482
Management and general	702,710	654,808
	<u>6,218,645</u>	<u>6,372,290</u>
Total expenses		
Change in unrestricted net assets	<u>13,344,282</u>	<u>15,661,164</u>
<b>Changes in Temporarily Restricted Net Assets</b>		
Contributions	-	10,000
Net assets released from restrictions	-	(28,383)
	<u>-</u>	<u>(18,383)</u>
Change in temporarily restricted net assets		
<b>Change in Net Assets</b>	13,344,282	15,642,781
<b>Net Assets, Beginning of Year</b>	<u>109,100,489</u>	<u>93,457,708</u>
<b>Net Assets, End of Year</b>	<u>\$ 122,444,771</u>	<u>\$ 109,100,489</u>

**The REACH Healthcare Foundation**  
**Consolidated Statement of Functional Expenses**  
**Year Ended December 31, 2010**  
**(with Comparative Totals for 2009)**

	<b>Grants and Program</b>	<b>Management and General</b>	<b>Total Expenses</b>	<b>2009 Total Expenses</b>
Grants	\$ 5,056,603	\$ -	\$ 5,056,603	\$ 4,971,483
Salaries and related expenses	609,997	269,480	879,477	863,182
Professional fees	167,192	177,548	344,740	279,205
Advertising and promotion	10,880	929	11,809	24,337
Office supplies and expense	5,853	31,691	37,544	37,745
Information technology	11,198	5,904	17,102	17,995
Occupancy	47,136	104,534	151,670	152,473
Travel	19,147	10,472	29,619	13,903
Conferences, conventions and meetings	17,209	10,991	28,200	25,287
Depreciation	19,629	43,534	63,163	63,511
Insurance	-	19,782	19,782	20,399
Equipment leasing and expense	2,898	16,541	19,439	12,419
Membership dues	10,219	1,374	11,593	9,663
Staff development	8,294	5,694	13,988	3,748
Grant refunds and adjustments	(471,531)	-	(471,531)	(127,052)
Other	1,211	4,236	5,447	3,992
<b>Totals, Year Ended December 31, 2010</b>	<b>\$ 5,515,935</b>	<b>\$ 702,710</b>	<b>\$ 6,218,645</b>	
<b>Totals, Year Ended December 31, 2009</b>	<b>\$ 5,717,482</b>	<b>\$ 654,808</b>		<b>\$ 6,372,290</b>

**The REACH Healthcare Foundation**  
**Consolidated Statements of Cash Flows**  
**Years Ended December 31, 2010 and 2009**

	<u>2010</u>	<u>2009</u>
<b>Operating Activities</b>		
Change in net assets	\$ 13,344,282	\$ 15,642,781
Items not requiring (providing) operating activities cash flows		
Depreciation	63,163	63,511
Net realized and unrealized gains on investments	(12,302,075)	(21,296,994)
Changes in		
Interest receivable	24,813	213,397
Prepaid expenses and deposits	(1,876)	(2,170)
Accounts payable	(25,855)	9,512
Accrued expenses	15,553	6,878
Grants payable	(337,499)	(124,083)
	<u>780,506</u>	<u>(5,487,168)</u>
Net cash provided by (used in) operating activities		
<b>Investing Activities</b>		
Purchase of property and equipment	(1,766)	(3,825)
Proceeds from disposition of investments	11,002,709	7,073,828
Purchase of investments	(11,937,236)	(1,488,473)
	<u>(936,293)</u>	<u>5,581,530</u>
Net cash provided by (used in) investing activities		
<b>Increase (Decrease) in Cash</b>	(155,787)	94,362
<b>Cash, Beginning of Year</b>	<u>239,402</u>	<u>145,040</u>
<b>Cash, End of Year</b>	<u>\$ 83,615</u>	<u>\$ 239,402</u>

# **The REACH Healthcare Foundation**

## **Notes to Consolidated Financial Statements**

### **December 31, 2010 and 2009**

#### **Note 1: Nature of Operations and Summary of Significant Accounting Policies**

##### ***Nature of Operations***

The REACH Healthcare Foundation was created as a Kansas not-for-profit foundation in August 2003, pursuant to an agreement (Memorandum of Understanding) 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 Settlement 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. A distribution of \$6,780,000 was received by the Foundation in 2010 and is included in the consolidated statements of activities.

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.

##### ***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.

##### ***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, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.



**The REACH Healthcare Foundation**  
**Notes to Consolidated Financial Statements**  
**December 31, 2010 and 2009**

**Cash**

The Foundation maintains its bank accounts at an institution where accounts up to \$250,000 are insured by the FDIC. Cash balances in excess of this limit are collateralized by Government National Mortgage Association obligations.

***Investments, Investment Return, and Concentrations of Credit Risk***

Investments in debt securities and in equity securities having a readily determinable fair value are carried at fair value. Marketable securities held by a custodian are valued by the custodian based on quoted market prices. Alternative investments, are valued using the most recent valuation available by the respective external fund manager. The fair value of certain alternative investments, such as the private equity funds, is estimated based on valuations provided by external investment managers as of 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. Investment return includes dividend, interest and realized and unrealized gains and losses on investments carried at fair value.

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 consolidated statements of financial position.

***Transfer between Fair Value Hierarchy Levels***

Transfers in and out of Level 1 (quoted market prices), Level 2 (other significant observable inputs) and Level 3 (significant unobservable inputs) are recognized on the period ending date.

***Property and Equipment***

Property and equipment are stated at cost less accumulated depreciation. Depreciation is charged to expense using the straight-line method over the estimated useful life of each asset. Assets classified as leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives.

**Grants**

Grant expenses are recorded when approved. Grants authorized and unpaid at year end are reported as liabilities in the statement of financial position. Grants payable at December 31, 2010 and 2009 was \$2,889,006 and \$3,226,505, respectively, and are expected to be paid within two years.

**The REACH Healthcare Foundation**  
**Notes to Consolidated Financial Statements**  
**December 31, 2010 and 2009**

***Income Taxes***

The Foundation has been determined to be a public charity and is exempt from income taxes under Section 501 of the Internal Revenue Code and similar provisions of state law. However, the Foundation is subject to federal income tax on any unrelated business taxable income. The Foundation files tax returns in the U.S. federal jurisdiction. With a few exceptions, the Foundation is no longer subject to U.S. federal examinations by tax authorities for years before 2007.

***Functional Allocation of Expenses***

The costs of supporting the Foundation's programs and other activities have been summarized on a functional basis in the consolidated statements of activities. Certain costs have been allocated among the program and management and general categories based on management's estimate of usage.

***Reclassifications***

Certain reclassifications have been made to the 2009 notes to the consolidated financial statements to conform to the 2010 financial statement presentation. These reclassifications had no effect on the change in net assets.

***Subsequent Events***

Subsequent events have been evaluated through June 27, 2011, which is the date the financial statements were available to be issued.

**The REACH Healthcare Foundation**  
**Notes to Consolidated Financial Statements**  
**December 31, 2010 and 2009**

**Note 2: Investments and Investment Return**

***Investments***

Investments at December 31 consisted of the following:

	<b>2010</b>	<b>2009</b>
<b>Money Market Funds</b>	<u>\$ 2,621,854</u>	<u>\$ 1,614,739</u>
<b>Fixed Income Strategy</b>		
U.S. Treasury securities	-	5,324,719
Inflation-protected securities fund	5,576,103	-
Government bond index common trust fund	16,583,953	16,693,482
Global bond common trust fund	<u>5,435,800</u>	<u>5,540,498</u>
Total fixed income	<u>27,595,856</u>	<u>27,558,699</u>
<b>Equity Strategy</b>		
U.S. common stocks	9,999,938	11,301,571
Global equity mutual fund	18,688,318	16,067,999
High yield bond fund	1,223,381	1,310,764
Long-term capital growth fund	7,799,413	6,108,144
U.S. equity common trust fund	13,891,193	11,337,493
Emerging market common trust fund	6,729,117	8,182,901
Inflation hedging common trust fund	<u>13,485,830</u>	<u>8,381,285</u>
Total equity	<u>71,817,190</u>	<u>62,690,157</u>
<b>Alternative Investment Strategy</b>		
Marketable partnership interest	13,284,107	13,189,749
Private equity funds	<u>9,866,939</u>	<u>6,896,000</u>
Total alternative investments	<u>23,151,046</u>	<u>20,085,749</u>
	<u><u>\$ 125,185,946</u></u>	<u><u>\$ 111,949,344</u></u>

# The REACH Healthcare Foundation

## Notes to Consolidated Financial Statements

### December 31, 2010 and 2009

The Foundation holds investments in certain entities that calculate net asset value per share or its equivalent and are categorized as follows:

#### Common Trust Funds

Common trust funds permit the commingling or pooling of investors' money into one account (known as a common fund) for the purpose of creating a single investment. Because they are a bank product, common trust funds are not required to be registered with the Securities and Exchange Commission and they are not considered to be a security under state and federal securities laws. Much like mutual funds, common trust funds strike a net asset value on a periodic basis and have varying investment strategies that primarily include investments in traditional assets such as domestic and international equity, fixed income securities and other securities. The Foundation's investments in common trust funds may be redeemed at net asset value on a daily or monthly basis, depending on the fund.

#### Marketable Partnership Interest

Marketable partnership interest includes investment in a limited partnership that seeks capital appreciation and income by managing assets in investment pools, investment partnerships and similar entities (i.e., a fund of funds). Fair value has been estimated using the net asset value per share of the investment. This investment is available for redemption on December 31 of each year with 90 days notice.

#### Private Equity Funds

Private equity funds includes several private fund of funds that invest primarily in private capital investment vehicles, each of which may invest in public or private securities. Fair value has been estimated using the net asset value per share of the investment. Each fund operates in accordance with the terms of a limited partnership agreement and continues to operate year to year, unless dissolved in accordance with the agreements. There are significant restrictions on transfer and assignment of these limited partnership interests. The nature of the investments in this category is that distributions are received periodically when the fund incurs short- or long-term gains, return of capital, royalties, rents or other ordinary income. Outstanding unfunded commitments to these partnerships as of December 31, 2010 approximated \$7.8 million.

**The REACH Healthcare Foundation**  
**Notes to Consolidated Financial Statements**  
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***Investment Return***

Total investment return is comprised of the following:

	<u>2010</u>	<u>2009</u>
Interest and dividend income	\$ 1,053,527	\$ 1,271,711
Net realized gains (losses)	3,175,550	(1,445,422)
Net unrealized gains	9,126,525	22,742,416
Investment expenses	<u>(572,675)</u>	<u>(563,634)</u>
	<u>\$ 12,782,927</u>	<u>\$ 22,005,071</u>

***Fair Value Measurements***

ASC Topic 820, *Fair Value Measurements*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Topic 820 also specifies a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

Where quoted market prices are available in an active market, investment securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include assets traded in active exchange markets. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Level 2 securities include common trust funds and alternative assets that can be redeemed at net asset value. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy and include non-marketable alternative assets.

**The REACH Healthcare Foundation**  
**Notes to Consolidated Financial Statements**  
**December 31, 2010 and 2009**

The following table presents the fair value measurements of investments recognized in the accompanying consolidated statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2010 and 2009:

	<b>2010</b>			
	<b>Fair Value Measurements Using</b>			
	<b>Fair Value</b>	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
Money market funds	\$ 2,621,854	\$ 2,621,854	\$ -	\$ -
Inflation-protected securities fund	5,576,103	5,576,103	-	-
Government bond index common trust fund	16,583,953	-	16,583,953	-
Global bond common trust fund	5,435,800	-	5,435,800	-
U.S. common stocks	9,999,938	9,999,938	-	-
Global equity mutual fund	18,688,318	18,688,318	-	-
High yield bond fund	1,223,381	1,223,381	-	-
Long-term capital growth fund	7,799,413	7,799,413	-	-
U.S. equity common trust fund	13,891,193	-	13,891,193	-
Emerging market common trust fund	6,729,117	-	6,729,117	-
Inflation hedging common trust fund	13,485,830	-	13,485,830	-
Marketable partnership interest	13,284,107	-	13,284,107	-
Private equity funds	9,866,939	-	-	9,866,939
<b>Total</b>	<b>\$ 125,185,946</b>	<b>\$ 45,909,007</b>	<b>\$ 69,410,000</b>	<b>\$ 9,866,939</b>

**The REACH Healthcare Foundation**  
**Notes to Consolidated Financial Statements**  
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	2009			
	Fair Value Measurements Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market funds	\$ 1,614,739	\$ 1,614,739	\$ -	\$ -
U.S. Treasury securities	5,324,719	-	5,324,719	-
Government bond index common trust fund	16,693,482	-	16,693,482	-
Global bond common trust fund	5,540,498	-	5,540,498	-
U.S. common stocks	11,301,571	11,301,571	-	-
Global equity mutual fund	16,067,999	16,067,999	-	-
High yield bond fund	1,310,764	1,310,764	-	-
Long-term capital growth fund	6,108,144	6,108,144	-	-
U.S. equity common trust fund	11,337,493	-	11,337,493	-
Emerging market common trust fund	8,182,901	-	8,182,901	-
Inflation hedging common trust fund	8,381,285	-	8,381,285	-
Marketable partnership interest	13,189,749	-	13,189,749	-
Private equity funds	6,896,000	-	-	6,896,000
<b>Total</b>	<b>\$ 111,949,344</b>	<b>\$ 36,403,217</b>	<b>\$ 68,650,127</b>	<b>\$ 6,896,000</b>

**The REACH Healthcare Foundation**  
**Notes to Consolidated Financial Statements**  
**December 31, 2010 and 2009**

The following is a reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the accompanying consolidated statements of financial position using significant unobservable (Level 3) inputs:

	<b>2010</b>	<b>2009</b>
Balance, January 1	\$ 6,896,000	\$ 5,218,702
Total realized and unrealized gains (losses) included in change in net assets	615,186	(41,670)
Capital calls	2,534,794	1,718,968
Capital distributions	(179,041)	-
Balance, December 31	\$ 9,866,939	\$ 6,896,000
Total gains (losses) for the period included in change in net assets attributable to the change in unrealized gains (losses) related to investments still held at the reporting date	\$ 615,186	\$ (41,670)

**Note 3: Endowment**

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

1. Duration and preservation of the fund
2. Purpose of the Foundation and the fund
3. General economic conditions
4. Possible effect of inflation and deflation
5. Expected total return from investment income and appreciation or depreciation of investments
6. Other resources of the Foundation
7. Investment policies of the Foundation



**The REACH Healthcare Foundation**  
**Notes to Consolidated Financial Statements**  
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The Asset Purchase 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 (UMIFA) 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, plus such additional expenditures, if any, that are required by the Internal Revenue Code (the "Code") (including, without limitation, under the minimum distribution requirements of Section 4942 of the Code), regardless of whether it is a "private foundation" within the meaning of Section 509 of the Code or a "public charity." For purposes of section (ii) above, the "fair market value of the Foundation's assets" for any given year shall be established as of the end of the third quarter of the immediately preceding fiscal year of the Foundation (the "FMV Quarter"), and shall be determined by calculating the average of the market value of the Foundation's assets as of the FMV 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 \$115,828,413. Additional distributions may be received in the future subject to certain contingencies. From time to time, 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 predictable stream of funding to programs and other items supported by its endowment while seeking to maintain the purchasing power of the endowment. Under the Foundation's policies, 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 current yield (investment income such as dividends and interest) and capital appreciation (both realized and unrealized). 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 has a policy (the spending policy) of appropriating for expenditure each year 5% of its endowment 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% 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% 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.

**The REACH Healthcare Foundation**  
**Notes to Consolidated Financial Statements**  
**December 31, 2010 and 2009**

**Note 4: Property and Equipment**

Property and equipment at December 31 consists of:

	<b>2010</b>	<b>2009</b>
Leasehold improvements	\$ 106,538	\$ 106,538
Furniture and fixtures	287,802	286,036
	394,340	392,574
Less accumulated depreciation and amortization	241,705	178,542
	\$ 152,635	\$ 214,032

**Note 5: Operating Leases**

The Foundation leases office space under a noncancellable operating lease expiring in September 2014. Future minimum lease payments under the operating lease are:

2011	\$ 152,049
2012	152,049
2013	152,976
2014	116,818
Total minimum lease payments	\$ 573,892

Rental expense for all operating leases for the years ended December 31, 2010 and 2009 was \$151,670 and \$152,473, respectively.

**Note 6: Pension and Other Postretirement Benefit Plans**

The Foundation sponsors a retirement savings plan for employees who meet certain length of service requirements. The Foundation matches 100% percent of the employee contributions up to 6% of the employee compensation. The Foundation may also make annual discretionary contributions. The Foundation contributed \$58,804 and \$54,143 to the Plan for the years ended December 31, 2010 and 2009, 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

**The REACH Healthcare Foundation**  
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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 Foundation contributions at a rate of 20% after two years of service and then an additional 20% each year thereafter, until fully vested after six years. Total expense under the Plan for the years ended December 31, 2010 and 2009 was \$16,500 and \$7,000, respectively.

**Note 7: Contingency**

Under the terms of the settlement agreement between Health Midwest and the Kansas Attorney General (“Memorandum of Understanding”), 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 condition to accepting distributions from CHG, the Foundation and HCF entered into an agreement with CHG to accept joint and several liability for any liabilities under the APA. The Memorandum of Understanding 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 such surplus be distributed 20% to the Foundation 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 consolidated financial statements.