The REACH Healthcare Foundation

Accountants' Report and Financial Statements

December 31, 2011 and 2010

BKD LLP
CPAs & Advisors

The REACH Healthcare Foundation
December 31, 2011 and 2010

Contents

BKD LLP
CPAs & Advisors

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Independent Accountants' Report

Board of Directors
The REACH Healthcare Foundation
Merriam, Kansas

We have audited the accompanying statements of financial position of The REACH Healthcare Foundation as of December 31, 2011 and 2010, and the related statements of activities, functional expenses and cash flows 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 financial statements referred to above present fairly, in all material respects, the financial position of The REACH Healthcare Foundation as of December 31, 2011 and 2010, 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

July 9, 2012

The REACH Healthcare Foundation

Statements of Financial Position

December 31, 2011 and 2010

Assets

	2011	2010
Cash	$ 79,009	$ 83,615
Interest receivable	18,045	11,723
Prepaid expenses and deposits	26,967	28,977
Investments	117,272,709	125,185,946
Property and equipment, net of accumulated depreciation; 2011 - $294,924; 2010 - $241,705	99,416	152,635
Total assets	$ 117,496,146	$ 125,462,896

Liabilities and Net Assets

	2011	2010
Liabilities		
Accounts payable	$ 19,532	$ 15,816
Accrued expenses	133,069	113,303
Grants payable	2,125,602	2,889,006
Total liabilities	2,278,203	3,018,125
Net Assets - Unrestricted	115,217,943	122,444,771
Total liabilities and net assets	$ 117,496,146	$ 125,462,896

The REACH Healthcare Foundation

Statements of Activities

Years Ended December 31, 2011 and 2010

	2011	2010
Revenues and Gains (Losses)		
Investment return (loss)	$ (1,549,600)	$ 12,782,927
Distribution from Community Health Group	-	6,780,000
Total revenues and gains (losses)	(1,549,600)	19,562,927
Expenses		
Grants and program	5,084,249	5,515,935
Management and general	592,979	702,710
Total expenses	5,677,228	6,218,645
Change in Net Assets	(7,226,828)	13,344,282
Net Assets, Beginning of Year	122,444,771	109,100,489
Net Assets, End of Year	$ 115,217,943	$ 122,444,771

The REACH Healthcare Foundation

Statement of Functional Expenses

Year Ended December 31, 2011

	Grants and Program	Management and General	Total Expenses
Grants	$ 4,183,975	$ -	$ 4,183,975
Salaries and related expenses	631,795	261,826	893,621
Professional fees	175,772	86,354	262,126
Advertising and promotion	6,573	1,599	8,172
Office supplies and expense	17,354	20,140	37,494
Information technology	10,606	26,441	37,047
Occupancy	48,052	103,322	151,374
Travel	25,427	8,998	34,425
Conferences, conventions and meetings	36,386	5,952	42,338
Depreciation	16,819	36,400	53,219
Insurance	-	20,232	20,232
Equipment leasing and expense	1,932	15,735	17,667
Membership dues	10,749	1,190	11,939
Staff development	8,410	-	8,410
Grant refunds and adjustments	(90,604)	-	(90,604)
Other	1,003	4,790	5,793
Totals, Year Ended December 31, 2011	$ 5,084,249	$ 592,979	$ 5,677,228

The REACH Healthcare Foundation
Statement of Functional Expenses
Year Ended December 31, 2010

	Grants and Program	Management and General	Total Expenses
Grants	$ 5,056,603	$ -	$ 5,056,603
Salaries and related expenses	609,997	269,480	879,477
Professional fees	167,192	177,548	344,740
Advertising and promotion	10,880	929	11,809
Office supplies and expense	5,853	31,691	37,544
Information technology	11,198	5,904	17,102
Occupancy	47,136	104,534	151,670
Travel	19,147	10,472	29,619
Conferences, conventions and meetings	17,209	10,991	28,200
Depreciation	19,629	43,534	63,163
Insurance	-	19,782	19,782
Equipment leasing and expense	2,898	16,541	19,439
Membership dues	10,219	1,374	11,593
Staff development	8,294	5,694	13,988
Grant refunds and adjustments	(471,531)	-	(471,531)
Other	1,211	4,236	5,447
Totals, Year Ended December 31, 2010	$ 5,515,935	$ 702,710	$ 6,218,645

The REACH Healthcare Foundation
Statements of Cash Flows
Years Ended December 31, 2011 and 2010

	2011	2010
Operating Activities		
Change in net assets	$ (7,226,828)	$ 13,344,282
Items not requiring (providing) operating activities cash flows		
Depreciation	53,219	63,163
Net realized and unrealized losses (gains) on investments	1,976,437	(12,302,075)
Changes in		
Interest receivable	(6,322)	24,813
Prepaid expenses and deposits	2,010	(1,876)
Accounts payable	3,716	(25,855)
Accrued expenses	19,766	15,553
Grants payable	(763,404)	(337,499)
Net cash provided by (used in) operating activities	(5,941,406)	780,506
Investing Activities		
Purchase of property and equipment	-	(1,766)
Proceeds from disposition of investments	6,946,801	6,923,573
Purchase of investments	(1,010,001)	(7,858,100)
Net cash provided by (used in) investing activities	5,936,800	(936,293)
Decrease in Cash	(4,606)	(155,787)
Cash, Beginning of Year	83,615	239,402
Cash, End of Year	$ 79,009	$ 83,615

The REACH Healthcare Foundation

Notes to Financial Statements

December 31, 2011 and 2010

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 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.

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.

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 level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the accompanying statements of financial position.

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. The Foundation's estimate of the fair value of investments is further described above and in Note 2.

Transfers 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, 2011 and 2010 was $2,125,602 and $2,889,006, respectively, and are expected to be paid within two years.

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 2008.

Functional Allocation of Expenses

The costs of supporting the Foundation's programs and other activities have been summarized on a functional basis in the 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 2010 financial statements to conform to the 2011 financial statement presentation. These reclassifications had no effect on the change in net assets.

Subsequent Events

Subsequent events have been evaluated through the date of the Independent Accountants' Report, which is the date the financial statements were available to be issued.

The REACH Healthcare Foundation
Notes to Financial Statements
December 31, 2011 and 2010

Note 2: Investments and Investment Return

Investments

Investments at December 31 consisted of the following:

	2011	2010
Money Market Funds	$ 5,842,378	$ 2,621,854
Fixed Income Strategy		
Inflation-protected securities fund	-	5,576,103
Government bond index common trust fund	15,388,248	16,583,953
Global bond common trust fund	5,832,685	5,435,800
Total fixed income strategy	21,220,933	27,595,856
Equity Strategy		
U.S. common stocks	10,457,093	9,999,938
Global equity mutual fund	-	18,688,318
Global equity securities	7,326,122	-
Global equity marketable partnership interest	7,482,390	-
High yield bond fund	-	1,223,381
Long-term capital growth fund	8,033,410	7,799,413
U.S. equity common trust fund	13,108,564	13,891,193
Emerging market common trust fund	5,478,615	6,729,117
Inflation hedging common trust fund	11,279,022	13,485,830
Total equity strategy	63,165,216	71,817,190
Alternative Investment Strategy		
Marketable partnership interest - on shore	9,033,154	13,284,107
Marketable partnership interest - off shore	5,244,030	-
Private equity funds	12,766,998	9,866,939
Total alternative investment strategy	27,044,182	23,151,046
	$ 117,272,709	$ 125,185,946

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 Interests

Marketable partnership interests include investments in limited partnerships that seek 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 investments. The marketable partnership interests are available for redemption on a monthly or annual basis, depending on the fund.

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, 2011 approximated $5.5 million.

Investment Return (Loss)

Total investment return (loss) is comprised of the following:

	2011	2010
Interest and dividend income	$ 1,016,663	$ 1,053,527
Net realized gains	154,625	3,175,550
Net unrealized gains (losses)	(2,131,062)	9,126,525
Investment expenses	(589,826)	(572,675)
	$ (1,549,600)	$ 12,782,927

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 following table presents the fair value measurements of investments recognized in the accompanying 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, 2011 and 2010:

		2011 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	$ 5,842,378	$ 5,842,378	$ -	$ -
Government bond index common trust fund	15,388,248	-	15,388,248	-
Global bond common trust fund	5,832,685	-	5,832,685	-
U.S. common stocks	10,457,093	10,457,093	-	-
Global equity securities	7,326,122	7,326,122	-	-
Global equity marketable partnership interest	7,482,390	-	7,482,390	-
Long-term capital growth fund	8,033,410	8,033,410	-	-
U.S. equity common trust fund	13,108,564	-	13,108,564	-
Emerging market common trust fund	5,478,615	-	5,478,615	-
Inflation hedging common trust fund	11,279,022	-	11,279,022	-
Marketable partnership interest - on shore	9,033,154	-	9,033,154	-
Marketable partnership interest - off shore	5,244,030	-	5,244,030	-
Private equity funds	12,766,998	-	-	12,766,998
Total	$ 117,272,709	$ 31,659,003	$ 72,846,708	$ 12,766,998

		2010 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	$ 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 - on shore	13,284,107	-	13,284,107	-
Private equity funds	9,866,939	-	-	9,866,939
Total	$ 125,185,946	$ 45,909,007	$ 69,410,000	$ 9,866,939

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

	2011	2010
Balance, January 1	$ 9,866,939	$ 6,896,000
Total realized and unrealized gains included in change in net assets	1,359,461	615,186
Capital calls	2,273,782	2,534,794
Capital distributions	(733,184)	(179,041)
Balance, December 31	$ 12,766,998	$ 9,866,939
Total gains for the period included in change in net assets attributable to the change in unrealized gains related to investments still held at the reporting date	$ 1,359,461	$ 615,186

Note 3: Endowment

As discussed in Note 1, the Foundation operates pursuant to a settlement agreement governing the spending of the distributions received toward 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 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.

Note 4: Property and Equipment

Property and equipment at December 31 consists of:

	2011	2010
Leasehold improvements	$ 106,538	$ 106,538
Furniture and fixtures	287,802	287,802
	394,340	394,340
Less accumulated depreciation and amortization	294,924	241,705
	$ 99,416	$ 152,635

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:

2012	$ 152,049
2013	152,976
2014	116,818
Total minimum lease payments	$ 421,843

Rental expense for all operating leases for the years ended December 31, 2011 and 2010 was $151,374 and $151,670, 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 $50,957 and $58,804 to the Plan for the years ended December 31, 2011 and 2010, 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 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 both years ended December 31, 2011 and 2010 was $16,500 annually.

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 financial statements.