The REACH Healthcare Foundation

Independent Auditor's Report and Financial Statements

December 31, 2016 and 2015

BKD LLP
CPAs & Advisors

The REACH Healthcare Foundation
December 31, 2016 and 2015

Contents

BKD LLP
CPAs & Advisors

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Independent Auditor's Report

Board of Directors
The REACH Healthcare Foundation
Merriam, Kansas

We have audited the accompanying financial statements of The REACH Healthcare Foundation, which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities, functional expenses and 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.

Auditor's 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 the audit 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 auditor's judgment, 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 financial position of The REACH Healthcare Foundation as of December 31, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

BKD, LLP

Kansas City, Missouri
July 12, 2017

The REACH Healthcare Foundation

Statements of Financial Position

December 31, 2016 and 2015

Assets

	2016	2015
Cash	$ 82,499	$ 51,767
Interest receivable	6,239	6,837
Prepaid expenses and deposits	32,821	28,889
Investments	125,781,280	122,420,958
Property and equipment, net of accumulated depreciation; 2016 - $491,071, 2015 - $482,397	25,739	31,163
Total assets	$ 125,928,578	$ 122,539,614

Liabilities and Net Assets

	2016	2015
Liabilities		
Accounts payable	$ 22,807	$ 20,989
Accrued expenses	114,890	129,558
Grants payable	2,238,174	1,333,536
Total liabilities	2,375,871	1,484,083
Net Assets - Unrestricted	123,552,707	121,055,531
Total liabilities and net assets	$ 125,928,578	$ 122,539,614

The REACH Healthcare Foundation

Statements of Activities

Years Ended December 31, 2016 and 2015

	2016	2015
Revenues and Gains		
Investment return (loss)	$ 8,630,209	$ (5,526,306)
Distribution from Community Health Group	300,000	-
Total revenues and gains (losses)	8,930,209	(5,526,306)
Expenses		
Grants and program	5,723,032	5,809,188
Management and general	710,001	689,434
Total expenses	6,433,033	6,498,622
Change in Net Assets	2,497,176	(12,024,928)
Net Assets, Beginning of Year	121,055,531	133,080,459
Net Assets, End of Year	$ 123,552,707	$ 121,055,531

The REACH Healthcare Foundation

Statement of Functional Expenses

Year Ended December 31, 2016

	Grants and Program	Management and General	Total Expenses
Grants	$ 4,430,747	$ -	$ 4,430,747
Salaries and related expenses	877,351	409,413	1,286,764
Professional fees	197,826	95,880	293,706
Advertising and promotion	37,650	4,150	41,800
Office supplies and expense	11,698	22,860	34,558
Information technology	30,618	6,418	37,036
Occupancy	43,643	100,420	144,063
Travel	31,717	10,512	42,229
Conferences, conventions and meetings	41,498	11,154	52,652
Depreciation	2,625	6,049	8,674
Insurance	-	20,658	20,658
Equipment leasing and expense	3,002	13,081	16,083
Membership dues	18,397	1,704	20,101
Staff development	7,174	95	7,269
Grant refunds and adjustments	(14,061)	-	(14,061)
Other	3,147	7,607	10,754
	$ 5,723,032	$ 710,001	$ 6,433,033

The REACH Healthcare Foundation
Statement of Functional Expenses
Year Ended December 31, 2015

	Grants and Program	Management and General	Total Expenses
Grants	$ 4,484,079	$ -	$ 4,484,079
Salaries and related expenses	840,325	383,993	1,224,318
Professional fees	299,237	85,573	384,810
Advertising and promotion	17,818	7,111	24,929
Office supplies and expense	14,512	23,052	37,564
Information technology	36,053	9,069	45,122
Occupancy	42,546	100,927	143,473
Travel	31,875	15,472	47,347
Conferences, conventions and meetings	53,098	9,294	62,392
Depreciation	18,026	12,267	30,293
Insurance	-	20,033	20,033
Equipment leasing and expense	4,265	15,473	19,738
Membership dues	24,220	1,377	25,597
Staff development	7,280	804	8,084
Grant refunds and adjustments	(71,152)	-	(71,152)
Other	7,006	4,989	11,995
	$ 5,809,188	$ 689,434	$ 6,498,622

The REACH Healthcare Foundation

Statements of Cash Flows

Years Ended December 31, 2016 and 2015

	2016	2015
Operating Activities		
Change in net assets	$ 2,497,176	$ (12,024,928)
Items not requiring (providing) operating activities cash flows		
Depreciation	8,674	30,293
Net realized and unrealized (gains) losses on investments	(8,362,756)	6,689,867
Changes in		
Interest receivable	598	593
Prepaid expenses and deposits	(3,932)	(163)
Accounts payable	1,818	(16,492)
Accrued expenses	(14,668)	(6,975)
Grants payable	904,638	94,626
Net cash used in operating activities	(4,968,452)	(5,233,179)
Investing Activities		
Purchase of property and equipment	(3,250)	(12,152)
Proceeds from disposition of investments	26,059,610	30,485,790
Purchase of investments	(21,057,176)	(25,301,591)
Net cash provided by investing activities	4,999,184	5,172,047
Increase (Decrease) in Cash	30,732	(61,132)
Cash, Beginning of Year	51,767	112,899
Cash, End of Year	$ 82,499	$ 51,767

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. Distributions of $300,000 and $0 were received by the Foundation in 2016 and 2015, respectively, and are 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. At December 31, 2016 and 2015, the Foundation had no cash balances in excess of this limit.

Investments and Investment Return

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 the prior quarter, adjusted for cash receipts and disbursements through December 31. The Foundation compares this carrying value, which is based on net asset value per share or its equivalent, 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.

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 statements of financial position. Grants payable at December 31, 2016 and 2015 were $2,238,174 and $1,333,536, respectively, and were expected to be paid within one year.

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.

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.

Subsequent Events

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

Note 2: Investments and Investment Return

Investments

Investments at December 31 consisted of the following:

	2016	2015
Investments at fair value		
Unsettled trades	$ 11,673,498	$ -
Money market funds	2,510,455	2,691,305
Common stocks	11,575,242	19,740,137
Mutual funds	39,761,781	35,667,037
Total investments at fair value	65,520,976	58,098,479
Investments at net asset value		
Common trust funds	21,752,375	15,899,570
Marketable partnership interests	15,242,112	12,676,281
Marketable alternative investments	12,086,712	23,436,694
Private equity funds	11,179,105	12,309,934
Total investments at net asset value	60,260,304	64,322,479
	$ 125,781,280	$ 122,420,958

Investments at 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. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of 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 supported by little or no market activity and are significant to the fair value of the assets or liabilities

The following tables present 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, 2016 and 2015:

		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)
December 31, 2016				
Unsettled trades	$ 11,673,498	$ 11,673,498	$ -	$ -
Money market funds	2,510,455	2,510,455	-	-
Common stocks	11,575,242	11,575,242	-	-
Mutual funds	39,761,781	39,761,781	-	-
Total	$ 65,520,976	$ 65,520,976	$ -	$ -
December 31, 2015				
Money market funds	$ 2,691,305	$ 2,691,305	$ -	$ -
Common stocks	19,740,137	19,740,137	-	-
Mutual funds	35,667,037	35,667,037	-	-
Total	$ 58,098,479	$ 58,098,479	$ -	$ -

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. There have been no significant changes in the valuation techniques during the year ended December 31, 2016. The Foundation did not have securities classified as Level 3.

Investments at Net Asset Value

At December 31, 2016 and 2015, the Foundation held the following investments in certain entities that calculate net asset value per share or its equivalent.

	2016 Fair Value	2015 Fair Value	Restrictions of Redemption	Redemption Notice Period
Common trust funds (A)	$ 21,752,375	$ 15,899,570	Daily or month-end redemption	Daily or 30 days
Marketable partnership interest (B)	15,242,112	12,676,281	Limited to month-end redemption	30 days
Marketable alternative investments (C)	12,086,712	23,436,694	Limited quarter redemption	30 days
Private equity funds (D)	11,179,105	12,309,934	Nonredeemable	None
	$ 60,260,304	$ 64,322,479		

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

(A) <u>Common Trust Funds</u>

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.

(B) 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.

(C) Marketable Alternative Investments

Marketable alternative investments include investments in limited. Fair value has been estimated using the net asset value per share of the investments. The marketable alternative investments are available for redemption on a monthly basis.

(D) Private Equity Funds

Private equity funds include 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, 2016 and 2015 were $4,267,288 and $5,206,309, respectively.

Investment Return

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

	2016	2015
Interest and dividend income	$ 796,303	$ 1,709,274
Net realized gains (losses)	(1,563,677)	5,540,740
Net unrealized gains (losses)	9,926,433	(12,230,607)
Investment expenses	(528,850)	(545,713)
	$ 8,630,209	$ (5,526,306)

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 (APA), 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 APA, 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 $117,178,413 and $116,878,413 as of December 31, 2016 and 2015, respectively. 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%, 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: Operating Leases

The Foundation leases office space under a noncancellable operating lease expiring in December 2019. Future minimum lease payments under the operating lease are:

2017	$ 139,069
2018	140,923
2019	142,777
Total minimum lease payments	$ 422,769

Rental expense for all operating leases for the years ended December 31, 2016 and 2015 was $144,063 and $143,473, respectively.

Note 5: 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% of the employee contributions up to 6% of the employee compensation. The Foundation may also make annual discretionary contributions. The Foundation contributed $93,376 and $70,370 to the Plan for the years ended December 31, 2016 and 2015, 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 was $23,000 and $28,000 during the years ended December 31, 2016 and 2015, respectively.

Note 6: 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 APA. As a 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 Foundation and HCF entered into a Contribution and Indemnity Agreement that would apportion any such liability 80% to HCF and 20% to the Foundation. 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.