The REACH Healthcare Foundation

Independent Auditor's Report and Consolidated Financial Statements

December 31, 2018 and 2017

BKD LLP
CPAs & Advisors

The REACH Healthcare Foundation

December 31, 2018 and 2017

Contents

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CPAs & Advisors

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Independent Auditor's Report

Board of Directors
The REACH Healthcare Foundation
Merriam, Kansas

We have audited the accompanying consolidated financial statements of The REACH Healthcare Foundation, which comprise the consolidated statements of financial position as of December 31, 2018 and 2017, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of The REACH Healthcare Foundation as of December 31, 2018 and 2017, 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 18, 2019

The REACH Healthcare Foundation

Consolidated Statements of Financial Position

December 31, 2018 and 2017

Assets

	2018	2017
Cash	$ 102,625	$ 101,510
Prepaid expenses and other assets	40,104	47,242
Investments	124,882,518	138,682,873
Property and equipment, net of accumulated depreciation; 2018 - $516,779, 2017 - $496,548	35,031	20,262
Total assets	$ 125,060,278	$ 138,851,887

Liabilities and Net Assets

Liabilities		
Accounts payable and accrued expenses	$ 149,114	$ 128,537
Grants payable	2,879,772	2,453,271
Total liabilities	3,028,886	2,581,808
Net Assets Without Donor Restrictions	122,031,392	136,270,079
Total liabilities and net assets	$ 125,060,278	$ 138,851,887

The REACH Healthcare Foundation

Consolidated Statements of Activities

Years Ended December 31, 2018 and 2017

	2018	2017
Revenues and Gains		
Investment return (loss)	$ (7,905,602)	$ 19,145,409
Distribution from Community Health Group	-	73,906
Total revenues and gains (losses)	(7,905,602)	19,219,315
Expenses		
Grants and program	5,655,178	5,778,369
Management and general	677,907	723,574
Total expenses	6,333,085	6,501,943
Change in Net Assets	(14,238,687)	12,717,372
Net Assets, Beginning of Year	136,270,079	123,552,707
Net Assets, End of Year	$ 122,031,392	$ 136,270,079

The REACH Healthcare Foundation

Consolidated Statement of Functional Expenses

Year Ended December 31, 2018

	Grants and Program	Management and General	Total Expenses
Grants	$ 4,389,372	$ -	$ 4,389,372
Salaries and related expenses	779,269	352,974	1,132,243
Professional fees	257,292	96,695	353,987
Advertising and promotion	8,780	550	9,330
Office supplies and expense	49,497	23,007	72,504
Information technology	39,756	11,987	51,743
Occupancy	45,245	105,091	150,336
Travel	26,304	9,678	35,982
Conferences, conventions and meetings	50,371	8,421	58,792
Depreciation	6,115	14,116	20,231
Insurance	-	21,072	21,072
Equipment leasing and expense	814	19,189	20,003
Membership dues	8,917	6,309	15,226
Staff development	7,407	3,000	10,407
Grant refunds and adjustments	(16,124)	-	(16,124)
Other	2,163	5,818	7,981
	$ 5,655,178	$ 677,907	$ 6,333,085

The REACH Healthcare Foundation

Consolidated Statement of Functional Expenses

Year Ended December 31, 2017

	Grants and Program	Management and General	Total Expenses
Grants	$ 4,417,013	$ -	$ 4,417,013
Salaries and related expenses	894,693	420,362	1,315,055
Professional fees	254,841	77,513	332,354
Advertising and promotion	9,775	-	9,775
Office supplies and expense	36,274	25,121	61,395
Information technology	35,180	15,900	51,080
Occupancy	44,374	103,504	147,878
Travel	36,686	17,087	53,773
Conferences, conventions and meetings	44,773	9,127	53,900
Depreciation	1,657	3,820	5,477
Insurance	-	21,368	21,368
Equipment leasing and expense	5,105	13,696	18,801
Membership dues	17,412	6,497	23,909
Staff development	10,743	1,663	12,406
Grant refunds and adjustments	(31,829)	-	(31,829)
Other	1,672	7,916	9,588
	$ 5,778,369	$ 723,574	$ 6,501,943

The REACH Healthcare Foundation

Consolidated Statements of Cash Flows

Years Ended December 31, 2018 and 2017

	2018	2017
Operating Activities		
Change in net assets	$ (14,238,687)	$ 12,717,372
Items not requiring (providing) operating activities cash flows		
Depreciation	20,231	5,477
Net realized and unrealized (gains) losses on investments	8,482,923	(18,632,179)
Changes in		
Prepaid expenses and other assets	7,138	(8,182)
Accounts payable and accrued expenses	20,577	(9,160)
Grants payable	426,501	215,097
Net cash used in operating activities	(5,281,317)	(5,711,575)
Investing Activities		
Purchase of property and equipment	(35,000)	-
Proceeds from disposition of investments	26,721,553	31,010,987
Purchase of investments	(21,404,121)	(25,280,401)
Net cash provided by investing activities	5,282,432	5,730,586
Increase in Cash	1,115	19,011
Cash, Beginning of Year	101,510	82,499
Cash, End of Year	$ 102,625	$ 101,510

The REACH Healthcare Foundation

Notes to Consolidated Financial Statements
December 31, 2018 and 2017

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 percent to the Missouri foundation (Health Care Foundation of Greater Kansas City or HCF), and 20 percent 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 $0 and $73,906 were received by the Foundation in 2018 and 2017, respectively, and are included in the statements of activities. The 2017 contribution was the final distribution from CHG.

The accompanying consolidated financial statements for the fiscal years 2018 and 2017 include the accounts of the Foundation and REACH Real Estate Holdings, LLC, a non-profit corporation controlled by the Foundation (hereinafter collectively known as the Foundation). All significant intercompany accounts and transactions have been eliminated upon consolidation.

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 the consolidated 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 consolidated 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, 2018 and 2017, the Foundation had no cash balances in excess of this limit.

Investments and Net 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.

The Foundation owns a non-controlling interest in a for-profit real estate limited liability company that invests in an office building. The interest is nontransferable and may not be redeemed unless there is unanimous consent of all member interests. The Foundation accounts for its investment in the company at fair value determined by management using the discounted cash flows of the underlying property.

Alternative investments are valued using the most recent valuation available by the respective external fund manager. Valuation of investments in alternative investments, such as common trust funds, marketable partnership interests and 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 as a practical expedient, 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, less external and direct internal investment expenses.

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.

Net Assets

Net assets, revenues, gains and losses are classified based on the existence or absence of donor- or grantor-imposed restrictions. Net assets without donor restrictions are board-restricted endowment funds that are available for use in general operations and not subject to donor restrictions.

Grants

Grant expenses are recorded when approved. Grants authorized and unpaid at year end are reported as liabilities in the consolidated statements of financial position. Grants payable at December 31, 2018 and 2017 were $2,879,772 and $2,453,271, 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 consolidated statements of activities. The consolidated statements of functional expenses present the natural classification detail of expenses by function. Certain costs have been allocated among the grants, program, management and general categories based on management's estimate of usage.

Subsequent Events

Subsequent events have been evaluated through July 18, 2019, which is the date the consolidated financial statements were available to be issued.

Note 2: Investments and Investment Return

Investments

Investments at December 31 consisted of the following:

	2018	2017
Investments in marketable securities at fair value		
Money market funds	$ 2,253,000	$ 3,347,791
Common stocks	8,979,771	13,849,072
Mutual funds	34,218,716	40,660,299
Partnership interests	1,500,063	-
Total investments at fair value	46,951,550	57,857,162
Investments at net asset value		
Common trust funds	37,753,948	36,763,536
Marketable partnership interests	9,340,881	10,571,205
Marketable alternative investments	19,554,819	23,182,275
Private equity funds	11,281,320	10,308,695
Total investments at net asset value	77,930,968	80,825,711
	$ 124,882,518	$ 138,682,873

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 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, 2018 and 2017:

		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, 2018				
Money market funds	$ 2,253,000	$ 2,253,000	$ -	$ -
Common stocks	8,979,771	8,979,771	-	-
Mutual funds	34,218,716	34,218,716	-	-
Partnership interests	1,500,063	-	-	1,500,063
Total	$ 46,951,550	$ 45,451,487	$ -	$ 1,500,063
December 31, 2017				
Money market funds	$ 3,347,791	$ 3,347,791	$ -	$ -
Common stocks	13,849,072	13,849,072	-	-
Mutual funds	40,660,299	40,660,299	-	-
Total	$ 57,857,162	$ 57,857,162	$ -	$ -

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, 2018.

Investments in Partnership Interests

Fair value for the investment in the real estate limited liability company is estimated by management using the initial capital contributed for the underlying property as the building is under construction at year end. Level 3 real estate investments purchased during 2018 and 2017 were $1,500,000 and $0, respectively.

Investments at Net Asset Value

At December 31, 2018 and 2017, the Foundation held the following investments in certain entities that calculate net asset value per share or its equivalent as a practical expedient.

	2018 Fair Value	2017 Fair Value	Restrictions of Redemption	Redemption Notice Period
Common trust funds (A)	$ 37,753,948	$ 36,763,536	Daily or month-end redemption	Daily or 30 days
Marketable partnership interests (B)	9,340,881	10,571,205	Limited to month-end redemption	30 days
Marketable alternative investments (C)	19,554,819	23,182,275	Daily, monthly and limited quarterly redemption	Daily to 95 days
Private equity funds (D)	11,281,320	10,308,695	Nonredeemable	None
	$ 77,930,968	$ 80,825,711		

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

(A) 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.

(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 basis.

(C) Marketable Alternative Investments

Marketable alternative investments include investments in limited partnerships that seek capital appreciation and income by managing assets in investment pools, investment partnerships and similar entities (*i.e.* fund of funds). 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 daily, monthly or quarterly basis depending on the Fund.

(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, 2018 and 2017 were $7,155,478 and $4,822,673, respectively.

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 is subject to the *Uniform Prudent Management of Institutional Funds Act* (UPMIFA) as adopted in 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 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 percent 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 $117,252,319 as of December 31, 2018 and 2017. 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 percent 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 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: Liquidity and Availability

Financial assets available for general expenditures, that is, without donor or other restrictions limiting their use, within one year of December 31, 2018 and 2017, comprise the following:

	2018	2017
Cash	$ 102,625	$ 101,510
Endowment spending annual appropriations	6,385,000	6,366,400
	$ 6,487,625	$ 6,467,910

The Foundation's endowment funds consist of funds that were derived from the APA. Income from these funds is to be used to meet the mission of the Foundation. It is the Foundation's policy to appropriate for annual expenditure approximately 5 percent 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 percent target rate, depending upon program needs and changes in the fund's average market value.

As part of the Foundation's liquidity management plan, management reviews cash and investment balances regularly and compares these to the monthly requirements.

Note 5: Operating Leases

Noncancellable operating leases for office space expire in various years through 2031. Future minimum lease payments at December 31, 2018, were:

2019	$ 142,777
2020	146,103
2021	148,733
2022	151,410
2023	154,136
Thereafter	1,337,277
Total minimum lease payments	$ 2,080,436

Rental expense was $150,336 and $147,878 for the years ended December 31, 2018 and 2017, 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 percent of the employee compensation. The Foundation may also make annual discretionary contributions. The Foundation contributed $76,384 and $75,465 to the Plan for the years ended December 31, 2018 and 2017, 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 percent after two years of service and then an additional 20 percent each year thereafter, until fully vested after six years. Total expense under the Plan was $18,500 and $18,000 during the years ended December 31, 2018 and 2017, respectively.