

**HEALTH CARE FOUNDATION
OF GREATER KANSAS CITY**

YEARS ENDED DECEMBER 31, 2009 AND 2008



HOUSE PARK & DOBRATZ, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

HEALTH CARE FOUNDATION
OF GREATER KANSAS CITY

YEARS ENDED DECEMBER 31, 2009 AND 2008

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HOUSE PARK & DOBRATZ, P.C.
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Independent Auditors' Report

Board of Directors
Health Care Foundation of Greater Kansas City
Kansas City, Missouri

We have audited the statements of financial position of Health Care Foundation of Greater Kansas City (the Foundation) as of December 31, 2009 and 2008, and the related statements of activities and changes in net assets 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 U.S. generally accepted auditing standards. 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 Health Care Foundation of Greater Kansas City as of December 31, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

House Park & Dobratz, P.C.

May 20, 2010

**HEALTH CARE FOUNDATION
OF GREATER KANSAS CITY**

STATEMENTS OF FINANCIAL POSITION - DECEMBER 31, 2009 AND 2008

ASSETS

	<u>2009</u>	<u>2008</u>
Cash	\$ 211,080	\$ 12,422
Accounts receivable (Note 2)	181,053	
Prepaid expenses and deposits	60,099	42,063
Investments (Notes 2 and 8)	414,218,076	372,959,166
Furniture, fixtures and equipment, less accumulated depreciation of \$265,836 and \$215,244 in 2009 and 2008, respectively	<u>40,146</u>	<u>89,890</u>
	<u>\$ 414,710,454</u>	<u>\$ 373,103,541</u>

LIABILITIES AND NET ASSETS

Liabilities:		
Grants payable	\$ 24,844,672	\$ 23,147,303
Accounts payable and accrued expenses	<u>610,317</u>	<u>576,896</u>
	<u>25,454,989</u>	<u>23,724,199</u>
Line of credit (Note 8)	<u>5,000,000</u>	
Contingency (Note 6)		
Net assets:		
Unrestricted:		
Historic dollar value	445,483,735	445,483,735
Board-designated	979,889	1,369,113
Excess (deficiency) available for general activities	(62,370,001)	(97,599,267)
Total unrestricted	384,093,623	349,253,581
Temporarily restricted (Note 7)	<u>161,842</u>	<u>125,761</u>
	<u>384,255,465</u>	<u>349,379,342</u>
	<u>\$ 414,710,454</u>	<u>\$ 373,103,541</u>

See notes to financial statements.

**HEALTH CARE FOUNDATION
OF GREATER KANSAS CITY**

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

YEARS ENDED DECEMBER 31, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
Changes in unrestricted net assets:		
Revenues, gains and other support:		
Investment income (Note 2)	5,152,867	7,496,512
Net asset released from restrictions (Note 7)	<u>231,490</u>	<u>73,239</u>
Total unrestricted gains and other support	<u>5,384,357</u>	<u>7,569,751</u>
Expenses:		
Grants	26,684,409	26,387,455
Operating expenses (Note 4)	3,256,081	2,315,014
Interest expense (Note 8)	<u>55,525</u>	<u> </u>
Total expenses	<u>29,996,015</u>	<u>28,702,469</u>
Deficiency of revenues before realized and unrealized gains (losses)	(24,611,658)	(21,132,718)
Net realized and unrealized gains (losses) (Note 2)	<u>59,451,700</u>	(178,611,406)
Change in unrestricted net assets	<u>34,840,042</u>	(199,744,124)
Changes in temporarily restricted net assets:		
Contributions (Note 7)	267,571	199,000
Net assets released from restrictions (Note 7)	(231,490)	(73,239)
Change in temporarily restricted net assets	<u>36,081</u>	<u>125,761</u>
Change in net assets	34,876,123	(199,618,363)
Net assets, beginning of year	<u>349,379,342</u>	<u>548,997,705</u>
Net assets, end of year	<u>\$ 384,255,465</u>	<u>\$ 349,379,342</u>

See notes to financial statements.

**HEALTH CARE FOUNDATION
OF GREATER KANSAS CITY**

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Change in net assets	\$ 34,876,123	(\$ 199,618,363)
Adjustments to reconcile increase (decrease) in net assets to net cash used by operating activities:		
Depreciation	50,592	62,468
Unrealized (gains) losses on investments	(79,928,612)	167,092,692
Realized losses on investments	20,476,912	11,518,714
Changes in assets and liabilities:		
Accounts receivable	(181,053)	
Prepaid expenses and deposits	(18,036)	20,147
Grants payable	1,697,369	5,028,344
Accounts payable and accrued expenses	<u>33,421</u>	<u>90,553</u>
Net cash used by operating activities	(22,993,284)	(15,805,445)
Cash flows from investing activities:		
Purchases of furniture, fixtures and equipment	(848)	(32,451)
Net proceeds of investments	<u>18,192,790</u>	<u>14,602,082</u>
Net cash provided by investing activities	<u>18,191,942</u>	<u>14,569,631</u>
Cash flows from financing activities, net proceeds from line of credit	<u>5,000,000</u>	
Net increase (decrease) in cash	198,658	(1,235,814)
Cash, beginning of year	<u>12,422</u>	<u>1,248,236</u>
Cash, end of year	<u>\$ 211,080</u>	<u>\$ 12,422</u>
<i>Supplemental disclosure of cash flow information:</i>		
Cash paid during the year for interest	<u>\$ 44,692</u>	

See notes to financial statements.

**HEALTH CARE FOUNDATION
OF GREATER KANSAS CITY**

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2009 AND 2008

1. Organization and summary of significant accounting policies:

Organization:

Health Care Foundation of Greater Kansas City (Foundation) was created as a Missouri not-for-profit organization in July, 2003, pursuant to an agreement (Settlement Agreement) between and among Community Health Group (CHG), successor company to Health Midwest, the Missouri Attorney General and Richard W. Brown, 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 Foundation and 20% to the Kansas foundation (The REACH Healthcare Foundation). Additionally, Richard W. Brown (Brown), an executive of Health Midwest, agreed to contribute \$517,247 to the Foundation.

The Articles of Incorporation limit expenditure of funds to the net cumulative earnings on the original "historic dollar value" of assets, as defined in Missouri statutes; however, expenditures in excess of this amount may be made, up to the amount of minimum distributions that would be required were the Foundation considered a Private Foundation by the Internal Revenue Service. Additional expenditures may also be made upon the approval of two-thirds of the Board. The Foundation Board has resolved that the historic dollar value of the Brown contribution and CHG distributions received are to be \$445,483,735. Additional CHG distributions may be received in the future subject to certain contingencies (Note 6).

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, with particular emphasis on individuals who are medically indigent or underserved. The communities include Kansas City, Missouri; Jackson, Cass and Lafayette counties in Missouri; and Johnson, Wyandotte and Allen counties in Kansas.

The initial Board of Directors was appointed by the Missouri Attorney General subject to residency and other requirements as specified in the bylaws of the Foundation. Subsequent Board members are nominated by a Community Advisory Committee (CAC), and elected by the Foundation's Board of Directors. CAC members are to be appointed by the Missouri Attorney General and elected officials of specified city and county governments in Missouri and Kansas.

Use of estimates:

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Actual results could differ from those estimates.

HEALTH CARE FOUNDATION
OF GREATER KANSAS CITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2009 AND 2008

1. Organization and summary of significant accounting policies (continued):

Basis of accounting:

The financial transactions are recorded in and reported by the following net asset groups:

Unrestricted net assets:

The historic dollar value of net assets represents the market value of assets at the date of contribution. The Board is limited to expending the cumulative net earnings on these assets, as defined, but may also expend amounts to meet certain distribution requirements. Additional expenditures may be made upon the approval of at least two-thirds of the Board. The Brown contribution was made with the provision that each year the Foundation could spend no more than 5% of the market value of the net assets resulting from the Brown contribution as of the beginning of that year.

Board-designated funds are funds whose purpose is determined by the Directors. As the Board has the ability to change the purpose of these funds, they are considered unrestricted.

The excess of the remaining net assets are available for general activities of the Foundation. As of December 31, 2009, there was a deficiency in the remaining net assets that arose primarily from market declines.

Temporarily restricted net assets:

Temporarily restricted net assets represent resources available for use currently or in the future, but expendable only for purposes specified by the donor or within a donor-designated time period.

Permanently restricted net assets:

Permanently restricted net assets are those contributions whose use by the Foundation is limited by donor-imposed stipulations that the corpus be held in perpetuity. The earnings from these net assets are available for use for either unrestricted or temporarily restricted purposes as specified by the donor.

There were no permanently restricted net assets as of December 31, 2009 or 2008.

Furniture, fixtures and equipment and depreciation:

Furniture, fixtures and equipment are stated at cost. Depreciation is provided by the straight-line method over the estimated useful lives of the assets.

Reclassifications:

Certain amounts previously reported in the 2008 financial statements have been reclassified to conform to the current year presentation.

HEALTH CARE FOUNDATION
OF GREATER KANSAS CITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2009 AND 2008

1. Organization and summary of significant accounting policies (continued):

Income taxes:

The Foundation received a determination letter from the Internal Revenue Service (IRS) dated May 12, 2004 which states that the Foundation is exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code. The Foundation will be treated as a publicly supported organization during the advance ruling period ending December 31, 2007. In 2008, the Foundation submitted to the IRS the required information regarding the advance ruling period. This information indicates that the Foundation qualifies as a publicly supported organization. In order to maintain its status as a publicly supported organization, the Foundation must maintain certain ratios of public support to total revenue, among other requirements. In future years, if the Foundation does not meet the requirements for continued treatment as a publicly supported organization, it will be classified as a private foundation. Private foundations are subject to excise taxes of one to two percent on investment income (as defined) and mandatory minimum annual distribution requirements. On the basis of contributions received through December 31, 2009, the Foundation will retain its public charity status through December 31, 2011.

Investments and concentrations of credit risk:

Investments are presented at fair value as determined by methodologies relevant to each asset class with any related gain or loss reported in the statement of activities. Marketable securities are held by a custodian and are stated at market value based on quoted market prices. Alternative investments, principally private equity and real estate funds, are valued using the most recent valuation available by the respective external fund manager. The fair value of real estate funds is determined by independent appraisal, as reported by the fund managers. The Foundation believes the carrying value of these financial instruments is a reasonable estimate of fair value.

Financial instruments which potentially subject the Foundation to significant concentrations of credit risk consist principally of cash and investments. The Foundation maintains its primary bank account at an institution where accounts were insured by the Federal Deposit Insurance Corporation's (FDIC) Transaction Account Guarantee Program. This unlimited insurance coverage was in effect for participating institutions until December 31, 2009. The Foundation's bank elected not to participate in the program extension period through June 30, 2010. Subsequent to December 31, 2009, bank accounts are covered by FDIC insurance up to \$250,000. Daily balances in excess of \$2,500 are invested in repurchase agreements, collateralized by U.S. government or agency securities. Investment securities, in general, are exposed to various risks such as interest rate, credit, and overall market volatility. Due to these risks, it is at least reasonably possible that changes in risk could occur in the near term and those changes could materially affect the amounts reported in the statements of financial position.

**HEALTH CARE FOUNDATION
OF GREATER KANSAS CITY**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2009 AND 2008

1. Organization and summary of significant accounting policies (continued):

Subsequent events:

Subsequent events have been evaluated through May 20, 2010, which is the date the financial statements were available to be issued.

Change in accounting standards guidance:

In June, 2009, the Financial Accounting Standards Board (FASB) issued guidance which is included in the Codification in FASB Accounting Standards Codification (ASC) 105, *Generally Accepted Accounting Principles*. This guidance modified the Generally Accepted Accounting Principles (GAAP) hierarchy by establishing only two levels of GAAP, authoritative and nonauthoritative accounting literature. Effective July 2009, the FASB ASC, also known collectively as the "Codification", is considered the single source of authoritative U.S. accounting and reporting standards, except for additional authoritative rules and interpretive releases issued by the SEC. This guidance is effective for financial statements issued for reporting periods that end after September 15, 2009. These changes will have no effect on the Foundation's accounting policies or disclosures except that the references to FASB pronouncements will be replaced by the corresponding Codification references.

2. Investments:

Investments of the Foundation are reported at fair value and consist of the following:

	<u>Cost</u>	<u>Fair value</u>	<u>Excess of (cost) fair value</u>
December 31, 2009:			
Marketable securities:			
Equities, United States	\$ 92,249,563	\$ 83,843,333	
Equities, other than U.S.	32,116,008	25,747,707	
Equities, global	128,535,822	131,500,096	
Fixed income	60,264,586	65,841,403	
Alternative investments:			
Private equity and alternative	76,705,263	71,429,580	
Real estate funds	<u>53,109,661</u>	<u>35,855,957</u>	
Balance, end of year	<u>\$ 442,980,903</u>	<u>\$ 414,218,076</u>	(\$ 28,762,827)
Balance, beginning of year	<u>\$ 481,650,605</u>	<u>\$ 372,959,166</u>	(108,691,439)
Unrealized gains on investments			79,928,612
Realized losses on investments			(20,476,912)
Net realized and unrealized gains			<u>\$ 59,451,700</u>

**HEALTH CARE FOUNDATION
OF GREATER KANSAS CITY**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2009 AND 2008

2. Investments (continued):

	<u>Cost</u>	<u>Fair value</u>	<u>Excess of (cost) fair value</u>
December 31, 2008:			
Cash and money market	\$ 59,863	\$ 60,316	
Marketable securities:			
Equities, United States	97,738,656	69,860,883	
Equities, other than U.S.	32,147,306	18,217,039	
Equities, global	143,404,789	102,034,631	
Fixed income	89,226,305	79,418,640	
Alternative investments:			
Private equity and alternative	67,959,729	54,038,353	
Real estate funds	<u>51,113,957</u>	<u>49,329,304</u>	
Balance, end of year	<u>\$ 481,650,605</u>	<u>\$ 372,959,166</u>	(\$ 108,691,439)
Balance, beginning of year	<u>\$ 507,771,401</u>	<u>\$ 566,172,654</u>	<u>58,401,253</u>
Unrealized losses on investments			(167,092,692)
Realized losses on investments			(<u>11,518,714</u>)
Net realized and unrealized losses			(<u>\$ 178,611,406</u>)

Investment income comprises the following:

	<u>2009</u>	<u>2008</u>
Interest and dividend income	\$ 5,041,729	\$ 6,427,667
Other income, alternative investments	2,725,926	3,018,267
Investment expenses	(<u>2,614,788</u>)	(<u>1,949,422</u>)
Income from investments	<u>\$ 5,152,867</u>	<u>\$ 7,496,512</u>

Included in accounts receivable is a distribution from one of the real estate funds that was made in 2009 but not received by the Foundation until 2010.

During 2009, the Foundation adopted FASB ASC 820-10, *Fair Value Measurements and Disclosure* (ASC 820-10) with respect to its financial assets and liabilities. ASC 820-10 defines fair value as the price that would be received from selling an asset in an orderly transaction between market participants at the measurement date and establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 inputs consist of observable inputs including quoted prices in active markets for similar assets and Level 3 inputs consist of unobservable inputs that are supported by little or no market activity and have the lowest priority.

**HEALTH CARE FOUNDATION
OF GREATER KANSAS CITY**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2009 AND 2008

2. Investments (continued):

The following is a summary of the inputs used as of December 31, 2009 in valuing the Foundation's investments carried at fair value:

	December 31, <u>2009</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Equities, United States	\$ 83,843,333		\$ 83,843,333	
Equities, other than U.S.	25,747,707		25,747,707	
Equities, global	131,500,096	\$ 78,171,078		\$ 53,329,018
Fixed income	65,841,403	943,687	34,308,009	30,589,707
Private equity and alternative	71,429,580			71,429,580
Real estate funds	<u>35,855,957</u>			<u>35,855,957</u>
	<u>\$ 414,218,076</u>	<u>\$ 79,114,765</u>	<u>\$ 143,899,049</u>	<u>\$ 191,204,262</u>

The following is a reconciliation of investments in which significant unobservable inputs (Level 3) were used in determining fair value:

	<u>Fair value</u>
Balance December 31, 2008	\$ 167,901,339
Purchases	21,190,150
Interest and dividends	1,469,431
Real estate income	2,725,926
Fees and expenses	(1,770,645)
Realized losses	(4,192,687)
Unrealized gains	15,005,599
Transfers out of Level 3	(11,124,851)
Balance December 31, 2009	<u>\$ 191,204,262</u>

All gains and losses (realized and unrealized) included above relate to assets still held at December 31, 2009.

**HEALTH CARE FOUNDATION
OF GREATER KANSAS CITY**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2009 AND 2008

3. Operating leases:

The Foundation leases office space under a one-year agreement through December 2009. The lease provides for the option to renew for one-year periods. Total rent expense was \$69,169 and \$69,327 for the years ended December 31, 2009 and 2008, respectively.

4. Operating expenses:

	<u>2009</u>	<u>2008</u>
Payroll and related expenses (Note 5)	\$ 1,510,462	\$ 1,358,701
Accounting and audit fees	24,497	22,229
Community relations	102,547	57,587
Conferences, conventions and meetings	33,311	26,627
Consulting fees	6,258	16,306
Depreciation	50,592	62,468
Dues, membership and subscriptions	8,199	7,626
Grant program development services	26,380	18,855
Health assessments	223,967	207,597
Information technology expense	47,057	71,748
Initiative program expenditures	441,041	66,249
Insurance	31,811	31,609
Legal fees	510,197	117,073
Gain/loss on disposal of equipment		(40)
Miscellaneous	19,091	23,296
Office rent (Note 3)	69,169	69,327
Office supplies	18,455	19,777
Postage and delivery	15,639	7,183
Printing and publications	25,389	14,455
Public forums	24,331	32,667
Repairs and maintenance	16,118	16,635
Telephone	32,501	34,213
Travel	<u>19,069</u>	<u>32,826</u>
	<u>\$ 3,256,081</u>	<u>\$ 2,315,014</u>

Following is the functional allocation of operating expenses:

	<u>2009</u>	<u>2008</u>
Program services	\$ 2,096,872	\$ 1,614,747
Supporting services, administration	<u>1,159,209</u>	<u>700,267</u>
Total operating expenses	<u>\$ 3,256,081</u>	<u>\$ 2,315,014</u>

**HEALTH CARE FOUNDATION
OF GREATER KANSAS CITY**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2009 AND 2008

5. Retirement savings plan:

The Foundation sponsors a retirement savings plan (Plan) which includes salary deferral features described in Section 401(k) of the Internal Revenue Code. The Plan is available to all employees, who may contribute up to the statutory limit. The Foundation matches 100% of employee contributions up to 6% of employee compensation. The Foundation may also make annual discretionary contributions. The Foundation contributed \$73,119 and \$61,367 to the Plan for the years ended December 31, 2009 and 2008, respectively.

6. Contingency:

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

7. Net asset restrictions:

The Foundation and REACH have agreed to work cooperatively on certain initiatives that relate to the missions of both organizations. In each case, one of the organizations takes the lead role and administers the initiative. The other organization makes a grant to the lead organization, representative of the amount allocated based on a written agreement. In 2009 and 2008, REACH made grants to the Foundation totaling \$132,571 and \$110,113, respectively, and the Foundation made grants to REACH totaling \$10,000 and \$25,000, respectively, pursuant to such agreements. Temporarily restricted net assets at December 31, 2009 include \$74,705 in unspent amounts received from REACH for the Partners Investing in Nursing and HPV Vaccine initiatives.

Additionally, the Foundation received contributions of \$135,000 and \$88,887 from other organizations in 2009 and 2008, respectively. These contributions were restricted for expenses related to certain Foundation initiatives. Temporarily restricted net assets at December 31, 2009 include \$87,137 in unspent amounts received from other organizations for the Partners Investing in Nursing and HPV Vaccine initiatives.

Net assets released from restriction in 2009 and 2008 were primarily used for expenses related to these two initiatives.

HEALTH CARE FOUNDATION
OF GREATER KANSAS CITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2009 AND 2008

8. Line of credit:

Beginning in 2009, the Foundation had available a \$15,000,000 bank line of credit, collateralized by certain investments, and expiring April 1, 2010. Interest was payable monthly at LIBOR plus 2%, but not below 3%, adjusted monthly. The outstanding balance on the line was \$5,000,000 as of December 31, 2009. Interest of \$55,525 under the line of credit was expensed in 2009. The line was renewed in 2010 under the same terms and expires March 31, 2011.

9. Subsequent event:

In May, 2010, the Foundation received an additional distribution of \$30 million from CHG.