

**HEALTH CARE FOUNDATION
OF GREATER KANSAS CITY**

YEARS ENDED DECEMBER 31, 2006 AND 2005



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

**HEALTH CARE FOUNDATION
OF GREATER KANSAS CITY**

YEARS ENDED DECEMBER 31, 2006 AND 2005

CONTENTS

	Page
Independent auditors' report	1
Financial statements:	
Statements of financial position	2
Statements of activities and changes in net assets	3
Statements of cash flows	4
Notes to financial statements	5-10



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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, 2006 and 2005, 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, 2006 and 2005, 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.

March 23, 2007

**HEALTH CARE FOUNDATION
OF GREATER KANSAS CITY**

STATEMENTS OF FINANCIAL POSITION - DECEMBER 31, 2006 AND 2005

ASSETS

	<u>2006</u>	<u>2005</u>
Cash	\$ 2,988,383	\$ 213,010
Accounts receivable	6,291	6,412
Interest and dividends receivable	563,277	591,109
Prepaid expenses and deposits	57,945	59,711
Investments (Note 2)	549,546,521	460,652,962
Furniture, fixtures and equipment, less accumulated depreciation of \$85,599 and \$34,182 in 2006 and 2005, respectively	<u>134,961</u>	<u>96,221</u>
	<u>\$ 553,297,378</u>	<u>\$ 461,619,425</u>

LIABILITIES AND NET ASSETS

Liabilities:		
Grants payable	\$ 8,248,809	\$ 3,711,868
Accounts payable	34,465	83,200
Accrued expenses	496,223	368,606
Deferred revenue	<u>1,800</u>	<u>1,800</u>
	<u>8,779,497</u>	<u>4,165,474</u>
 Commitments and contingency (Note 6)		
 Net assets, unrestricted:		
Historic dollar value	445,483,735	405,468,669
Board designated	500,925	
Available for general activities	<u>98,533,221</u>	<u>51,985,282</u>
	<u>544,517,881</u>	<u>457,453,951</u>
	<u>\$ 553,297,378</u>	<u>\$ 461,619,425</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, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
Revenues, gains and other support:		
Contributions (Note 6)	\$ 40,025,066	\$ 437,011
Investment income (Note 2)	63,002,333	29,523,289
Other revenue	<u>11,260</u>	<u>3,023</u>
Total revenues, gains and other support	<u>103,038,659</u>	<u>29,963,323</u>
 Expenses:		
Grants	14,572,099	6,784,459
Operating expenses (Notes 3 and 4)	<u>1,402,630</u>	<u>869,079</u>
Total expenses	<u>15,974,729</u>	<u>7,653,538</u>
 Increase in net assets	87,063,930	22,309,785
 Net assets, beginning of year	<u>457,453,951</u>	<u>435,144,166</u>
 Net assets, end of year	<u>\$ 544,517,881</u>	<u>\$ 457,453,951</u>

See notes to financial statements.

**HEALTH CARE FOUNDATION
OF GREATER KANSAS CITY**

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Increase in net assets	\$ 87,063,930	\$ 22,309,785
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	51,417	30,485
Unrealized gains on investments	(35,726,390)	(14,388,773)
Realized gains on investments	(19,924,834)	(10,816,739)
Changes in assets and liabilities:		
Accounts receivable	121	(6,412)
Interest and dividends receivable	27,832	(169,447)
Prepaid expenses and deposits	1,766	(6,997)
Grants payable	4,536,941	3,711,868
Accounts payable	(48,735)	(9,570)
Accrued expenses	127,617	230,719
Deferred revenue	(1,800)	1,800
Net cash provided by operating activities	<u>36,107,865</u>	<u>886,719</u>
Cash flows from investing activities:		
Purchases of furniture, fixtures and equipment	(90,157)	(46,581)
Purchases of investments, net	(33,242,335)	(655,032)
Net cash used by investing activities	<u>(33,332,492)</u>	<u>(701,613)</u>
Net increase in cash	2,775,373	185,106
Cash, beginning of year	<u>213,010</u>	<u>27,904</u>
Cash, end of year	<u>\$ 2,988,383</u>	<u>\$ 213,010</u>

See notes to financial statements.

**HEALTH CARE FOUNDATION
OF GREATER KANSAS CITY**

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2006 AND 2005

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 through December 31, 2006 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 to be 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.

**HEALTH CARE FOUNDATION
OF GREATER KANSAS CITY**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED DECEMBER 31, 2006 AND 2005

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 unrestricted net assets represent resources over which the Foundation Directors have discretionary control and are used to carry out operations of the Foundation in accordance with its bylaws.

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 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 Richard W. Brown (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.

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 temporarily or permanently restricted net assets as of December 31, 2006 or 2005.

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, 2006 AND 2005

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. If the Foundation does not meet the requirements for continued treatment as a publicly supported organization, it will be classified as a private foundation for periods beginning after the advance ruling period. Private foundations are subject to excise taxes of one to two percent on investment income (as defined) and mandatory minimum annual distribution requirements.

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.

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 certain alternative investments such as private equity interests is estimated based on valuations provided by external investment managers as of a prior quarter, adjusted for cash receipts and disbursements through December 31, 2006. 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. Balances in cash accounts occasionally exceed federally insured limits. The Foundation has a sweep investment account which is not insured by the FDIC but is collateralized by a U.S. Government agency obligation. 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, 2006 AND 2005

2. Investments:

	<u>Cost</u>	<u>Fair value</u>	<u>Excess of fair value</u>
December 31, 2006:			
Cash and money market funds	\$ 12,432	\$ 12,432	
Marketable securities:			
Equities, United States	191,729,803	224,357,367	
Equities, other than U.S.	21,164,429	30,745,345	
Equities, global	85,377,675	102,441,668	
Fixed income	128,501,447	134,188,805	
Alternative investments:			
Private equity	8,590,491	8,596,581	
Real estate funds	<u>46,589,290</u>	<u>49,204,323</u>	
Balance, end of year	<u>\$ 481,965,567</u>	<u>\$ 549,546,521</u>	\$ 67,580,954
Balance, beginning of year	<u>\$ 428,798,398</u>	<u>\$ 460,652,962</u>	<u>31,854,564</u>
Unrealized gains on investments			<u>\$ 35,726,390</u>
December 31, 2005:			
Cash and money market funds	\$ 109,877	\$ 109,877	
Marketable securities:			
Equities, United States	198,992,660	216,146,322	
Equities, other than U.S.	21,451,255	25,210,005	
Equities, global	73,972,991	83,440,990	
Fixed income	<u>134,271,615</u>	<u>135,745,768</u>	
Balance, end of year	<u>\$ 428,798,398</u>	<u>\$ 460,652,962</u>	\$ 31,854,564
Balance, beginning of year	<u>\$ 417,326,627</u>	<u>\$ 434,792,418</u>	<u>17,465,791</u>
Unrealized gains on investments			<u>\$ 14,388,773</u>

Investment income comprises the following:

	<u>2006</u>	<u>2005</u>
Interest and dividend income	\$ 8,060,163	\$ 5,197,874
Realized gains	19,924,834	10,816,739
Unrealized gains	35,726,390	14,388,773
Investment expenses	(1,296,341)	(1,226,222)
Income from investments	62,415,046	29,177,164
Interest from CHG holdback (Note 6)	<u>587,287</u>	<u>346,125</u>
	<u>\$ 63,002,333</u>	<u>\$ 29,523,289</u>

**HEALTH CARE FOUNDATION
OF GREATER KANSAS CITY**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2006 AND 2005

3. Operating leases:

The Foundation leases office space under a one-year agreement and equipment under a three-year noncancelable operating lease. The office lease provides for the option to renew for one-year periods. The agreements require the Foundation to pay applicable insurance, taxes and maintenance. Total rent expense was \$48,022 and \$32,035 for the years ended December 31, 2006 and 2005, respectively.

Minimum annual rental payments under operating leases as of December 31, 2006 are as follows:

<u>Year ending</u> <u>December 31,</u>	<u>Amount</u>
2007	<u>\$ 51,616</u>

4. Operating expenses:

	<u>2006</u>	<u>2005</u>
Payroll and related expenses (Note 5)	\$ 769,451	\$ 511,347
Accounting and audit fees	17,362	52,750
Community relations	60,524	28,397
Conferences, conventions and meetings	14,905	24,603
Consulting fees	11,704	7,091
Depreciation	51,417	30,485
Dues, membership and subscriptions	8,071	5,363
Furniture and equipment rental and maintenance		912
Grant program development services	17,571	25,796
Health assessments	36,254	7,928
Information technology expense	51,213	15,588
Initiative program expenditures	105,575	
Insurance	24,836	19,720
Legal fees	60,479	42,842
Miscellaneous	10,782	5,758
Office rent	44,518	28,531
Office supplies	16,034	18,397
Postage and delivery	6,479	3,855
Printing and publications	1,634	1,747
Public forums	55,963	
Repairs and maintenance	8,326	8,084
Telephone	13,633	12,267
Travel	15,899	17,618
	<u>\$ 1,402,630</u>	<u>\$ 869,079</u>

**HEALTH CARE FOUNDATION
OF GREATER KANSAS CITY**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2006 AND 2005

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 \$33,864 and \$14,215 to the Plan for the years ended December 31, 2006 and 2005, 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. During 2006, the hold back and 80% of certain cash reserves were distributed to the Foundation and REACH by CHG. 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.