



Kansas Health Foundation

Financial Statements



Years ended December 31, 2015 and 2014

(with report of independent certified
public accountants thereon)

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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Board of Directors
Kansas Health Foundation

We have audited the accompanying financial statements of Kansas Health Foundation, which comprise the balance sheets as of December 31, 2015 and 2014 and the related statements of activity, 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 Kansas Health Foundation as of December 31, 2015 and 2014, 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.

Grant Thornton LLP

Wichita, Kansas

July 6, 2016

KANSAS HEALTH FOUNDATION

Balance Sheets

December 31,

<u>Assets</u>	2015	2014
Cash and cash equivalents	\$ 19,282,704	26,524,861
Investments (Note 3)	432,647,115	471,674,396
Excise taxes receivable (Note 9)	234,405	-
Property and equipment, net (Note 4)	12,061,437	12,460,993
Other Assets (Note 8)	355,448	595,432
Total Assets	\$ 464,581,109	511,255,682
<u>Liabilities and Net Assets</u>		
Accounts payable	\$ 96,864	74,641
Grants payable, net (Note 7)	25,285,054	35,139,308
Accrued expenses and other liabilities	396,344	298,188
Bonds payable, net (Note 8)	6,265,751	6,538,327
Excise taxes payable (Note 9)	-	2,218,819
Total liabilities	32,044,013	44,269,283
Net assets	432,537,096	466,986,399
Total Liabilities and Net Assets	\$ 464,581,109	511,255,682

See accompanying notes to financial statements.

KANSAS HEALTH FOUNDATION
Statements of Activity
Years Ended December 31,

Revenues, gains and losses:	2015	2014
Investment income (loss) (Note 3)	\$ (19,925,887)	15,143,881
Investment expenses	(1,377,649)	(1,333,546)
Other income (Notes 7 and 10)	1,113,514	1,222,400
	<hr/>	<hr/>
Total revenues, gains and losses	(20,190,022)	15,032,735
	<hr/>	<hr/>
Program grants, net (Note 7)	10,867,195	12,337,600
	<hr/>	<hr/>
Operating expenses (Note 6)		
Compensation and benefits	3,260,024	2,838,132
Professional and contractual services	522,588	469,978
Depreciation and amortization (Notes 4 and 8)	579,460	581,531
Interest expense (Note 8)	177,116	184,580
Other expenses	1,302,682	1,388,854
	<hr/>	<hr/>
Total operating expenses	5,841,870	5,463,075
	<hr/>	<hr/>
Decrease in net assets before excise taxes	(36,899,087)	(2,767,940)
	<hr/>	<hr/>
Excise and income tax benefit (expense) (Note 9)	2,449,784	(223,635)
	<hr/>	<hr/>
Decrease in net assets	(34,449,303)	(2,991,575)
	<hr/>	<hr/>
Net assets, beginning of year	466,986,399	469,977,974
	<hr/>	<hr/>
Net assets, end of year	<u>\$ 432,537,096</u>	<u>466,986,399</u>

See accompanying notes to financial statements.

KANSAS HEALTH FOUNDATION
Statements of Cash Flows
Years Ended December 31,

	2015	2014
Cash flows from operating activities:		
Decrease in net assets	\$ (34,449,303)	(2,991,575)
Adjustments to reconcile decrease in net assets to net cash used in operating activities:		
Net realized and unrealized (gains) and losses on investments	23,457,524	(11,291,494)
Depreciation and amortization	579,460	581,531
Net loss on disposition of property and equipment	18,753	16,795
Changes in assets and liabilities:		
Excise taxes receivable	(234,405)	16,791
Other assets	193,784	226,601
Accounts payable	22,223	(175,301)
Grants payable	(9,854,254)	(9,772,980)
Accrued expenses	91,965	(23,039)
Excise taxes payable	(2,218,819)	6,731
	(22,393,072)	(23,405,940)
Net cash used in operating activities		
Cash flows from investing activities:		
Additions to property and equipment	(193,759)	(562,147)
Proceeds from sale of investments	50,552,051	77,636,741
Purchase of investments	(34,929,903)	(41,797,380)
	15,428,389	35,277,214
Net cash provided by investing activities		
Cash flows from financing activities:		
Repayment of bonds payable	(277,474)	(254,349)
	(277,474)	(254,349)
Net cash used in financing activities		
Net increase (decrease) in cash and cash equivalents	(7,242,157)	11,616,925
Cash and cash equivalents, beginning of year	26,524,861	14,907,936
Cash and cash equivalents, end of year	\$ 19,282,704	26,524,861

See accompanying notes to financial statements.

KANSAS HEALTH FOUNDATION
Notes to Financial Statements
December 31, 2015 and 2014

(1) Organization and Operations

The mission of the Kansas Health Foundation (Foundation) is to improve the health of all Kansans. To accomplish its mission, the Foundation focuses the majority of its grant making and direct charitable activities in the following areas: promoting the healthy behaviors of Kansans; strengthening the public health system; growing community philanthropy; providing health data and information to policymakers; and building civic leadership.

The Foundation qualifies as an organization exempt from federal income tax pursuant to Internal Revenue Code (Code) Section 501(c)(3). It is classified as a public charity described in Code section 509(a)(3) under a determination letter received from the Internal Revenue Service (IRS) dated November 23, 2014. Through December 31, 2014, the Foundation was classified as a private foundation within the meaning of Code Section 509(a), under a determination letter received from the Internal Revenue Service (IRS) dated December 29, 1993. See also note 9.

(2) Summary of Significant Accounting Policies

Basis of Accounting

The accompanying financial statements are prepared on the accrual basis of accounting. Revenue is recognized when earned and expenses are recognized upon receipt of goods or services.

Investments

Investments are recorded at fair value in the accompanying financial statements. The Foundation has adopted Financial Accounting Standards Board Accounting Standards Codification topic 820 (ASC 820), *Fair Value Measurements and Disclosures*. ASC 820 creates a single definition of fair value, establishes a framework for measuring fair value, and specifies disclosure requirements about assets and liabilities measured at fair value. ASC 820 requires fair value to be determined as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date (that is, an exit price).

As described further in note 3, under ASC 820, fair value for level 1 assets is determined based on quoted market prices in active markets for identical assets and liabilities. Where quoted market prices are not available, the Foundation uses valuation techniques that place greater reliance on observable inputs and less reliance on unobservable inputs in determining fair value. For level 3 and certain level 2 assets which are comprised of commingled funds, trusts and limited partnerships (funds), these investments are valued by the Foundation at net asset value per share (NAV) as provided by the funds' administrator or general partner. Where available, the Foundation uses net assets from the funds' audited financial statements multiplied by the Foundation's interest in the funds to record the fair value of its investments. The Foundation's policy is to recognize transfers between levels, if any, at the end of each year.

The inputs used in valuing the Foundation's investments are not necessarily an indication of investment risks. The Foundation's investments are exposed to various risks, such as interest rate, credit, currency and overall market risk. Due to these risks, it is possible that changes in the values of investments could occur in the near term and that such changes could materially affect the net assets recorded in the accompanying financial statements.

KANSAS HEALTH FOUNDATION
Notes to Financial Statements
December 31, 2015 and 2014

(2) Summary of Significant Accounting Policies, continued

Cash Equivalents

Cash equivalents include short-term investments with original maturities of three months or less. Cash equivalents of \$17.7 million and \$14.8 million, as of December 31, 2015 and 2014, respectively, are invested in an institutional U.S. government securities money market fund. The Foundation's investments in the fund are valued at NAV of \$1 per share and are considered level 1 assets.

Property and Equipment

Property and equipment are recorded at cost. Depreciation is provided on depreciable assets, once placed in service, over the estimated useful lives of the respective assets on the straight-line basis.

Program Grants

Program grants are recorded in the accompanying financial statements when the Foundation has an obligation to transfer assets to a grantee, normally when a grant contract is executed. Grants are recorded based on the present value of estimated future cash flows, discounted at an average annual market rate of interest in the year of approval.

Use of Estimates

Foundation management has made estimates and assumptions relating to the reporting of assets and liabilities, and the disclosure of contingent assets and liabilities, in preparing these financial statements in conformity with accounting principles generally accepted in the United States of America. Estimates also affect the reported amounts of revenues, gains and losses, program grants and operating expenses during the reporting period. Actual results could differ from these estimates.

Fair Value of Financial Instruments

ASC 825, "Financial Instruments", requires the Foundation to disclose estimated fair values for its financial instruments. The carrying values of the Foundation's financial instruments approximate their fair value.

Presentation of Debt Issuance Costs

In April 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2015-03, "Simplifying the Presentation of Debt Issuance Costs" ("ASU 2015-03"). ASU 2015-03 requires that debt issuance costs be presented as a direct deduction from the carrying amount of the related debt liability, consistent with the presentation of debt discounts. Prior to the issuance of ASU 2015-03, debt issuance costs were required to be presented as deferred charge assets, separate from the related debt liability. ASU 2015-03 does not change the recognition and measurement requirements for debt issuance costs. The Foundation early-adopted ASU 2015-03 and applied its provisions retrospectively. The adoption of ASU 2015-03 resulted in the reclassification of \$91,015 of unamortized debt issuance costs related to the Foundation's Bonds Payable (see Note 8) from assets to liabilities on its balance sheet as of December 31, 2014. Other than this reclassification, the adoption of ASU 2015-03 did not have an impact on the Foundation's financial statements.

KANSAS HEALTH FOUNDATION
Notes to Financial Statements
December 31, 2015 and 2014

(2) Summary of Significant Accounting Policies, continued

Subsequent Events

The Foundation has evaluated and disclosed, if any, subsequent events that occurred after December 31, 2015 and through July 6, 2016 which represents the date the financial statements were available to be issued.

(3) Investments

Investment Objective

The Foundation's long-term financial objectives are to preserve and enhance the inflation adjusted value of its assets in perpetuity and provide a relatively stable stream of earnings consistent with spending needs. These financial objectives are intended to balance the needs of current and future generations of the Foundation's beneficiaries. The Foundation's primary long-term absolute investment objective is to earn an average annual inflation adjusted total return of at least 5%, net of all investment management fees, operating expenses and taxes over long-term periods.

Composition of Investments

Investments presented in the accompanying financial statements are comprised of the following:

	<u>December 31</u>	
	<u>2015</u>	<u>2014</u>
U.S. equities and commingled funds	\$ 73,101,100	79,144,403
International equities and commingled funds	117,043,920	124,154,940
Marketable alternative equities	109,165,039	128,848,021
Real estate investment trust	10,129,711	9,993,833
Non-marketable investments:		
Real estate and natural resources funds	35,890,607	39,535,798
Private equity funds	13,813,916	16,852,328
Venture capital funds	28,864,990	24,502,009
Fixed income commingled funds	<u>44,637,832</u>	<u>48,643,064</u>
	<u>\$ 432,647,115</u>	<u>471,674,396</u>

KANSAS HEALTH FOUNDATION
Notes to Financial Statements
December 31, 2015 and 2014

(3) Investments, continued

Components of Investment Income (Loss)

The components of investment income (loss) in the statements of activity are as follows:

	<u>December 31</u>	
	<u>2015</u>	<u>2014</u>
Interest and dividends	\$ 2,537,284	3,020,350
Other income from non-marketable investments	994,353	832,037
Net realized and unrealized gains (losses)	<u>(23,457,524)</u>	<u>11,291,494</u>
	<u>\$ (19,925,887)</u>	<u>15,143,881</u>

KANSAS HEALTH FOUNDATION
Notes to Financial Statements
December 31, 2015 and 2014

(3) Investments, continued

Fair value measurements

As discussed in note 2, ASC 820 establishes a fair value hierarchy that distinguishes between assumptions based on market data (observable inputs) and Foundation assumptions (unobservable inputs). The determination of where an asset or liability falls in the hierarchy requires significant judgment. The Foundation evaluates inputs and assumptions used in measuring the fair value of investments at December 31 of each year and may transfer assets between levels based upon changes in those inputs or assumptions. No transfers were made at December 31, 2015 or 2014, respectively.

The fair value hierarchy consists of three broad levels as follows:

Level 1 – Quoted prices in active markets for identical assets or liabilities at the measurement date.

Level 2 – Quoted market prices for similar assets and liabilities in an active market; quoted prices for identical or similar assets or liabilities in an inactive market and calculation techniques utilizing observable market inputs.

Level 3 - Valuations derived from techniques in which one or more significant inputs are unobservable.

Fair value of the Foundation's investments has been determined using the valuation hierarchy as follows:

	December 31, 2015		
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
U.S. equities and commingled funds	\$ 38,606,512	12,229,079	22,265,509
International equities and commingled funds	10,032,725	67,152,132	39,859,063
Marketable alternative equities	10,149,605	33,493,779	65,521,655
Real estate investment trust	-	10,129,711	-
Non-marketable investments:			
Real estate and natural resources funds	-	-	35,890,607
Private equity funds	-	-	13,813,916
Venture capital funds	-	-	28,864,990
Fixed income commingled funds	<u>13,243,001</u>	<u>31,394,831</u>	<u>-</u>
	<u>\$ 72,031,843</u>	<u>154,399,532</u>	<u>206,215,740</u>
	December 31, 2014		
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
U.S. equities and commingled funds	\$ 39,201,289	12,996,400	26,946,714
International equities and commingled funds	12,351,417	71,060,538	40,742,985
Marketable alternative equities	9,874,544	28,861,324	90,112,153
Real estate investment trust	-	9,993,833	-
Non-marketable investments:			
Real estate and natural resources funds	-	-	39,535,798
Private equity funds	-	-	16,852,328
Venture capital funds	-	-	24,502,009
Fixed income commingled funds	<u>14,644,057</u>	<u>33,999,007</u>	<u>-</u>
	<u>\$ 76,071,307</u>	<u>156,911,102</u>	<u>238,691,987</u>

KANSAS HEALTH FOUNDATION
Notes to Financial Statements
December 31, 2015 and 2014

(3) Investments, continued

The following table presents liquidity information on level 2 and 3 investments (all \$ amounts in millions):

	Fair Value	Unfunded Commitments	Expected Liquidation Term	Redemption Terms	Redemption Restrictions	Redemption Restrictions at 12/31/15
U.S. equities and commingled funds (a)	\$ <u>34.5</u>	N/A	N/A	monthly, quarterly, 1-60 days notice	N/A	N/A
International equities and commingled funds (a)	\$ <u>107.0</u>	N/A	N/A	monthly, 1-90 days notice	N/A	N/A
Marketable alternative equities: (b)	\$ <u>99.0</u>	N/A	N/A	monthly to quarterly, with 45 to 90 days notice	3 funds have exit frequencies in excess of 1 year	Next redemption date: 10 funds 0 to 6 months 1 fund 7 to 12 months 2 funds 12 to 24 months 5 illiquid funds
Real estate investment trust (c)	\$ <u>10.1</u>	N/A	N/A	monthly, 15 days notice	N/A	N/A
Non-marketable investments: (d)						
Real estate/natural resources funds	\$ 35.9	19.5	5-15 years	N/A*	N/A*	N/A*
Private equity funds	13.8	4.7	5-15 years	N/A*	N/A*	N/A*
Venture capital funds	28.9	10.8	5-15 years	N/A*	N/A*	N/A*
Total non-marketable investments	<u>78.6</u>	<u>35.0</u>				
Fixed income commingled fund (e)	\$ <u>31.4</u>	N/A	N/A	daily, 1-3 days notice	N/A	N/A

* These investments are in private funds which may not be redeemed.

KANSAS HEALTH FOUNDATION
Notes to Financial Statements
December 31, 2015 and 2014

(3) Investments, continued

- (a) U.S. and international equities and commingled funds include an S&P 500 ex-tobacco index fund, an actively managed U.S. equity long/short fund, an actively managed domestic equity fund, and eight actively managed global/international equity funds. The underlying assets of all these funds are marketable equity securities. The fair value of these commingled investments is estimated using the NAV of the Foundation's ownership interest in each fund.
- (b) Marketable alternative equities include diversifier and long/short hedge funds, opportunistic global long-only funds, and energy and commodities funds. Diversifier hedge funds include macro, event arbitrage and distressed securities strategies that seek to diversify risk and reduce portfolio volatility. Managers of these funds have significant discretion to allocate resources among several strategies including event arbitrage, convertible bond arbitrage, special situations and distressed securities. Managers may have the flexibility to use limited leverage and to implement strategies on a U.S. or global basis. Long/short hedge fund managers have the flexibility to trade securities both long and short, to use limited leverage and to invest in either U.S. or global markets.

The Foundation uses a "fund of funds" approach investing in hedge funds. The fair value of investments in both diversified and long/short hedge funds have been estimated based on the NAV of the underlying hedge funds as reported to the "fund of funds" administrator. As of December 31, 2015, approximately 1% of the hedge fund balances are considered illiquid.

Two alternative funds invest in global long-only equities, using highly concentrated and unconstrained investment strategies. The underlying assets of these funds are marketable equity securities. The fair value of these commingled investments is estimated using the NAV of the Foundation's ownership interest in each fund.

Energy and commodities funds include a commingled energy fund and a commingled commodities fund. The underlying assets of the energy fund are marketable securities. The commodities funds invest in energy, precious metals and consumer staples futures contracts. The fair value of these commingled investments is estimated using the NAV of the Foundation's ownership interest in each fund.

- (c) The global real estate investment trust (REIT) is an actively managed commingled fund which invests in publicly traded REIT securities. The fair value of the fund is estimated using the NAV of the Foundation's ownership interest in the trust.
- (d) Non-marketable investments include real estate/natural resources funds, private equity funds and venture capital funds. Real estate/natural resources funds include investments in global private real estate and natural resources funds. Real estate investments include U.S. and global commercial and residential investments in land and rental property. Global natural resources investments include timber, farmland and energy investments such as oil and natural gas exploration and production, and mineral and wind royalty interests. Private equity funds include investments in funds of funds, which invest in limited partnerships, which in turn invest in U.S. and global privately held companies in such industries as consumer goods, electronics, communications, health care and medical devices. Venture capital funds include investments in funds of funds, which invest in limited partnerships, which in turn invest in primarily U.S. based new companies, often focusing on technological innovation.

KANSAS HEALTH FOUNDATION
Notes to Financial Statements
December 31, 2015 and 2014

(3) Investments, continued

The fair value of non-marketable investments is estimated using the NAV of the Foundation's ownership interest in the fund of funds capital. These investments can never be redeemed. Instead, distributions are received from liquidation of the underlying assets of the fund of funds. The Foundation may sell its interests in non-marketable fund of funds in a secondary market, but as of December 31, 2015, it had no plans to sell any non-marketable investments before they were liquidated. Since December 31, 2015, the Foundation has not funded any new capital calls on non-marketable investments.

- (e) The commingled, fixed income fund invests in index funds, which in turn invest in U.S. Treasury and agency intermediate maturity bonds. The fair value is estimated using the NAV of the Foundation's ownership interest in the fund.

The following tables present activity on investments measured at fair value using significant unobservable inputs (level 3):

Investments (\$ millions)	Balance	Investment			Balance
	<u>1/1/14</u>	<u>Gains</u> <u>(Losses)</u>	<u>Purchases</u>	<u>Sales</u>	<u>12/31/14</u>
U.S. equities and commingled funds	\$ 26.0	2.4	0.0	(1.5)	26.9
International equities and commingled funds	44.2	(2.9)	0.0	(0.6)	40.7
Marketable alternative equities	83.3	(4.4)	13.3	(2.1)	90.1
Non-marketable investments:					
Real estate and natural resources funds	40.5	(3.2)	7.1	(4.8)	39.6
Private equity funds	18.6	(0.7)	0.8	(1.8)	16.9
Venture capital funds	18.4	5.0	2.7	(1.6)	24.5
	<u>\$ 231.0</u>	<u>(3.8)</u>	<u>23.9</u>	<u>(12.4)</u>	<u>238.7</u>

Investments (\$ millions)	Balance	Investment			Balance
	<u>12/31/14</u>	<u>Gains</u> <u>(Losses)</u>	<u>Purchases</u>	<u>Sales</u>	<u>12/31/15</u>
U.S. equities and commingled funds	\$ 26.9	0.1	1.5	(6.2)	22.3
International equities and commingled funds	40.7	(2.9)	2.0	0.0	39.8
Marketable alternative equities	90.1	(6.3)	2.5	(20.8)	65.5
Non-marketable investments:					
Real estate and natural resources funds	39.6	(3.8)	4.7	(4.6)	35.9
Private equity funds	16.9	0.8	0.6	(4.5)	13.8
Venture capital funds	24.5	3.6	2.7	(1.9)	28.9
	<u>\$ 238.7</u>	<u>(8.5)</u>	<u>14.0</u>	<u>(38.0)</u>	<u>206.2</u>

KANSAS HEALTH FOUNDATION
Notes to Financial Statements
December 31, 2015 and 2014

(4) Property and Equipment

A summary of property and equipment follows:

	<u>2015</u>	<u>2014</u>
Land	\$ 953,428	953,428
Building and improvements	13,080,527	12,968,286
Equipment, furniture, and fixtures	<u>2,836,903</u>	<u>2,801,103</u>
	16,870,858	16,722,817
Less accumulated depreciation	<u>(4,809,421)</u>	<u>(4,261,824)</u>
Property and equipment, net	<u>\$ 12,061,437</u>	<u>12,460,993</u>

Depreciation is provided on the straight-line basis over the following useful lives:

Building and improvements	3-40 years
Equipment, furniture and fixtures	3-10 years

(5) Employees' Retirement Plans

The Foundation provides retirement benefits to its employees through two defined contribution pension plans. All employees are eligible to participate in the plans immediately on employment. The Foundation contributed \$293,487 and \$280,058 to the plans in 2015 and 2014, respectively. The Foundation's policy is to fund pension costs as accrued and no prior service costs exist under the plans. Employees may contribute additional amounts to the plans. Employer and employee contributions are fully vested.

(6) Functional Classification of Operating Expenses

The Foundation's operating expenses for 2015 and 2014 are allocated among the following functions on the basis of staff time incurred and office space utilization:

	2015	2014
Program activities	\$ 4,713,324	4,267,053
Investment/finance activities	872,058	863,980
Management and general activities	<u>256,488</u>	<u>332,042</u>
	<u>\$ 5,841,870</u>	<u>5,463,075</u>

KANSAS HEALTH FOUNDATION
Notes to Financial Statements
December 31, 2015 and 2014

(7) Grants Payable and Program Grants

As discussed in note 2, program grants are recorded on a discounted present value basis. At December 31, 2015 and 2014, the grant contracts and discount were as follows:

	2015	2014
Grant contracts	\$ 26,865,112	38,301,607
Discount to present value	(1,580,058)	(3,162,299)
Grants payable	\$ 25,285,054	35,139,308

In addition to grants payable recorded in the financial statements, the Foundation's Board of Directors has authorized future funding for grants in certain program areas. These authorized grants are not recorded as grants payable and program grants in the financial statements, since grant contracts have not been executed. Management's best estimate of when the total of grant contracts and authorized grants as of December 31, 2015 will be paid is as follows:

	Grant Contracts	Authorized Grants
2016	\$ 12,923,026	1,319,519
2017	9,799,453	633,958
2018	3,914,140	385,060
2020	138,145	1,109,005
2021	90,348	376,989
	\$ 26,865,112	3,824,531

Included in December 31, 2015 grant contracts is \$9 million, scheduled to be paid from 2016 through 2018 (\$3 million per year) for core operations of the Kansas Health Institute (KHI), a non-profit, tax-exempt corporation located in Topeka, Kansas. KHI was created by the Foundation in 1994 as a health policy and research institute for Kansas.

Included in December 31, 2015 grant contracts is \$4.8 million scheduled to be paid from 2016 through 2017 for core operations of a separate non-profit, tax-exempt corporation, the Kansas Leadership Center (KLC). KLC was created by the Foundation in 2006. KLC's mission is to strengthen and expand civic leadership across Kansas.

Approximately 24,000 square feet of an addition to the Foundation's office building (see note 8) have been leased to KLC at a below market rate. The lease is for a four year period from August 1, 2013 through July 31, 2017. Based on an independent appraisal of the leased premises, the Foundation recorded a grant liability and expense in 2013 of \$2,488,000, representing the fair value lease rate per square foot over the four year lease term. The grant liability is being amortized monthly on the straight-line basis over the lease term. The grant liability was reduced by \$622,000 each year, and the same amount was recognized as "other income" in the Statement of Activity for the years ended December 31, 2015 and 2014.

Program grants in the accompanying Statements of Activity are reported net of grant contracts written off.

KANSAS HEALTH FOUNDATION
Notes to Financial Statements
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(8) Bonds Payable and Building Addition

On October 5, 2012, the City of Wichita (City) agreed to issue up to \$7 million in tax exempt revenue bonds, to assist the Foundation in financing approximately 80% of the construction costs of a 36,000 square foot addition to its office completed in 2013. The addition serves as the new state-wide headquarters for KLC and as a conference center for the Foundation. During construction, the bonds were issued as needed and purchased in a private placement. The City holds title to the addition as collateral for the bonds and leases the addition to the Foundation. Monthly lease payments, deposited to a sinking fund held by a trustee, consist of the combined principal and interest payments due on the bonds as described below. The bonds mature and the lease expires on July 1, 2033. The Foundation has the option to purchase the addition at any time during the term of the lease by providing funds to the bond trustee sufficient for all bonds to be paid off.

The bonds bear interest payable at an annual rate of 2.73% through September 30, 2017. The annual interest rate will then be reset in five-year increments beginning October 1, 2017 based on the current 5-year United States Treasury Index adjusted weekly to a constant maturity plus 2.1%.

Principal and interest payments began on August 1, 2013 and are being made in equal monthly installments of \$37,833 based on amortization over a twenty-year period through July 1, 2033. Principal amounts due over the next five years are as follows:

2016	\$ 285,155
2017	293,045
2018	301,146
2019	309,471
2020	318,026

As described in note 2, the Foundation early adopted ASU 2015-03 which requires debt issuance costs be presented as a direct deduction from the carrying amount of the related debt liability. A summary of bonds payable follows:

	2015	2014
Bonds payable	\$ 6,351,868	6,629,342
Less unamortized bond issuance costs	(86,117)	(91,015)
Bonds payable, net	\$ 6,265,751	6,538,327

(9) Excise and Income Taxes

As discussed in note 1, the Foundation is exempt from federal income taxes under the Internal Revenue Code. Accordingly, the Foundation is not subject to federal income tax, except to the extent that it has unrelated business taxable income. In the opinion of management, the Foundation did not have material unrelated business taxable income in 2015 or 2014. As of December 31, 2014, the Foundation had a federal cumulative net operating loss carry-forward of approximately \$ 1,105,425 which was available to offset future taxable income.

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(9) Excise and Income Taxes, continued

No provision for federal income taxes is recorded in the accompanying financial statements. In accordance with U.S. generally accepted accounting principles, the Foundation recognizes the income tax benefits, if any, of uncertain tax positions only when the position is “more likely than not” to be sustained assuming examination by federal taxing authorities. Management has analyzed the Foundation’s tax positions taken on federal income tax returns subject to possible examination by federal taxing authorities (years ended December 31, 2012 through 2015) and concluded the Foundation did not require a provision for any uncertain tax positions as of December 31, 2015 or 2014.

In 2014, the Foundation was classified as a private foundation under Section 509(a) and, as such, was subject to a Federal excise tax of 2% on net investment income, unless certain conditions were met, in which case the tax was reduced to 1%. In 2014, the Foundation was subject to an excise tax on net investment income of 1%. On November 23, 2014, the IRS approved the Foundation’s request to be classified as a public charity described in Code section 509(a)(3), effective January 1, 2015 for an advance ruling period which ends December 31, 2019. As a public charity, the Foundation is no longer liable for the Federal excise tax on its net investment income. Management believes that the Foundation’s normal activities over the 60-month period will allow the IRS to issue a permanent “public charity” ruling in 2020.

The deferred Federal excise tax payable was reversed and is recorded as excise tax benefit on the income statement during 2015 as a result of the change to a public charity.

Deferred excise taxes were recorded on the unrealized increase in the fair value of the Foundation’s investment assets at a 2% rate as of December 31, 2014. There is no provision for deferred excise taxes reflected after January 1, 2015.

Excise taxes receivable or payable and excise tax benefit (expense) in the accompanying financial statements consist of the following:

	<u>2015</u>	<u>2014</u>
Current Federal excise taxes receivable	\$ 234,405	-
Current Federal excise taxes payable	-	161,682
Deferred Federal excise taxes payable	-	2,057,137
	<u>\$ -</u>	<u>2,218,819</u>
Reversal of deferred excise taxes payable	\$ 2,057,137	-
Current Federal excise tax benefit (expense)	396,087	(378,473)
Deferred Federal excise tax benefit	-	154,951
State income tax expense	(3,440)	(113)
Total excise and income tax benefit (expense)	<u>2,449,784</u>	<u>(223,635)</u>
Excise taxes paid	<u>\$ -</u>	<u>200,000</u>

In 2014, the Foundation was required to make certain minimum qualifying distributions of its assets for charitable purposes in accordance with formulas provided by Federal law. The Foundation complied with such requirements.

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(10) Land Lease

The Foundation, as lessor, has leased certain land (cost-\$366,155) under a long-term operating lease which expires in 2081. Future rentals to be received under the lease are as follows:

2016	\$ 107,140
2017	107,140
2018	107,140
2019	107,140
2020	107,140
2021-2081	<u>6,535,538</u>
	<u>7,071,238</u>