KANSAS HEALTH FOUNDATION

Consolidated Audited Financial Statements

Years ended December 31, 2017 and 2016

(with report of independent certified public accountants thereon)

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Independent Auditor's Report

Board of Directors
Kansas Health Foundation
Wichita, Kansas

We have audited the accompanying consolidated financial statements of Kansas Health Foundation, which comprise the consolidated balance sheet as of December 31, 2017, and the related consolidated statements of activity and cash flows for the year 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 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 audit. We did not audit the financial statements of KHF Fund, LP, a limited partnership in which Kansas Health Foundation has a controlling financial interest, whose statements reflect total assets constituting 30% of consolidated total assets as of December 31, 2017, and total revenues, gains and losses of 15% of consolidated total revenues, gains and losses for the year then ended. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for KHF Fund, LP, is based solely on the report of the other auditors. We conducted our audit 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 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 Kansas Health Foundation as of December 31, 2017, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Year Audited by Other Auditors

The 2016 financial statements were audited by other auditors, and their report thereon, dated September 11, 2017, expressed an unmodified opinion.

BKD, LLP

Wichita, Kansas
September 18, 2018

KANSAS HEALTH FOUNDATION

Consolidated Balance Sheets

December 31,

Assets		**2017**		**2016**
Cash and cash equivalents	$	15,829,044	$	31,046,832
Investments (Note 3)		488,218,694		430,396,789
Prepaid and due from underlying funds (Note 4)		664,015		7,593,753
Property and equipment, net (Note 5)		11,449,955		11,868,951
Other assets		323,137		324,066
Total Assets	**$**	**516,484,845**	**$**	**481,230,391**

Liabilities and Net Assets				
Accounts payable	$	38,952	$	298,759
Grants payable, net (Note 7)		29,964,152		17,707,456
Accrued expenses		245,829		198,054
Bonds payable, net (Note 8)		-		5,969,782
Total liabilities		30,248,933		24,174,051
Net assets		486,235,912		457,056,340
Total Liabilities and Net Assets	**$**	**516,484,845**	**$**	**481,230,391**

See accompanying notes to consolidated financial statements.

KANSAS HEALTH FOUNDATION
Consolidated Statements of Activity
Years Ended December 31,

Revenues, gains and losses:	**2017**	**2016**
Investment income (Note 3)	$ 67,642,783	$ 43,659,824
Investment expenses	(1,889,527)	(1,586,784)
Other income (Notes 7 and 10)	742,860	736,966
Total revenues, gains and losses	66,496,116	42,810,006
Program grants, net (Note 7)	31,805,975	12,860,578
Operating expenses (Note 6)		
Compensation and benefits	2,738,835	2,785,154
Professional and contractual services	791,495	980,139
Depreciation and amortization (Notes 5 and 8)	665,105	571,157
Interest expense (Note 8)	134,754	153,724
Other expenses	1,177,474	928,771
Total operating expenses	5,507,663	5,418,945
Increase in net assets before income taxes	29,182,478	24,530,483
Income tax expense (Note 9)	(2,906)	(11,239)
Increase in net assets	29,179,572	24,519,244
Net assets, beginning of year	457,056,340	432,537,096
Net assets, end of year	**$ 486,235,912**	**$ 457,056,340**

See accompanying notes to consolidated financial statements.

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

	2017	2016
Cash flows from operating activities:		
Increase (Decrease) in net assets	$ 29,179,572	$ 24,519,244
Adjustments to reconcile increase (decrease) in net assets to net cash used in operating activities:		
Net realized and unrealized gains on investments	(64,681,197)	(41,088,980)
Depreciation and amortization	665,105	571,157
Changes in assets and liabilities:		
Excise taxes receivable	—	234,405
Other assets	929	31,382
Accounts payable	(259,807)	201,895
Grants payable	12,256,696	(7,577,598)
Accrued expenses	(11,344)	(198,290)
Net cash used in operating activities	(22,850,046)	(23,306,785)
Cash flows from investing activities:		
Additions to property and equipment	(164,990)	(373,773)
Proceeds from sale of investments	60,738,275	67,427,340
Purchase of investments	(46,890,025)	(31,681,788)
Net cash provided by investing activities	13,683,260	35,371,779
Cash flows from financing activities:		
Repayment of bonds payable	(6,051,002)	(300,866)
Net cash used in financing activities	(6,051,002)	(300,866)
Net increase (decrease) in cash and cash equivalents	(15,217,788)	11,764,128
Cash and cash equivalents, beginning of year	31,046,832	19,282,704
Cash and cash equivalents, end of year	$ **15,829,044**	**$ 31,046,832**

See accompanying notes to consolidated financial statements.

(1) Organization and Operations

The mission of the Kansas Health Foundation is to improve the health of all Kansans. To accomplish its mission, the Kansas Health 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 Kansas Health 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. See also note 9.

KHF Fund, LP, a limited partnership, was formed on November 4, 2015 and commenced operations on January 1, 2016. The Kansas Health Foundation has a 99.9993% limited partnership interest in KHF Fund. Cambridge Associates Resources, LLC serves as general partner with a .0007% interest and Cambridge Associates, LLC serves as the investment manager of KHF Fund. The KHF Fund serves as an investment vehicle for the Kansas Health Foundation with investment decisions made in accordance with investment guidelines and approval required by the Kansas Health Foundation. The Foundation initially transferred certain investments to KHF Fund in January 2016.

Principles of Consolidation

The consolidated financial statements include the accounts of the Kansas Health Foundation and the KHF Fund (collectively referred to as the “Foundation”). The KHF Fund is consolidated as the Kansas Health Foundation has a controlling financial interest in the KHF Fund. All inter-organizational transactions have been eliminated in consolidation.

(2) Summary of Significant Accounting Policies

Basis of Accounting

The accompanying consolidated 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 consolidated 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. Commingled funds, trusts and limited partnerships (funds) are

(2) Summary of Significant Accounting Policies, continued

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 consolidated financial statements.

Cash Equivalents

Cash equivalents include short-term investments with original maturities of three months or less. Cash equivalents of $13.8 million and $29.9 million, as of December 31, 2017 and 2016, respectively, are invested in an institutional U.S. government securities money market fund. At times, the funds may be in excess of the federal insurance limit or uninsured.

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 consolidated 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 consolidated 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.

Subsequent Events

The Foundation has evaluated and disclosed subsequent events, if any, that occurred after December 31, 2017 and through September 18, 2018 which represents the date the consolidated 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 consolidated financial statements are comprised of the following:

	December 31	
	2017	2016
U.S. equities and commingled funds	$ 84,576,350	$ 81,090,351
International equities and commingled funds	146,910,870	116,595,911
Marketable alternative equities	127,562,520	103,322,482
Real estate investment trust	7,434,863	10,072,764
Non-marketable investments:		
Real estate and natural resources funds	38,824,553	39,621,342
Private equity funds	14,012,807	13,271,679
Venture capital funds	27,978,798	26,490,582
Fixed income commingled funds	40,917,933	39,931,678
	$ 488,218,694	$ 430,396,789

Components of Investment Income

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

	December 31	
	2017	2016
Interest and dividends	$ 2,432,787	$ 1,981,400
Other income from non-marketable investments	528,799	589,444
Net realized and unrealized gains	64,681,197	41,088,980
	$ 67,642,783	$ 43,659,824

(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, 2017 or 2016.

In May 2015, the FASB issued ASU 2015-07, Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent), which exempts investments measured using the net asset value (NAV) practical expedient in ASC 820, Fair Value Measurement, from categorization within the fair value hierarchy. The Foundation adopted this new standard in 2016 and investments measured at NAV are not included in the hierarchy disclosure. NAV investments are presented separately in the disclosure to allow reconciliation of total investments as presented in the consolidated balance sheets.

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 is measured on a recurring basis and has been determined using the valuation hierarchy as follows:

	December 31, 2017			
	Level 1	Level 2	Level 3	Total
U.S. equities	$39,995,522	-	-	$ 39,995,522
Marketable alternative equities	11,157,923	-	-	11,157,923
Non-marketable investments:				
Real estate and natural resources funds	-	-	8,891,621	8,891,621
Fixed income commingled funds	14,300,530	-	-	14,300,530
Total investments in the fair value hierarchy	$65,453,975	$ -	$ 8,891,621	$ 74,345,596
Investments measured at net asset value				413,873,098
Total investments at fair value				$488,218,694

	December 31, 2016			
	Level 1	Level 2	Level 3	Total
U.S. equities	$41,881,621	-	-	$ 41,881,621
Marketable alternative equities	9,869,148	-	-	9,869,148
Non-marketable investments:				
Real estate and natural resources funds	-	-	8,574,589	8,574,589
Fixed income commingled funds	13,595,312	-	-	13,595,312
Total investments in the fair value hierarchy	$65,346,081	$ -	$ 8,574,589	$ 73,920,670
Investments measured at net asset value				356,476,119
Total investments at fair value				$430,396,789

(3) Investments, continued

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

	Fair Value	Unfunded Commit-ments	Expected Liquidation Term	Redemption Terms	Redemption Restrictions	Redemption Restrictions at 12/31/17
U.S. equity commingled funds (a)	$ 44.6	N/A	N/A	daily to quarterly 15-60 days notice	N/A	1 fund has 20% fund level gate restriction (f)
International equity commingled funds (a)	$ 146.9	N/A	N/A	daily to 36 mos 1 to 90 days notice	1 fund has exit frequency greater than 12 mos	fund level gate restrictions of 25% to 50% (f)
Marketable alternative equities: (b)	$ 116.4	9.6	<1-10 years	daily to 36 mos 1 to 90 days notice	1 fund has exit frequency greater than 12 mos; 11 funds not redeemable until underlying funds are liquidated; 1 fund has a 12 month lockup that expires August 1, 2018	Investor level quarterly gate restrictions of 12.5% to 25%; fund level gate restrictions of 10% to 20% (f)
	$ 7.4	N/A	N/A	monthly, 16 days notice	N/A	N/A
Non-marketable investments: (d)						
Real estate/natural resources funds	$ 38.8	13.4	1-13 years	N/A*	N/A*	N/A*
Private equity funds	14.0	11.8	1-10 years	N/A*	N/A*	N/A*
Venture capital funds	28.0	5.2	1-11 years	N/A*	N/A*	N/A*
Total non-marketable investments	$ 80.8	30.4				
Fixed income commingled fund (e)	$ 26.6	N/A	N/A	daily, 15 days notice	N/A	N/A

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

(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, a mutual fund, domestic publicly traded securities, and ten 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.

(3) Investments, continued

The Foundation uses a "fund of funds" approach to investing in hedge funds. The fair value of investments in both diversifier 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.

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.

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, 2017, it had no plans to sell any non-marketable investments before they were liquidated. Since December 31, 2017, 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.

(f) Liquidity of certain investments vary based on various factors and may include "gates", "holdbacks" and "side pockets" imposed by the manager of the funds, as well as redemption fees which may also apply. These investments may provide the manager with the ability to suspend or postpone redemption (a "gate") or "holdback" from the payment of redemption proceeds a portion of the redemption (e.g. 10%) until the annual audited financial statements are distributed. A side pocket is a type of account utilized by hedge fund managers to differentiate illiquid, hard to value assets from liquid assets.

(3) Investments, continued

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

Investments ($ millions)	Balance 1/1/16	Investment Gains	Purchases	Sales	Balance 12/31/16
Real estate and natural resources funds	$ 7.9	0.5	0.2	0.0	$ 8.6

Investments ($ millions)	Balance 1/1/17	Investment Gains	Purchases	Sales	Balance 12/31/17
Real estate and natural resources funds	$ 8.6	0.3	0.0	0.0	$ 8.9

The fair value of the Foundation's investment in two limited partnerships which invest in natural gas and oil royalty and mineral interests is calculated by the limited partnerships using the income approach and estimating the present value of future net cash flows and resulting distributions. Significant accounting estimates made by the Limited Partnership in determining fair value include the calculation of cost depletion which require assumptions and estimates with respect to future production.

(4) Prepaid and due from underlying funds

Due from underlying funds includes receivables from sales pending settlement. Prepaid subscriptions to underlying funds and purchases and sales of investments are accounted for on a trade date basis.

A summary of prepaid and due from underlying funds follows:

	December 31	
	2017	2016
Due from underlying funds	$ 664,015	$ 3,593,753
Prepaid subscription to underlying fund	-	4,000,000
	$ 664,015	$ 7,593,753

At December 31, 2016, prepaid subscription to underlying fund includes an investment in Greater China Market Neutral Fund, Class A, which the KHF Fund paid prior to the end of the reporting period. The investment was effective on January 1, 2017.

(5) Property and Equipment

A summary of property and equipment follows:

	2017	2016
Land	$ 953,428	$ 953,428
Building and improvements	13,384,709	13,367,796
Equipment, furniture, and fixtures	3,067,846	2,923,407
	17,405,983	17,244,631
Less accumulated depreciation	(5,956,028)	(5,375,680)
Property and equipment, net	$ 11,449,955	$ 11,868,951

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

(6) Functional Classification of Operating Expenses

The Foundation's operating expenses for 2017 and 2016 are allocated among the following functions based on staff time incurred:

	2017	2016
Program activities	$ 3,583,765	$ 3,917,876
Investment/finance activities	489,754	465,521
Management and general activities	1,434,144	1,035,548
	$ 5,507,663	$ 5,418,945

(7) Grants Payable and Grants

As discussed in note 2, program grants are recorded on a discounted present value basis. At December 31, 2017 and 2016, the grant contracts and discount were as follows:

	2017	2016
Grant contracts	$ 31,554,890	$ 18,675,757
Discount to present value	(1,590,738)	(968,301)
Grants payable	$ 29,964,152	$ 17,707,456

(7) Grants Payable and Program Grants, continued

In addition to grants payable recorded in the consolidated 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 consolidated 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, 2017 will be paid is as follows:

	Grant Contracts	Authorized Grants
2018	$ 16,320,652	$ 882,384
2019	8,056,637	3,690,780
2020	5,448,039	3,055,320
2021	779,291	3,755,017
2022 and future years	950,271	818,710
	$ 31,554,890	$ 12,202,211

Included in December 31, 2017 grant contracts is $2.7 million, scheduled to be paid for in 2018 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, 2017 grant contracts is $9 million to be paid from 2018 – 2020 ($3 million per year) 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 original lease commenced on August 1, 2013 and expired on July 31, 2017. Based on 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 per square foot over a four-year lease term. A new lease was entered on August 1, 2017. Based on an independent appraisal of the leased premises, the Foundation recorded a grant liability and expense in 2017 of $3,167,500 representing the fair value lease rate per square foot over a five-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 $626,792 and $622,000 in 2017 and 2016, respectively, and the same amount was recognized as "other income" in the Consolidated Statement of Activity. In future years, the grant liability will be reduced annually by $633,500, and the same amount will be recognized as "other income" in the Consolidated Statement of Activity.

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

(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 held title to the addition as collateral for the bonds and leased the addition to the Foundation. Monthly lease payments, deposited to a sinking fund held by a trustee, consisted of the combined principal and interest payments due on the bonds as described below. The agreement allowed the Foundation 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 were originally scheduled to mature and the lease expire on July 1, 2033. The bonds bore interest payable at an annual rate of 2.73%. Principal and interest payments began on August 1, 2013 and made in equal monthly installments of $37,833 through August 31, 2017.

On September 30, 2017, management decided to exercise an option to purchase the addition by providing funds to the bond trustee to retire the bonds. Management retired bond debt of $5,844,868 on September 30, 2017 and wrote-off the remaining unamortized bond issuance costs of $76,322 which are included in “depreciation and amortization” in the 2017 Consolidated Statement of Activities. At December 31, 2016, bonds payable were $6,051,002 and unamortized bond issuance costs were $81,220.

(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 2017 or 2016. As of December 31, 2017, the Foundation had a federal cumulative net operating loss carry-forward of approximately $1,473,793 which was available to offset future taxable income.

No provision for federal income taxes is recorded in the accompanying consolidated 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, 2014 through 2017) and concluded the Foundation did not require a provision for any uncertain tax positions as of December 31, 2017 or 2016.

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.

There is no provision for deferred excise taxes reflected after January 1, 2015.

(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:

2018	$ 107,140
2019	107,140
2020	107,140
2021	107,140
2022	107,140
2023-2081	6,321,258
	$ 6,856,958

(11) 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 $269,904 and $268,853 to the plans in 2017 and 2016, 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.