

Kansas Health Foundation

Independent Auditor's Report and Consolidated Financial Statements

December 31, 2019 and 2018

Kansas Health Foundation
December 31, 2019 and 2018

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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 statements of financial position as of December 31, 2019 and 2018, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We 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 36 percent and 37 percent of consolidated total assets as of December 31, 2019 and 2018, respectively, and total revenues, gains and losses of 23 percent and 3 percent, respectively, of consolidated total revenues, gains and losses for the years 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 audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Board of Directors
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Opinion

In our opinion, based on our audits and the reports of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Kansas Health Foundation as of December 31, 2019 and 2018, 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.

BKD, LLP

Wichita, Kansas
September 25, 2020

Kansas Health Foundation
Consolidated Statements of Financial Position
December 31, 2019 and 2018

	2019	2018
Assets		
Assets		
Cash and cash equivalents	\$ 14,457,640	\$ 10,975,435
Investments	483,916,776	425,797,788
Due from underlying funds	1,711,625	13,844,959
Property and equipment, net	12,540,359	11,258,573
Construction in progress	-	1,904,276
Other assets	325,445	476,600
Total assets	\$ 512,951,845	\$ 464,257,631
 Liabilities		
Liabilities and Net Assets		
Accounts payable	\$ 106,980	\$ 173,757
Construction costs payable	-	561,612
Grants payable, net	19,983,586	22,852,854
Accrued expenses	323,886	210,538
Total liabilities	20,414,452	23,798,761
Net assets without donor restrictions	492,537,393	440,458,870
Total liabilities and net assets	\$ 512,951,845	\$ 464,257,631

Kansas Health Foundation
Consolidated Statements of Activities
Years Ended December 31, 2019 and 2018

	Without Donor Restrictions 2019	Without Donor Restrictions 2018
Revenue, Gains and Losses		
Investment income (loss)	\$ 74,372,588	\$ (28,810,316)
Other income	766,745	866,812
Total revenue, gains and losses	75,139,333	(27,943,504)
Grants and Grant Related Activities, Net	17,036,116	12,428,750
Operating Expenses		
Compensation and benefits	3,146,048	2,784,527
Professional and contractual services	865,408	840,157
Depreciation	703,160	578,123
Other expenses	1,310,078	1,201,981
Total operating expenses	6,024,694	5,404,788
Increase (Decrease) in Net Assets	52,078,523	(45,777,042)
Net Assets, Beginning of Year	440,458,870	486,235,912
Net Assets, End of Year	\$ 492,537,393	\$ 440,458,870

Kansas Health Foundation
Consolidated Statements of Functional Expenses
Years Ended December 31, 2019 and 2018

Grants and Grant Related Activities - 2019

	Access to Care	Civic and Community Engagement	Education	Healthy Behaviors	Overall Health	Total Program Services	Total Management and General	Total
Grants and grant related activities	\$ 827,398	\$ 11,601,939	\$ 1,530,099	\$ 2,829,584	\$ 247,096	\$ 17,036,116	\$ -	\$ 17,036,116
Compensation and benefits	127,728	279,514	285,512	276,016	99,821	1,068,591	2,077,457	3,146,048
Professional and contractual services	43,138	97,202	96,426	93,219	33,713	363,698	501,710	865,408
Depreciation	17,677	388,356	39,515	38,200	13,815	497,563	205,597	703,160
Other expenses	57,382	288,195	128,267	124,001	44,845	642,690	667,388	1,310,078
	<u>\$ 1,073,323</u>	<u>\$ 12,655,206</u>	<u>\$ 2,079,819</u>	<u>\$ 3,361,020</u>	<u>\$ 439,290</u>	<u>\$ 19,608,658</u>	<u>\$ 3,452,152</u>	<u>\$ 23,060,810</u>

Grants and Grant Related Activities - 2018

	Access to Care	Civic and Community Engagement	Education	Healthy Behaviors	Overall Health	Total Program Services	Total Management and General	Total
Grants and grant related activities	\$ 1,057,284	\$ 4,700,828	\$ 3,432,867	\$ 1,884,041	\$ 1,353,730	\$ 12,428,750	\$ -	\$ 12,428,750
Compensation and benefits	88,318	284,765	197,156	323,186	120,355	1,013,780	1,770,747	2,784,527
Professional and contractual services	13,267	51,665	23,354	40,605	18,909	147,800	692,357	840,157
Depreciation	3,695	358,548	6,504	11,307	5,266	385,320	192,803	578,123
Other expenses	16,354	229,999	28,789	50,054	23,309	348,505	853,476	1,201,981
	<u>\$ 1,178,918</u>	<u>\$ 5,625,805</u>	<u>\$ 3,688,670</u>	<u>\$ 2,309,193</u>	<u>\$ 1,521,569</u>	<u>\$ 14,324,155</u>	<u>\$ 3,509,383</u>	<u>\$ 17,833,538</u>

Kansas Health Foundation
Consolidated Statements of Cash Flows
Years Ended December 31, 2019 and 2018

	2019	2018
Operating Activities		
Increase (Decrease) in net assets	\$ 52,078,523	\$ (45,777,042)
Items not requiring (providing) cash		
Depreciation	703,160	578,123
Net realized and unrealized losses (gains) on investments	(68,441,141)	29,230,416
Changes in		
Other assets	151,155	(153,463)
Accounts payable	(66,777)	134,805
Grants payable	(2,869,268)	(7,111,298)
Accrued expenses	113,348	16,848
Net cash used in operating activities	(18,331,000)	(23,081,611)
Investing Activities		
Additions to property and equipment	(642,282)	(1,729,405)
Proceeds from sale of investments	71,208,026	87,266,642
Purchase of investments	(48,752,539)	(67,309,235)
Net cash provided by investing activities	21,813,205	18,228,002
Increase (Decrease) in Cash and Cash Equivalents	3,482,205	(4,853,609)
Cash and Cash Equivalents, Beginning of Year	10,975,435	15,829,044
Cash and Cash Equivalents, End of Year	\$ 14,457,640	\$ 10,975,435
Supplemental Cash Flows Information		
Construction costs payable included in property and equipment	\$ -	\$ 561,612

Kansas Health Foundation
Notes to Consolidated Financial Statements
December 31, 2019 and 2018

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of 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 Foundation was previously classified as a private foundation. On November 23, 2014, the IRS approved the Foundation's request to be classified as a public charity, effective January 1, 2015, for an advance ruling period which ended December 31, 2019. On August 6, 2020, the Foundation received a final ruling from the IRS to allow the Foundation to continue operating as a public charity.

KHF Fund, LP (KHF Fund), a limited partnership, was formed on November 4, 2015, and commenced operations on January 1, 2016. The Kansas Health Foundation has a 99.9993 percent limited partnership interest in KHF Fund. Cambridge Associates Resources, LLC serves as general partner with a .0007 percent 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.

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.

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.

Kansas Health Foundation
Notes to Consolidated Financial Statements
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Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

The Foundation considers all liquid investments with original maturities of three months or less to be cash equivalents. Cash equivalents of \$13.5 million and \$9.6 million, as of December 31, 2019 and 2018, respectively, are invested in an institutional U.S. government securities money market fund.

At December 31, 2019, the Foundation's cash accounts exceeded federally insured limits by approximately \$678,000.

Investments and Net Investment Return

The Foundation measures securities at fair value. Investments in commingled funds, trusts, and limited partnerships are recorded at net asset value (NAV), as a practical expedient, to determine fair value of the investments.

Investment return includes dividend, interest and other investment income; realized and unrealized gains and losses on investments carried at fair value; and realized gains and losses on other investments, less external and direct internal investment expenses. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Property and Equipment

Property and equipment acquisitions are stated at cost, less accumulated depreciation. Depreciation is charged to expense on the straight-line basis over the estimated useful life of each asset.

The estimated useful lives for each major depreciable classification of property and equipment are as follows:

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

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Long-lived Asset Impairment

The Foundation evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

No asset impairment was recognized during the years ended December 31, 2019 and 2018.

Income Taxes

The Foundation is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and a similar provision of state law. 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. However, the Foundation is subject to federal income tax on any unrelated business taxable income. The Foundation files tax returns in the U.S. federal jurisdiction.

As of December 31, 2019 and 2018, the Foundation had a federal cumulative net operating loss carry-forward of \$1,383,206 and \$1,393,706, respectively, 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, 2016 through 2019) and concluded the Foundation did not require a provision for any uncertain tax positions as of December 31, 2019 and 2018.

Grants and Grant Related Activities

Grants and grant related activities 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.

Kansas Health Foundation
Notes to Consolidated Financial Statements
December 31, 2019 and 2018

Functional Allocation of Expenses

The costs of supporting the various programs and other activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Grants and grant related activities, net are allocated solely to program services. Operating expenses, other than compensation and benefits, are allocated to the program services, management and general categories benefited based on square footage. Compensation and benefits are allocated based on estimates of time and effort. There were no fund raising costs during the years ended December 31, 2019 and 2018.

Note 2: Investments

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 percent, 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:

	<u>2019</u>	<u>2018</u>
U.S. equities and commingled funds	\$ 78,960,539	\$ 60,095,546
International equities and commingled funds	123,526,937	102,323,330
Marketable alternative equities	148,100,091	133,865,180
Real estate investment trust	7,496,548	6,141,800
Non-marketable investments:		
Real estate and natural resources funds	30,072,514	34,459,773
Private equity funds	18,843,721	15,289,946
Venture capital funds	36,160,037	31,329,398
Fixed income commingled funds	40,756,389	42,292,815
	<u>\$ 483,916,776</u>	<u>\$ 425,797,788</u>

Unrealized gains of \$55,852,468 and unrealized losses of \$58,972,680 were recognized during the years ended December 31, 2019 and 2018, respectively, on investments still held at year-end.

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Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. The hierarchy comprises three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs supported by little or no market activity and that are significant to the fair value of the assets or liabilities

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Recurring Measurements

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2019 and 2018:

	2019			Total
	Level 1	Level 2	Level 3	
U.S. equities	\$ 25,276,489	\$ -	\$ 14,810,677	\$ 40,087,166
Marketable alternative equities	13,213,247	-	5,853,120	19,066,367
Non-marketable investments:				
Real estate and natural resource funds	-	-	8,520,982	8,520,982
Fixed income commingled funds	10,699,356	-	-	10,699,356
Total investments in the fair value hierarchy	<u>\$ 49,189,092</u>	<u>\$ -</u>	<u>\$ 29,184,779</u>	78,373,871
Investments measured at net asset value (A)				<u>405,542,905</u>
Total investments at fair value				<u>\$ 483,916,776</u>
	2018			Total
	Level 1	Level 2	Level 3	
U.S. equities	\$ 26,077,060	\$ -	\$ -	\$ 26,077,060
Marketable alternative equities	12,341,233	-	4,742,988	17,084,221
Non-marketable investments:				
Real estate and natural resource funds	-	-	8,839,631	8,839,631
Fixed income commingled funds	12,721,484	-	-	12,721,484
Total investments in the fair value hierarchy	<u>\$ 51,139,777</u>	<u>\$ -</u>	<u>\$ 13,582,619</u>	64,722,396
Investments measured at net asset value (A)				<u>361,075,392</u>
Total investments at fair value				<u>\$ 425,797,788</u>

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- (A) Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts included above are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated statements of financial position.

Following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying consolidated statements of financial position, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended December 31, 2019. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below.

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. See the table below for inputs and valuation techniques used for Level 3 securities.

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Alternative Investments

Investments in certain entities measured at fair value using the net asset value per share as a practical expedient, Level 2 and 3 consist of the following (all \$ amounts in millions):

	December 31, 2019					
	Fair Value	Unfunded Commit- ments	Expected Liquidation Term	Redemption Terms	Redemption Restrictions	Redemption Restrictions
U.S. equity commingled funds (a)	<u>\$ 53.7</u>	N/A	N/A	daily to quarterly 10-60 days notice	N/A	N/A
International equity commingled funds (a)	<u>\$ 123.5</u>	<u>\$ 2.0</u>	N/A	daily to 36 mos 10-90 days notice	1 fund has exit frequency greater than 12 mos; 1 fund has a 30 month lockup that expires September 2021	2 funds have gate restrictions of 20% and 50% (f)
Marketable alternative equities (b)	<u>\$ 134.9</u>	<u>\$ 8.9</u>	<1-9 years	daily to 36 mos 1-93 days notice	1 fund has exit frequency greater than 12 mos; 10 funds not redeemable until underlying funds are liquidated; 1 fund has a 24 month lockup that expires April 2020	Investor level quarterly gate restrictions of 12.5% to 25%; fund level gate restrictions of 10% to 30% (f)
Real estate investment trusts (c)	<u>\$ 7.5</u>	N/A	N/A	monthly, 15 days notice	N/A	N/A
Non-marketable investments (d)						
Real estate/natural resources funds	\$ 30.1	\$ 13.1	1-11 years	N/A*	N/A*	N/A*
Private equity funds	18.8	15.7	1-12 years	N/A*	N/A*	N/A*
Venture capital funds	36.2	8.6	1-11 years	N/A*	N/A*	N/A*
Total non-marketable investments	<u>\$ 85.1</u>	<u>\$ 37.4</u>				
Fixed income commingled fund (e)	<u>\$ 30.0</u>	N/A	N/A	daily, 15 days notice	N/A	N/A

Kansas Health Foundation
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	December 31, 2018					
	Fair Value	Unfunded Commit- ments	Expected Liquidation Term	Redemption Terms	Redemption Restrictions	Redemption Restrictions
U.S. equity commingled funds (a)	<u>\$ 34.0</u>	N/A	N/A	daily to quarterly 1-60 days notice	N/A	N/A
International equity commingled funds (a)	<u>\$ 102.3</u>	N/A	N/A	daily to 36 mos 1-90 days notice	1 fund has exit frequency greater than 12 mos	1 fund has gate restrictions of 50% (f)
Marketable alternative equities (b)	<u>\$ 121.6</u>	<u>\$ 12.5</u>	<1-14 years	daily to 36 mos 1-93 days notice	1 fund has exit frequency greater than 12 mos; 13 funds not redeemable until underlying funds are liquidated; 1 fund has a 24 month lockup that expires January 31, 2020	Investor level quarterly gate restrictions of 12.5% to 25%; fund level gate restrictions of 10% to 20% (f)
Real estate investment trusts (c)	<u>\$ 6.1</u>	N/A	N/A	monthly, 16 days notice	N/A	N/A
Non-marketable investments (d)						
Real estate/natural resources funds	\$ 34.5	\$ 10.9	1-12 years	N/A*	N/A*	N/A*
Private equity funds	15.3	9.4	1-15 years	N/A*	N/A*	N/A*
Venture capital funds	31.3	6.0	1-15 years	N/A*	N/A*	N/A*
Total non-marketable investments	<u>\$ 81.1</u>	<u>\$ 26.3</u>				
Fixed income commingled fund (e)	<u>\$ 29.6</u>	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, one actively managed domestic equity funds, and ten actively managed global/international equity funds. The underlying assets of all these funds are marketable equity securities. The fair value of the international commingled investments and two of the U.S. commingled investments are estimated using the NAV of the Foundation's ownership interest in each fund. Two of the U.S. commingled investments are valued based on published fair market value and one is a domestic equity fund which is a feeder fund and is valued at its percentages of ownership in the master fund.

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- (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 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.

Kansas Health Foundation

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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, 2019, it had no plans to sell any non-marketable investments before they were liquidated. Since December 31, 2019, 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 percent) 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.

Level 3 Valuation Process and Activity

Fair value determinations for Level 3 measurements of securities are the responsibility of Foundation management. Management contracts with a pricing specialist to generate fair value estimates on a monthly or quarterly basis. Management challenges the reasonableness of the assumptions used and reviews the methodology to ensure the estimated fair value complies with accounting standards generally accepted in the United States.

Purchases for Level 3 investments approximated \$12.8 million and \$5.0 million for the years ended December 31, 2019 and 2018, respectively. There were no sales, transfers in or transfers out of Level 3 investments.

Unobservable (Level 3) Inputs

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

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Note 3: Due from Underlying Funds

Due from underlying funds includes receivables from sales pending settlement. Purchases and sales of investments are accounted for on a trade date basis. Due from underlying funds equals \$1,711,625 and \$13,844,959 at December 31, 2019 and 2018, respectively.

Note 4: Property and Equipment

Property and equipment at December 31, 2019 and 2018, consists of:

	<u>2019</u>	<u>2018</u>
Land	\$ 953,428	\$ 953,428
Building and improvements	15,366,248	13,431,121
Equipment, furniture and fixtures	<u>3,097,731</u>	<u>3,109,509</u>
	19,417,407	17,494,058
Less accumulated depreciation	<u>(6,877,048)</u>	<u>(6,235,485)</u>
Property and equipment, net	<u><u>\$ 12,540,359</u></u>	<u><u>\$ 11,258,573</u></u>

Note 5: Grants Payable and Grants and Grant Related Activities

Grants and grant related activities are recorded on a discounted present value basis. At December 31, 2019 and 2018, the grant contracts and discount were as follows:

	<u>2019</u>	<u>2018</u>
Grant contracts	\$ 20,821,545	\$ 23,756,014
Discount to present value	<u>(837,959)</u>	<u>(903,160)</u>
Grants payable	<u><u>\$ 19,983,586</u></u>	<u><u>\$ 22,852,854</u></u>

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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 grants and grant related activities 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, 2019, will be paid is as follows:

	Grant Contracts	Authorized Grants
2020	\$ 12,261,566	\$ 2,027,691
2021	5,285,900	1,579,753
2022	482,283	1,526,871
2023	629,867	45,299
2024	160,157	-
Thereafter	<u>365,230</u>	<u>1,573,095</u>
	19,185,003	<u><u>\$ 6,752,709</u></u>
Amortization of Kansas Leadership Center's leased building	<u>1,636,542</u>	
Grants payable	<u><u>\$ 20,821,545</u></u>	

During 2019 and 2018, the Foundation paid \$2,700,000 each year, respectively, for core operations of the Kansas Health Institute (KHI), a non-profit, tax-exempt corporation located in Topeka, Kansas. At December 31, 2019, grant payable, net includes \$5,400,000 to be paid in 2020 and 2021 (\$2,700,000 per year) for core operations of KHI. KHI was created by the Foundation in 1994 as a health policy and research institute for Kansas.

During 2019 and 2018, the Foundation paid \$3,100,000 and \$3,000,000, respectively, for operations of a separate non-profit, tax-exempt corporation, the Kansas Leadership Center (KLC). At December 31, 2019, grant payable, net includes \$3,000,000 to be paid to be paid in 2020 for core operations of 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 have been leased to KLC at a below market rate. The original lease commenced on August 1, 2013, and was renewed 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 \$633,500 each year in 2019 and 2018, respectively, and the same amount was recognized as "other income" in the consolidated statements of activities. The remaining grant liability balance is \$1,636,542 at December 31, 2019.

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Grants and grant related activities in the accompanying consolidated statements of activities are reported net of grant contracts written off.

The authorized grants are designated by the board for the following program areas:

	<u>2019</u>	<u>2018</u>
Access to care	\$ 443,733	\$ 73,087
Civic and community engagement	1,803,484	12,084,588
Educational attainment	2,422,453	-
Healthy behaviors	1,978,251	1,491,020
Overall health	<u>104,788</u>	<u>123,881</u>
	<u>\$ 6,752,709</u>	<u>\$ 13,772,576</u>

Note 6: Information Regarding Liquidity and Availability

The Foundation strives to maintain liquid financial assets sufficient to cover six months of general expenditures. Financial assets in excess of daily cash requirements are invested in short-term investments, bonds, equities, and alternative investments.

The following table reflects the Foundation's financial assets as of December 31, 2019 and 2018, reduced by amounts that are not available to meet general expenditures within one year of the statements of financial position date because of contractual restrictions or internal board designations. Amounts not available include certain alternative investments with redemption limitations as more fully described in *Note 2*, contracted grants, and board-designated initiatives not considered in the annual operating budget. In the event the need arises to use the board-designated funds for liquidity purposes, the reserves could be drawn upon through board resolution. There were no net assets with donor restrictions at December 31, 2019 and 2018.

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 14,457,640	\$ 10,975,435
Investments	483,916,776	425,797,788
Due from underlying funds	<u>1,711,625</u>	<u>13,844,959</u>
	500,086,041	450,618,182
Investments with liquidity horizons greater than one year	(123,560,520)	(132,588,539)
Board designated funding for certain program areas	<u>(2,027,691)</u>	<u>(3,909,070)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 374,497,830</u>	<u>\$ 314,120,573</u>

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Note 7: Land Lease

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

2020	\$ 107,140
2021	107,140
2022	107,140
2023	107,140
2024	107,140
2025 - 2081	<u>6,107,636</u>
	<u>\$ 6,643,336</u>

Note 8: 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 \$299,223 and \$267,935 to the plans in 2019 and 2018, 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.

Note 9: Significant Estimates and Concentrations

Investments Risks and Uncertainties

The Foundation invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the accompanying consolidated statements of financial position.

Note 10: Subsequent Events

Subsequent events have been evaluated through September 25, 2020, which is the date the financial statements were available to be issued.

There has been significant volatility in the investment markets both nationally and globally since December 31, 2019, resulting in an overall market decline in certain market segments which has resulted in a substantial decline in the value of the Foundation's investment portfolio.