

# **Kansas Health Foundation**

Independent Auditor's Report and Consolidated Financial Statements

December 31, 2020 and 2019

**Kansas Health Foundation**  
**December 31, 2020 and 2019**

**Contents**

<b>Independent Auditor's Report.....</b>	<b>1</b>
 <b>Consolidated Financial Statements</b>	
Statements of Financial Position .....	3
Statements of Activities.....	4
Statements of Functional Expenses .....	5
Statements of Cash Flows .....	6
Notes to Financial Statements .....	7

## 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, 2020 and 2019, 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 28 percent and 36 percent of consolidated total assets as of December 31, 2020 and 2019, respectively, and total revenues and gains constituting 43 percent and 23 percent, respectively, of consolidated total revenues and gains 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  
Kansas Health Foundation  
Page 2

***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, 2020 and 2019, 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 28, 2021

**Kansas Health Foundation**  
**Consolidated Statements of Financial Position**  
**December 31, 2020 and 2019**

	<b>2020</b>	<b>2019</b>
<b>Assets</b>		
<b>Assets</b>		
Cash and cash equivalents	\$ 35,825,425	\$ 14,457,640
Investments	477,075,131	483,916,776
Due from underlying funds	12,773,844	1,711,625
Property and equipment, net	11,962,218	12,540,359
Other assets	74,751	325,445
Total assets	<b>\$ 537,711,369</b>	<b>\$ 512,951,845</b>
 <b>Liabilities</b>		
<b>Liabilities and Net Assets</b>		
Accounts payable	\$ 346,808	\$ 106,980
Grants payable, net	13,974,473	19,983,586
Accrued expenses	255,788	323,886
Total liabilities	14,577,069	20,414,452
Net assets without donor restrictions	523,134,300	492,537,393
Total liabilities and net assets	<b>\$ 537,711,369</b>	<b>\$ 512,951,845</b>

**Kansas Health Foundation**  
**Consolidated Statements of Activities**  
**Years Ended December 31, 2020 and 2019**

	<b>Without Donor Restrictions 2020</b>	<b>Without Donor Restrictions 2019</b>
<b>Revenue and Gains</b>		
Investment income	\$ 55,500,067	\$ 74,372,588
Other income	831,290	766,745
Total revenue and gains	56,331,357	75,139,333
<b>Grants and Grant Related Activities, Net</b>	19,857,487	17,036,116
<b>Operating Expenses</b>		
Compensation and benefits	3,518,763	3,146,048
Professional and contractual services	666,859	865,408
Depreciation	681,270	703,160
Other expenses	1,010,071	1,310,078
Total operating expenses	5,876,963	6,024,694
<b>Increase in Net Assets</b>	30,596,907	52,078,523
<b>Net Assets, Beginning of Year</b>	492,537,393	440,458,870
<b>Net Assets, End of Year</b>	\$ 523,134,300	\$ 492,537,393

**Kansas Health Foundation**  
**Consolidated Statements of Functional Expenses**  
**Years Ended December 31, 2020 and 2019**

**Charitable Related Activities - 2020**

	<b>Access to Care</b>	<b>Civic and Community Engagement</b>	<b>Education</b>	<b>Healthy Behaviors</b>	<b>Overall Health</b>	<b>Total Charitable Related Activities</b>	<b>Total Management and General</b>	<b>Total</b>
Grants and grant related activities	\$ 4,352,573	\$ 1,270,693	\$ 2,521,535	\$ 8,800,976	\$ 2,911,711	\$ 19,857,488	\$ -	\$ 19,857,487
Compensation and benefits	243,261	336,283	250,740	259,935	187,255	1,277,474	2,241,288	3,518,763
Professional and contractual services	53,080	73,378	54,712	56,718	40,859	278,747	388,113	666,859
Depreciation	27,459	374,236	28,305	29,343	21,138	480,481	200,789	681,270
Other expenses	69,772	229,946	71,918	74,555	53,709	499,900	510,161	1,010,071
	<u>\$ 4,746,145</u>	<u>\$ 2,284,536</u>	<u>\$ 2,927,210</u>	<u>\$ 9,221,527</u>	<u>\$ 3,214,672</u>	<u>\$ 22,394,090</u>	<u>\$ 3,340,351</u>	<u>\$ 25,734,450</u>

**Charitable Related Activities - 2019**

	<b>Access to Care</b>	<b>Civic and Community Engagement</b>	<b>Education</b>	<b>Healthy Behaviors</b>	<b>Overall Health</b>	<b>Total Charitable Related Activities</b>	<b>Total Management and General</b>	<b>Total</b>
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>

**Kansas Health Foundation**  
**Consolidated Statements of Cash Flows**  
**Years Ended December 31, 2020 and 2019**

	<b>2020</b>	<b>2019</b>
<b>Operating Activities</b>		
Increase in net assets	\$ 30,596,907	\$ 52,078,523
Items not requiring (providing) cash		
Depreciation	681,270	703,160
Net realized and unrealized gains on investments	(55,061,847)	(68,441,141)
Changes in		
Other assets	250,694	151,155
Accounts payable	239,828	(66,777)
Grants payable	(6,009,113)	(2,869,268)
Accrued expenses	(68,098)	113,348
	<u>(29,370,359)</u>	<u>(18,331,000)</u>
Net cash used in operating activities		
<b>Investing Activities</b>		
Additions to property and equipment	(103,129)	(642,282)
Proceeds from sale of investments	227,839,514	71,208,026
Purchase of investments	(176,998,241)	(48,752,539)
	<u>50,738,144</u>	<u>21,813,205</u>
Net cash provided by investing activities		
<b>Increase in Cash and Cash Equivalents</b>	21,367,785	3,482,205
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>14,457,640</u>	<u>10,975,435</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 35,825,425</u>	<u>\$ 14,457,640</u>



**Kansas Health Foundation**  
**Notes to Consolidated Financial Statements**  
**December 31, 2020 and 2019**

**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 served as general partner with a .0007 percent interest and Cambridge Associates, LLC served as the investment manager of KHF Fund. Effective October 1, 2020, the Aon KHF Fund GP LLC became the general partner with a .0007 percent interest and Aon Investments USA Inc. began serving as investment manager. 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.

***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.

**Kansas Health Foundation**  
**Notes to Consolidated Financial Statements**  
**December 31, 2020 and 2019**

***Cash Equivalents***

The Foundation considers all liquid investments with original maturities of three months or less to be cash equivalents. Cash equivalents of \$35.2 million and \$13.5 million, as of December 31, 2020 and 2019, respectively, are invested in an institutional U.S. government securities money market funds.

At December 31, 2020, the Foundation's cash accounts exceeded federally insured limits by \$381,500.

***Investments and Net Investment Return***

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

Investment return includes dividends, 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

***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, 2020 and 2019.

**Kansas Health Foundation**  
**Notes to Consolidated Financial Statements**  
**December 31, 2020 and 2019**

***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, 2020 and 2019, the Foundation had a federal cumulative net operating loss carry-forward of \$446,930 and \$1,383,206, 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, 2017 through 2020) and concluded the Foundation did not require a provision for any uncertain tax positions as of December 31, 2020 and 2019.

***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.

***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, 2020 and 2019.

**Kansas Health Foundation**  
**Notes to Consolidated Financial Statements**  
**December 31, 2020 and 2019**

**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>2020</u>	<u>2019</u>
U.S. equities and commingled funds	\$ 44,893,851	\$ 78,960,539
International equities and commingled funds	149,564,762	123,526,937
Marketable alternative equities	133,327,952	148,100,091
Real estate investment trust	6,909,181	7,496,548
Non-marketable investments:		
Real estate and natural resources funds	25,370,060	30,072,514
Private equity funds	22,622,790	18,843,721
Venture capital funds	50,956,475	36,160,037
Fixed income commingled funds	<u>43,430,060</u>	<u>40,756,389</u>
	<u>\$ 477,075,131</u>	<u>\$ 483,916,776</u>

Unrealized losses of \$24,881,455 and unrealized gains of \$55,852,468 were recognized during the years ended December 31, 2020 and 2019, respectively, on investments still held at year-end.

**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

**Kansas Health Foundation**  
**Notes to Consolidated Financial Statements**  
**December 31, 2020 and 2019**

- 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

**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, 2020 and 2019:

	<b>2020</b>			<b>Total</b>
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
Marketable alternative equities	\$ 17,244,717	\$ -	\$ -	\$ 17,244,717
Non-marketable investments:				
Real estate and natural resource funds	-	-	6,653,461	6,653,461
Fixed income commingled funds	11,649,371	-	-	11,649,371
Total investments in the fair value hierarchy	<u>\$ 28,894,088</u>	<u>\$ -</u>	<u>\$ 6,653,461</u>	35,547,549
Investments measured at net asset value (A)				<u>441,527,582</u>
Total investments at fair value				<u>\$ 477,075,131</u>
	<b>2019</b>			<b>Total</b>
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
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>

**Kansas Health Foundation**  
**Notes to Consolidated Financial Statements**  
**December 31, 2020 and 2019**

- (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, 2020. 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.

**Kansas Health Foundation**  
**Notes to Consolidated Financial Statements**  
**December 31, 2020 and 2019**

**Alternative Investments**

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

	<b>December 31, 2020</b>					
	<b>Fair Value</b>	<b>Unfunded Commit- ments</b>	<b>Expected Liquidation Term</b>	<b>Redemption Terms</b>	<b>Redemption Restrictions</b>	<b>Redemption Restrictions</b>
U.S. equity commingled funds (a)	<u>\$ 44.9</u>	N/A	N/A	daily to quarterly 15-60 days notice	N/A	N/A
International equity commingled funds (a)	<u>\$ 149.5</u>	<u>\$ 2.0</u>	N/A	daily to 36 mos 1-90 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>\$ 116.1</u>	<u>\$ 6.7</u>	<1-9 years	daily to 36 mos 1-95 days notice	1 fund has exit frequency greater than 12 mos; 10 funds not redeemable until underlying funds are liquidated	5 funds with investor level quarterly gate restrictions of 12.5% - 25%; 1 fund with fund level gate restrictions of 30% (f)
Real estate investment trusts (c)	<u>\$ 6.9</u>	N/A	N/A	monthly, 15 days notice	N/A	N/A
Non-marketable investments (d)						
Real estate/natural resources funds	\$ 25.4	\$ 11.6	1-10 years	N/A*	N/A*	N/A*
Private equity funds	22.6	16.1	3-15 years	N/A*	N/A*	N/A*
Venture capital funds	51.0	6.8	1-10 years	N/A*	N/A*	N/A*
Total non-marketable investments	<u>\$ 99.0</u>	<u>\$ 34.5</u>				
Fixed income commingled fund (e)	<u>\$ 31.8</u>	N/A	N/A	daily, 15 days notice	N/A	N/A

**Kansas Health Foundation**  
**Notes to Consolidated Financial Statements**  
**December 31, 2020 and 2019**

	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	5 funds with investor level quarterly gate restrictions of 12.5% to 25%; 3 funds with 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

\* 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 fund (2019 only), and 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



**Kansas Health Foundation**  
**Notes to Consolidated Financial Statements**  
**December 31, 2020 and 2019**

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.

- (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 primarily in limited partnerships, which in turn invest in primarily U.S. based new companies, often focusing on technological innovation.

# Kansas Health Foundation

## Notes to Consolidated Financial Statements

### December 31, 2020 and 2019

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, 2020, it had no plans to sell any non-marketable investments before they were liquidated. Since December 31, 2020, 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 \$0 and \$12.8 million and sales approximated \$20.8 million and \$0 for the years ended December 31, 2020 and 2019, respectively. There were no transfers in or 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.

**Kansas Health Foundation**  
**Notes to Consolidated Financial Statements**  
**December 31, 2020 and 2019**

**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 \$12,773,844 and \$1,711,625 at December 31, 2020 and 2019, respectively.

**Note 4: Property and Equipment**

Property and equipment at December 31, 2020 and 2019, consists of:

	<u>2020</u>	<u>2019</u>
Land	\$ 953,428	\$ 953,428
Building and improvements	15,380,315	15,366,248
Equipment, furniture and fixtures	<u>3,186,793</u>	<u>3,097,731</u>
	19,520,536	19,417,407
Less accumulated depreciation	<u>(7,558,318)</u>	<u>(6,877,048)</u>
Property and equipment, net	<u>\$ 11,962,218</u>	<u>\$ 12,540,359</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, 2020 and 2019, the grant contracts and discount were as follows:

	<u>2020</u>	<u>2019</u>
Grant contracts	\$ 14,531,795	\$ 20,821,545
Discount to present value	<u>(557,322)</u>	<u>(837,959)</u>
Grants payable	<u>\$ 13,974,473</u>	<u>\$ 19,983,586</u>

**Kansas Health Foundation**  
**Notes to Consolidated Financial Statements**  
**December 31, 2020 and 2019**

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, 2020, will be paid is as follows:

	<b>Grant Contracts</b>	<b>Authorized Grants</b>
2021	\$ 8,439,574	\$ 512,439
2022	3,288,133	243,864
2023	1,115,645	137,258
2024	160,157	-
2025	178,016	-
Thereafter	<u>347,228</u>	<u>1,413,734</u>
	13,528,753	<u><u>\$ 2,307,295</u></u>
Amortization of Kansas Leadership Center's leased building	<u>1,003,042</u>	
Grants payable	<u><u>\$ 14,531,795</u></u>	

During 2020 and 2019, the Foundation paid \$2,750,000 and \$2,700,000, respectively, for core operations of the Kansas Health Institute (KHI), a non-profit, tax-exempt corporation located in Topeka, Kansas. At December 31, 2020, grants payable, net includes \$2,700,000 to be paid in 2021 for core operations of KHI. KHI was created by the Foundation in 1994 as a health policy and research institute for Kansas.

During 2020 and 2019, the Foundation paid \$3,000,000, each year for 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 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 2020 and 2019 and the same amount was recognized as "other income" in the consolidated statements of activities. The remaining grant liability balance is \$1,003,042 and \$1,636,542 at December 31, 2020 and 2019, respectively.

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

**Kansas Health Foundation**  
**Notes to Consolidated Financial Statements**  
**December 31, 2020 and 2019**

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

	<u>2020</u>	<u>2019</u>
Access to care	\$ 311,840	\$ 443,733
Civic and community engagement	1,347,167	1,803,484
Educational attainment	162,925	2,422,453
Healthy behaviors	481,004	1,978,251
Overall health	4,359	104,788
	<u>\$ 2,307,295</u>	<u>\$ 6,752,709</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, 2020 and 2019, 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, 2020 and 2019.

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 35,825,425	\$ 14,457,640
Investments	477,075,131	483,916,776
Due from underlying funds	12,773,844	1,711,625
	525,674,400	500,086,041
Investments with liquidity horizons greater than one year	(130,897,446)	(123,560,520)
Board designated funding for certain program areas	(512,439)	(2,027,691)
	<u>\$ 394,264,515</u>	<u>\$ 374,497,830</u>

**Kansas Health Foundation**  
**Notes to Consolidated Financial Statements**  
**December 31, 2020 and 2019**

**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:

2021	\$ 107,140
2022	107,140
2023	107,140
2024	107,140
2025	107,140
2026 - 2081	<u>5,991,568</u>
	<u>\$ 6,527,268</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 \$324,850 and \$299,223 to the plans in 2020 and 2019, 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.

The outbreak of the novel coronavirus COVID-19, which was declared a pandemic by the World Health Organization on March 11, 2020, has led to adverse impacts on the U.S. and global economies. Economic uncertainties have arisen, which have resulted in significant volatility in the investment markets and may continue to impact the value of Foundation's assets. The duration of these uncertainties and the ultimate financial effects cannot be reasonably estimated at this time.

**Kansas Health Foundation**  
**Notes to Consolidated Financial Statements**  
**December 31, 2020 and 2019**

**Note 10: Subsequent Events**

Subsequent events have been evaluated through September 28, 2021, which is the date the financial statements were available to be issued.

**Note 11: Change in Accounting Principle**

In 2020, the Foundation adopted Accounting Standards Update (ASU) 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU applies to all grants and contributions made and clarifies the accounting guidance applicable for grant accounting. The ASU provides guidance that unless the grantor is directly receiving value in the same amount as the services provided (exchange transaction), the grant should be considered a contribution or grant. In addition, if the grantor incorporates barriers into the contract and has a right of return, the transaction is considered to be a conditional grant, which is recorded when the condition is met. The Foundation determined all grants made are unconditional and the adoption of this ASU did not have any impact to the financial statements.