

KANSAS HEALTH FOUNDATION
CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2021 and 2020

KANSAS HEALTH FOUNDATION
Wichita, Kansas

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2021 and 2020

CONTENTS

INDEPENDENT AUDITOR'S REPORT	1
CONSOLIDATED FINANCIAL STATEMENTS	
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION.....	3
CONSOLIDATED STATEMENTS OF ACTIVITIES	4
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES	5
CONSOLIDATED STATEMENTS OF CASH FLOWS	6
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.....	7

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Kansas Health Foundation
Wichita, Kansas

Opinion

We have audited the consolidated financial statements of Kansas Health Foundation, which comprise the consolidated statement of financial position as of December 31, 2021, and the related consolidated statement of activities, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Kansas Health Foundation as of December 31, 2021, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Kansas Health Foundation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other Matter

The financial statements of Kansas Health Foundation for the year ended December 31, 2020, were audited by other auditors, who expressed an unmodified opinion on those statements on September 28, 2021.

Responsibilities of Management 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, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Kansas Health Foundation's ability to continue as a going concern for one year from the date the consolidated financial statements are available to be issued.

(Continued)

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Kansas Health Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Kansas Health Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.



Crowe LLP

New York, New York
September 26, 2022

KANSAS HEALTH FOUNDATION
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
ASSETS		
Cash and cash equivalents	\$ 14,208,426	\$ 35,825,425
Investments	583,094,565	477,075,131
Due from underlying funds	6,613,041	12,773,844
Property and equipment, net	11,416,145	11,962,218
Other assets	<u>73,998</u>	<u>74,751</u>
 Total assets	 <u>\$ 615,406,175</u>	 <u>\$ 537,711,369</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 518,498	\$ 346,808
Grants payable, net	36,771,848	13,974,473
Accrued expenses	<u>255,875</u>	<u>255,788</u>
Total liabilities	37,546,221	14,577,069
 Net assets without donor restrictions	 <u>577,859,954</u>	 <u>523,134,300</u>
 Total liabilities and net assets	 <u>\$ 615,406,175</u>	 <u>\$ 537,711,369</u>

See accompanying notes to consolidated financial statements.

KANSAS HEALTH FOUNDATION
CONSOLIDATED STATEMENTS OF ACTIVITIES
Years ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Revenue and gains		
Investment income	\$ 102,817,906	\$ 55,500,067
Other income	744,383	831,290
Total revenue and gains	<u>103,562,289</u>	<u>56,331,357</u>
Grants and grant related activities	43,437,172	19,857,487
Operating expenses		
Compensation and benefits	3,153,496	3,518,763
Professional and contractual services	662,399	666,859
Depreciation	630,033	681,270
Other expenses	953,535	1,010,071
Total operating expenses	<u>5,399,463</u>	<u>5,876,963</u>
Increase in net assets without donor restrictions	54,725,654	30,596,907
Net assets without donor restrictions, beginning of year	<u>523,134,300</u>	<u>492,537,393</u>
Net assets without donor restrictions, end of year	<u>\$ 577,859,954</u>	<u>\$ 523,134,300</u>

See accompanying notes to consolidated financial statements.

KANSAS HEALTH FOUNDATION
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
Years ended December 31, 2021 and 2020

	2021						Total Management and General	Total
	Access to Care	Community Engagement	Education	Healthy Behaviors	Overall Health	Total Program Expenses		
Grants and grant related activities	\$ 1,288,720	\$ 37,238,662	\$ 1,353,660	\$ 2,297,670	\$ 1,258,460	\$ 43,437,172	\$ -	\$ 43,437,172
Compensation and benefits	107,321	439,450	201,032	208,052	304,719	1,260,574	1,892,922	3,153,496
Professional and contractual services	23,367	85,605	46,164	34,766	140,799	330,701	331,698	662,399
Depreciation	13,621	346,647	26,910	20,266	29,236	436,680	193,353	630,033
Other expense	33,672	252,993	66,523	50,097	72,272	475,557	477,978	953,535
	<u>\$ 1,466,701</u>	<u>\$ 38,363,357</u>	<u>\$ 1,694,289</u>	<u>\$ 2,610,851</u>	<u>\$ 1,805,486</u>	<u>\$ 45,940,684</u>	<u>\$ 2,895,951</u>	<u>\$ 48,836,635</u>
	2020							
	Access to Care	Community Engagement	Education	Healthy Behaviors	Overall Health	Total Program Expenses	Total Management and General	Total
Grants and grant related activities	\$ 4,352,572	\$ 1,270,693	\$ 2,521,535	\$ 8,800,976	\$ 2,911,711	\$ 19,857,487	\$ -	\$ 19,857,487
Compensation and benefits	243,262	336,283	250,740	259,935	187,255	1,277,475	2,241,288	3,518,763
Professional and contractual services	53,079	73,378	54,712	56,718	40,859	278,746	388,113	666,859
Depreciation	27,459	374,236	28,305	29,343	21,138	480,481	200,789	681,270
Other expense	69,782	229,946	71,918	74,555	53,709	499,910	510,161	1,010,071
	<u>\$ 4,746,154</u>	<u>\$ 2,284,536</u>	<u>\$ 2,927,210</u>	<u>\$ 9,221,527</u>	<u>\$ 3,214,672</u>	<u>\$ 22,394,099</u>	<u>\$ 3,340,351</u>	<u>\$ 25,734,450</u>

See accompanying notes to consolidated financial statements.

KANSAS HEALTH FOUNDATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash flows from operating activities		
Change in net assets	\$ 54,725,654	\$ 30,596,907
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation	630,033	681,270
Net realized and unrealized gains on investments	(97,995,644)	(55,061,847)
Change in assets and liabilities		
Other assets	753	250,694
Accounts payable	171,690	239,828
Grants payable	22,797,375	(6,009,113)
Accrued expenses	87	(68,098)
Net cash used in operating activities	<u>(19,670,052)</u>	<u>(29,370,359)</u>
Cash flows from investing activities		
Purchases of property and equipment	(83,960)	(103,129)
Proceeds from sale of investments	137,869,411	227,839,514
Purchase of investments	<u>(139,732,398)</u>	<u>(176,998,241)</u>
Net cash (used in) provided by investing activities	<u>(1,946,947)</u>	<u>50,738,144</u>
Change in cash and cash equivalents	(21,616,999)	21,367,785
Cash and cash equivalents, beginning of year	<u>35,825,425</u>	<u>14,457,640</u>
Cash and cash equivalents, end of year	<u>\$ 14,208,426</u>	<u>\$ 35,825,425</u>
Supplemental cash-flow disclosures		
Cash paid for excise and other taxes	\$ 168,838	\$ 179,342

See accompanying notes to consolidated financial statements.

KANSAS HEALTH FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2021 and 2020

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 have been prepared on the accrual basis of accounting in accordance with the accounting principles generally accepted in the United States of America ("GAAP"). GAAP requires, among other things, that the consolidated financial statements report changes in and total of each net asset classes, based upon donor restrictions, as applicable. Net assets are classified as without donor restrictions or with donor restrictions as described below:

Without Donor Restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Foundation.

With Donor Restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions can be met by actions of the Foundation or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

The Foundation had no net assets with donor restrictions at December 31, 2021 and 2020.

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.

(Continued)

KANSAS HEALTH FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2021 and 2020

NOTE 1 – NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

Cash and Cash Equivalents: The Foundation considers all liquid investments with original maturities of three months or less to be cash equivalents. Cash equivalents of \$14.2 million and \$35.2 million, as of December 31, 2021 and 2020, respectively, are invested in an institutional U.S. government securities money market funds.

As of December 31, 2021 and 2020, the Foundation's cash accounts exceeded federally insured limits by approximately \$1,100,000 and \$381,500, respectively.

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.

Purchases and sales of securities are recorded on a trade-date basis. 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.

Investment securities, principally consisting of money market funds, common stocks, exchange-traded funds and corporate bonds, are valued at their estimated fair value in the statements of financial position. Estimated fair values are determined primarily from quoted market prices where available, or quoted market prices of comparable instruments, where prices are not available. Earnings on investments, including interest, dividends, and realized and unrealized gains and losses are reported in the consolidated statements of activities as changes in net assets without donor restrictions unless their use is restricted by donor stipulations.

Property and Equipment: Property and equipment are stated at cost, less accumulated depreciation. Depreciation is computed using the straight-line method 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

Expenditures for additions, improvements, and replacements are capitalized and property replaced is accounted for as retirements. The Foundation capitalizes purchases of property and equipment costing more than \$1,000 with a useful life greater than one year or that result in the betterment of an existing capital asset.

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, 2021 and 2020.

(Continued)

KANSAS HEALTH FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2021 and 2020

NOTE 1 – NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

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, 2021 and 2020, the Foundation had a federal cumulative net operating loss carry-forward of \$1,914,446 and \$1,843,488, 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, 2018 through 2021) and concluded the Foundation did not require a provision for any uncertain tax positions as of December 31, 2021 and 2020.

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, 2021 and 2020.

Reclassifications: Certain reclassifications have been made to present last year’s financial statements on a basis comparable to the current year’s financial statements. These reclassifications had no effect on the change in net assets or total net assets.

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.

(Continued)

KANSAS HEALTH FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2021 and 2020

NOTE 2 – INVESTMENTS (Continued)

Fair Value Measurements: Fair value is defined as the price that would be received for an asset or paid to transfer a liability (an exit price) in the Foundation’s principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

GAAP establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. GAAP describes 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

In many cases, a valuation technique used to measure fair value includes inputs from multiple levels of the fair value hierarchy. The lowest level of significant input determines the placement of the entire fair value measurement in the hierarchy.

Certain investments are valued using the net asset value (NAV) (or its equivalent) provided by the fund as a practical expedient. Those investments are excluded from the valuation hierarchy.

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

	<u>2021</u>	<u>2020</u>
Common Stock	\$ 140,091	\$ -
U.S Equities and commingled funds	66,243,563	44,893,851
International equities and commingled funds	252,450,115	149,564,762
Marketable alternative equities	40,250,284	133,327,952
Real estate investment trust	-	6,909,181
Non-marketable investments:		
Real estate and natural resources funds	27,784,504	25,370,060
Private equity funds	53,370,419	22,622,790
Venture capital funds	63,446,215	50,956,475
Fixed income commingled funds	79,409,374	43,430,060
	<u>\$ 583,094,565</u>	<u>\$ 477,075,131</u>

Unrealized gains of \$71,572,307 and unrealized losses of \$24,881,455 were recognized during the years ended December 31, 2021 and 2020, respectively, on investments still held at year-end.

(Continued)

KANSAS HEALTH FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2021 and 2020

NOTE 2 – INVESTMENTS (Continued)

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, 2021 and 2020:

	December 31, 2021			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Marketable alternative equities	\$ 140,091	\$ -	\$ -	\$ 140,091
Non-marketable investments:				
Real estate and natural resource funds			3,207,711	3,207,711
Fixed income commingled funds	<u>8,274</u>	<u>-</u>	<u>-</u>	<u>8,274</u>
Total investments in the fair value hierarchy	<u>\$ 148,365</u>	<u>\$ -</u>	<u>\$ 3,207,711</u>	3,356,076
Investments measured at net asset value (a)				<u>579,738,489</u>
Total investments at fair value				<u>\$ 583,094,565</u>
	December 31, 2020			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
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	<u>11,649,371</u>	<u>-</u>	<u>-</u>	<u>11,649,371</u>
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>

(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, 2021. 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.

(Continued)

KANSAS HEALTH FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2021 and 2020

NOTE 2 – INVESTMENTS (Continued)

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):

	December 31, 2021					
	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Expected Liquidation Term</u>	<u>Redemption Terms</u>	<u>Redemption Restrictions</u>	<u>Redemption Restrictions</u>
U.S. Equity commingled funds (a)	\$ 66.2	N/A	N/A	Daily to quarterly 15 - 60 days notice	N/A	N/A
International equity commingled funds (a)	\$ 252.4	\$ -	N/A	Daily to 36 mos 2 - 90 days notice	1 fund has exit frequency greater than 12 mos	Fund level gate restrictions of 20% to 50%
Marketable alternative equities (b)	\$ 40.3	\$ 6.6	< 8 years	Daily to 36 mos 1 - 95 days notice	1 fund has exit frequency greater than 12 mos; 12 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)	\$ -	N/A	N/A	monthly, 15 days notice	N/A	N/A
Non-marketable investments (d)						
Real estate/natural resources funds	\$ 27.8	\$ 8.7	1-9 years	N/A*	N/A*	N/A*
Private equity funds	53.4	23.9	1 - 15 years	N/A*	N/A*	N/A*
Venture capital funds	63.4	7.6	1-9 years	N/A*	N/A*	N/A*
Total non-marketable investments	\$ 144.6	\$ 40.2				
Fixed income commingled fund (e)	\$ 79.4	N/A	N/A	Daily	N/A	N/A
Total	\$ 582.9					

(Continued)

KANSAS HEALTH FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2021 and 2020

NOTE 2 – INVESTMENTS (Continued)

	December 31, 2020					
	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Expected Liquidation Term</u>	<u>Redemption Terms</u>	<u>Redemption Restrictions</u>	<u>Redemption Restrictions</u>
U.S. Equity commingled funds (a)	\$ 44.9	N/A	N/A	Daily to quarterly 15 - 60 days notice	N/A	N/A
International equity commingled funds (a)	\$ 149.5	\$ 2.0	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 lock up that expires September 2021	2 funds have gate restrictions of 20% and 50% (f)
Marketable alternative equities (b)	\$ 116.1	\$ 6.7	< 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)	\$ 6.9	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	\$ 99.0	\$ 34.5				
Fixed income commingled fund (e)	\$ 31.8	N/A	N/A	daily, 15 days notice	N/A	N/A
Total	\$ 448.2					

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

(Continued)

NOTE 2 – INVESTMENTS (Continued)

- (a) U.S. and international equities and commingled funds are comprised of ten funds. The U.S. commingled funds include an S&P 500 ex-tobacco index fund, and one actively managed U.S. equity long/short fund. The value of the S&P 500 ex-tobacco index fund is based on published fair market valuations. The other fund is a domestic equity fund which is a feeder fund and is valued at its percentage of ownership in the master fund. The eight International commingled funds are comprised of five global common stock funds, two emerging market funds, and one fund that concentrates on real estate. These underlying assets of all these funds are marketable equity securities.
- (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, distressed securities, and 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, secondaries, 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.

- (c) The global real estate investment trust, REIT, (2020 only) 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.

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, 2021, it had no plans to sell any non-marketable investments before they were liquidated. Since December 31, 2021, the Foundation has not funded any new capital calls on non-marketable investments.

- (e) The fixed income funds are composed of two securities that invest in domestic investment grade bonds, high yield debt, bank loans, and domestic and foreign debt securities. The fair value of the fund is estimated using the NAV of the Foundation’s ownership interest in the trust.

(Continued)

KANSAS HEALTH FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2021 and 2020

NOTE 2 – INVESTMENTS (Continued)

- (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 \$2.9 million and \$0 and sales approximated \$2.9 million and \$20.8 million for the years ended December 31, 2021 and 2020, 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.

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 \$6,613,041 and \$12,773,844 at December 31, 2021 and 2020, respectively.

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment at December 31, consists of:

	<u>2021</u>	<u>2020</u>
Land	\$ 587,273	\$ 953,428
Building and improvements	15,410,995	15,380,315
Equipment, furniture and fixtures	<u>3,606,228</u>	<u>3,186,793</u>
	19,604,496	19,520,536
Less accumulated depreciation	<u>(8,188,351)</u>	<u>(7,558,318)</u>
Property and equipment, net	<u>\$ 11,416,145</u>	<u>\$ 11,962,218</u>

Depreciation expense was \$630,033 and \$681,270 for the years ended December 31, 2021 and 2020, respectively.

(Continued)

KANSAS HEALTH FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2021 and 2020

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, the grant contracts and discount were as follows:

	<u>2021</u>	<u>2020</u>
Grant contracts	\$ 39,326,283	\$ 14,531,795
Discount to present value	<u>(2,554,435)</u>	<u>(557,322)</u>
 Grants payable	 <u>\$ 36,771,848</u>	 <u>\$ 13,974,473</u>

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, 2021, will be paid is as follows:

	<u>Grant Contracts</u>	<u>Authorized Grants</u>
2022	\$ 12,194,347	\$ 329,354
2023	10,007,355	2,714,833
2024	7,303,579	131,667
2025	6,651,460	131,667
2026	<u>2,800,000</u>	<u>-</u>
	38,956,741	<u>\$ 3,307,521</u>
Amortization of Kansas Leadership Center's leased building	<u>369,542</u>	
 Grants payable	 <u>\$ 39,326,283</u>	

During 2021 and 2020, the Foundation paid \$2,700,000 and \$2,750,000, respectively, for core operations of the Kansas Health Institute (KHI), a non-profit, tax-exempt corporation located in Topeka, Kansas. At December 31, 2021, grants payable, net includes \$13,500,000 to be paid through 2026 for core operations of KHI. KHI was created by the Foundation in 1994 as a health policy and research institute for Kansas.

During 2021 and 2020, 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.

At December 31, 2021, grants payable, net includes \$12,000,000 to be paid through 2025 for core operations of KLC.

(Continued)

KANSAS HEALTH FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2021 and 2020

NOTE 5 – GRANTS PAYABLE AND GRANTS AND GRANT RELATED ACTIVITIES (Continued)

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 2021 and 2020 and the same amount was recognized as "other expenses" in the consolidated statements of activities. The remaining grant liability balance is \$369,541 and \$1,003,042 at December 31, 2021 and 2020, respectively.

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>2021</u>	<u>2020</u>
Access to care	\$ -	\$ 311,840
Civic and community engagement	560,302	1,347,167
Educational attainment	64,888	162,925
Healthy behaviors	222,330	481,004
Evaluations	2,460,000	-
Overall health	-	4,359
	<u>\$ 3,307,520</u>	<u>\$ 2,307,295</u>

NOTE 6 –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 represents the Foundation's financial assets available to meet general expenditures over the next twelve months as of December 31:

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 14,208,426	\$ 35,825,425
Investments	583,094,565	477,075,131
Due from underlying funds	6,613,041	12,773,844
	<u>603,916,032</u>	<u>525,674,400</u>
Investments with liquidity horizons greater than one year	(166,962,698)	(130,897,446)
Board designed funding for certain program areas	(329,354)	(512,439)
	<u>(167,292,052)</u>	<u>(643,336,891)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 436,623,980</u>	<u>\$ 394,264,515</u>

(Continued)

KANSAS HEALTH FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2021 and 2020

NOTE 6 – LIQUIDITY AND AVAILABILITY (Continued)

As part of the Foundation’s liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

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:

2022	\$ 107,140
2023	107,140
2024	107,140
2025	107,140
2026	107,140
2027 - 2081	<u>5,884,428</u>
	<u>\$ 6,420,128</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 \$312,273 and \$324,850 to the plans in 2021 and 2020, 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

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

Management has performed an analysis of the activities and transactions subsequent to December 31, 2021, to determine the need for any adjustments or disclosures to the financial statements for the year ended December 31, 2021. Management has performed their analysis through September 26, 2022, the date the financial statements were available to be issued.