

KANSAS HEALTH FOUNDATION
CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2023 and 2022

KANSAS HEALTH FOUNDATION
Wichita, Kansas

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2023 and 2022

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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 statements of financial position as of December 31, 2023 and 2022, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the 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, 2023 and 2022, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

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 consolidated 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 10, 2024

KANSAS HEALTH FOUNDATION
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
ASSETS		
Cash and cash equivalents	\$ 24,595,124	\$ 7,217,017
Investments	541,755,515	513,385,327
Due from underlying funds	1,329,477	11,544,856
Property and equipment, net	10,490,297	10,908,578
Other assets	<u>471,218</u>	<u>106,351</u>
 Total assets	 <u>\$ 578,641,631</u>	 <u>\$ 543,162,129</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 328,118	\$ 235,911
Grants payable, net	22,209,960	29,353,060
Accrued expenses	<u>193,544</u>	<u>167,092</u>
Total liabilities	22,731,622	29,756,063
 Net assets without donor restrictions	 <u>555,910,009</u>	 <u>513,406,066</u>
 Total liabilities and net assets	 <u>\$ 578,641,631</u>	 <u>\$ 543,162,129</u>

See notes to consolidated financial statements.

KANSAS HEALTH FOUNDATION
CONSOLIDATED STATEMENTS OF ACTIVITIES
Years ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Revenue and gains		
Investment income (loss) , net	\$ 59,588,056	\$ (51,712,052)
Other income	<u>756,770</u>	<u>746,441</u>
Total revenue and gains (losses)	60,344,826	(50,965,611)
Grants and grant related activities	12,518,399	8,600,486
Operating expenses		
Compensation and benefits	2,764,350	2,689,659
Professional and contractual services	668,390	494,618
Depreciation	589,277	610,715
Other expenses	<u>1,300,467</u>	<u>1,092,799</u>
Total operating expenses	<u>5,322,484</u>	<u>4,887,791</u>
Change in net assets without donor restrictions	42,503,943	(64,453,888)
Net assets without donor restrictions, beginning of year	<u>513,406,066</u>	<u>577,859,954</u>
Net assets without donor restrictions, end of year	<u><u>\$ 555,910,009</u></u>	<u><u>\$ 513,406,066</u></u>

See notes to consolidated financial statements.

KANSAS HEALTH FOUNDATION
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
Years ended December 31, 2023 and 2022

	2023							Total Management and General	Total
	Institution Building	Building Power	Policy & Systems Mobilization	Network Mobilization	Additional Resources Mobilization	Total Program Expenses	Total Program Expenses		
Grants and grant related activities	\$ 411,586	\$ 10,107,674	\$ 1,984,796	\$ 10,343	\$ 4,000	\$ 12,518,399	\$ -	\$ 12,518,399	
Compensation and benefits	102,254	415,228	288,066	267,008	146,652	1,219,208	1,545,142	2,764,350	
Professional and contractual services	16,967	150,514	45,989	142,894	64,835	421,199	247,191	668,390	
Depreciation	290,552	46,530	32,261	30,090	16,441	415,874	173,403	589,277	
Other expense	225,233	172,788	118,349	157,041	54,942	728,353	572,114	1,300,467	
	<u>\$ 1,046,592</u>	<u>\$ 10,892,734</u>	<u>\$ 2,469,461</u>	<u>\$ 607,376</u>	<u>\$ 286,870</u>	<u>\$ 15,303,033</u>	<u>\$ 2,537,850</u>	<u>\$ 17,840,883</u>	
	2022								
	Institution Building	Building Power	Policy & Systems Mobilization	Network Mobilization	Additional Resources Mobilization	Total Program Expenses	Total Program Expenses	Total Management and General	Total
Grants and grant related activities	\$ -	\$ 8,395,654	\$ 204,832	\$ -	\$ -	\$ 8,600,486	\$ -	\$ 8,600,486	
Compensation and benefits	-	870,280	115,747	-	-	986,027	1,703,632	2,689,659	
Professional and contractual services	3,070	193,018	18,989	-	-	215,077	279,541	494,618	
Depreciation	290,574	103,726	13,766	-	-	408,066	202,649	610,715	
Other expense	160,761	301,980	40,078	-	-	502,819	589,980	1,092,799	
	<u>\$ 454,405</u>	<u>\$ 9,864,658</u>	<u>\$ 393,412</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,712,475</u>	<u>\$ 2,775,802</u>	<u>\$ 13,488,277</u>	

See notes to consolidated financial statements.

KANSAS HEALTH FOUNDATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended December 31, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities		
Change in net assets	\$ 42,503,943	\$ (64,453,888)
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation	589,277	610,715
Net realized and unrealized (gains) losses on investments	(54,309,782)	53,376,992
Change in assets and liabilities		
Other assets	(364,867)	(32,353)
Accounts payable	92,207	(282,587)
Grants payable	(7,143,100)	(7,418,788)
Accrued expenses	26,452	(88,783)
Net cash used in operating activities	<u>(18,605,870)</u>	<u>(18,288,692)</u>
Cash flows from investing activities		
Purchases of property and equipment	(170,996)	(103,148)
Proceeds from sale of investments	68,347,684	165,797,842
Purchase of investments	<u>(32,192,711)</u>	<u>(154,397,411)</u>
Net cash provided by investing activities	<u>35,983,977</u>	<u>11,297,283</u>
Change in cash and cash equivalents	17,378,107	(6,991,409)
Cash and cash equivalents, beginning of year	<u>7,217,017</u>	<u>14,208,426</u>
Cash and cash equivalents, end of year	<u>\$ 24,595,124</u>	<u>\$ 7,217,017</u>
Supplemental cash-flow disclosures		
Cash paid for excise and other taxes	\$ 146,696	\$ 153,140

See notes to consolidated financial statements.

KANSAS HEALTH FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2023 and 2022

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 its charitable and operational activities in the following areas: empowering Kansas to lead the nation in health, eliminating inequities that create health disparities, and becoming the model for philanthropic impact.

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, 2023 and 2022.

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.

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KANSAS HEALTH FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2023 and 2022

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 \$24.1 million and \$6.9 million, as of December 31, 2023 and 2022, respectively, are invested in institutional U.S. government securities money market funds.

As of December 31, 2023 and 2022, the Foundation's cash accounts exceeded federally insured limits by approximately \$183,000 and \$44,500, 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	10 - 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 \$5,000 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, 2023 and 2022.

(Continued)

KANSAS HEALTH FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2023 and 2022

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, 2023 and 2022, the Foundation had a federal cumulative net operating loss carry-forward of approximately \$1,838,000 and \$1,743,000, 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, 2019 through 2022) and concluded the Foundation did not require a provision for any uncertain tax positions as of December 31, 2023 and 2022.

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 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 program services, management and general categories distributed based on the composite average of all employees’ time and labor allocations. Compensation and benefits are individually allocated based on employee estimates of time and effort. There were no fundraising costs during the years ended December 31, 2023 and 2022.

The costs of supporting the various programs and other activities have been summarized on a functional basis in the statements of activities. In 2023, the Foundation adopted a new strategic plan that changed its program focus areas. The functional allocation reflects expenses in the new focus areas for 2023, and 2022 allocations were reclassified for comparison.

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.

(Continued)

KANSAS HEALTH FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2023 and 2022

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.

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>2023</u>	<u>2022</u>
U.S. Equities and commingled funds	\$ 63,049,671	\$ 53,020,682
International equities and commingled funds	231,634,910	169,553,962
Marketable alternative equities	44,964,474	96,397,799
Non-marketable investments:		
Real estate and natural resources funds	24,739,925	29,145,704
Private equity funds	73,189,695	49,785,413
Venture capital funds	42,652,208	49,492,968
Fixed income commingled funds	<u>61,524,632</u>	<u>65,988,799</u>
	<u>\$ 541,755,515</u>	<u>\$ 513,385,327</u>

(Continued)

KANSAS HEALTH FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2023 and 2022

NOTE 2 – INVESTMENTS (Continued)

Interest and dividends and realized and unrealized gains and losses on investments are comprised of the following for the years ended December 31:

	<u>2023</u>	<u>2022</u>
Interest and dividends on investments	\$ 5,278,274	\$ 1,664,940
Net realized gain on investments	11,150,482	2,769,555
Net unrealized gain (loss) on investments	<u>43,159,300</u>	<u>(56,146,547)</u>
Total realized and unrealized gain (loss) on investments	<u>54,309,782</u>	<u>(53,376,992)</u>
Total investment income (loss), net	<u>\$ 59,588,056</u>	<u>\$ (51,712,052)</u>

Unrealized gain of \$43,159,300 and unrealized losses of \$56,146,546 were recognized during the years ended December 31, 2023 and 2022, respectively, on investments still held at year-end.

Investment fees for custodial and management services for the years ended December, 2023 and 2022, were approximately \$1,269,000 and \$1,283,000, respectively.

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, 2023 and 2022:

	December 31, 2023			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Non-marketable investments:				
Real estate and natural resource funds	\$ -	\$ -	\$ 2,785,171	\$ 2,785,171
Venture capital funds	-	-	449,989	449,989
Fixed income commingled funds	<u>7,578</u>	<u>8,794,941</u>	-	<u>8,802,519</u>
Total investments in the fair value hierarchy	<u>\$ 7,578</u>	<u>\$ 8,794,941</u>	<u>\$ 3,235,160</u>	12,037,679
Investments measured at net asset value (a)				<u>529,717,836</u>
Total investments at fair value				<u>\$541,755,515</u>

(Continued)

KANSAS HEALTH FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2023 and 2022

NOTE 2 – INVESTMENTS (Continued)

	December 31, 2022			Total
	Level 1	Level 2	Level 3	
Non-marketable investments:				
Real estate and natural resource funds	\$ -	\$ -	\$ 3,863,420	\$ 3,863,420
Fixed income commingled funds	7,029	8,239,634	-	8,246,663
Total investments in the fair value hierarchy	\$ 7,029	\$ 8,239,634	\$ 3,863,420	12,110,083
Investments measured at net asset value (a)				501,275,244
Total investments at fair value				\$513,385,327

(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, 2023. 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, 2023 and 2022

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, 2023					
	<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)	\$ 63.0	N/A	N/A	Daily to quarterly Daily - 5 business days	N/A	Fund level gate restrictions of 20%
International equity commingled funds (a)	\$ 231.6	\$ -	N/A	Daily to illiquid 1 business days - illiquid	1 fund has exit frequency greater than 12 mos	Fund level gate restrictions of 20% to 50%
Marketable alternative equities (b)	\$ 45.0	\$ -	N/A	95 business days - illiquid	2 side pocket funds not redeemable until underlying funds are liquidated	Fund level gate restrictions of 25% per quarter
Non-marketable investments (c)						
Real estate/natural resources funds	\$ 24.7	\$ 5.7	1-10 years	Quarterly to illiquid 90 business days - illiquid	N/A*	N/A*
Private equity funds	73.2	52.1	1 - 15 years	Illiquid	1 fund has lockup expiration of 12/31/2028	N/A*
Venture capital funds	42.7	6.1	1-13 years	Illiquid	N/A*	N/A*
Total non-marketable investments	\$ 140.6	\$ 63.9				
Fixed income commingled fund (d)	\$ 61.5	N/A	N/A	Daily to monthly Daily - 5 business days	N/A	N/A
Total	\$ 541.8					

(Continued)

KANSAS HEALTH FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2023 and 2022

NOTE 2 – INVESTMENTS (Continued)

	December 31, 2022					
	<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)	\$ 63.0	N/A	N/A	Daily to quarterly Daily - 5 business days	N/A	Fund level gate restrictions of 20%
International equity commingled funds (a)	\$ 231.6	\$ -	N/A	Daily to illiquid 1 business days - illiquid	1 fund has exit frequency greater than 12 mos	Fund level gate restrictions of 20% 50%
Marketable alternative equities (b)	\$ 45.0	\$ 5.5	< 8 years	Quarterly to illiquid 60 business days - illiquid	1 fund has exit frequency greater than 12 mos; 12 funds not redeemable until underlying funds are liquidated	Fund level gate restrictions of 25% per quarter
Non-marketable investments (c)						
Real estate/natural resources funds	\$ 24.7	\$ 1.9	1-9 years	Quarterly to illiquid 90 business days - illiquid	1 fund has lockup expiration of 12/31/2028	N/A*
Private equity funds	73.2	39.2	1 - 15 years	Illiquid	N/A*	N/A*
Venture capital funds	42.7	6.3	1-9 years	Illiquid	N/A*	N/A*
Total non-marketable investments	\$ 140.6	\$ 47.4				
Fixed income commingled fund (d)	\$ 61.5	N/A	N/A	Daily to monthly Daily - 5 business days	N/A	N/A
Total	\$ 541.7					

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

(Continued)

NOTE 2 – INVESTMENTS (Continued)

- (a) U.S. equities and international commingled funds are comprised of fourteen funds. U.S. equities and commingled funds are comprised of two funds, a S&P 500 ex-tobacco index fund and one actively managed U.S. equity long/short fund. The underlying assets of the funds are marketable equity securities. Current investments of international commingled funds are composed of twelve funds. Those securities are comprised of four global common stock funds, three non-U.S. common stock funds, two emerging market funds, one international real estate commingled fund, and two infrastructure funds.
- (b) Marketable alternative funds are comprised of three funds. It includes two hedge funds and one diversifier. One hedge fund is in the process of liquidating. The other hedge fund has flexibility to trade securities both long and short, to use limited leverage and to invest in either U.S. or global markets. Diversifier fund has discretion to utilize resources among multiple strategies to diversify risk and reduce portfolio volatility.

The Foundation uses a fund of funds approach to invest in the securities. The fair value of investments has been estimated based on the NAV of the underlying funds as reported to the fund administrators.

- (c) Non-marketable investments are comprised of sixty-nine funds. Eighteen real estate and natural resource funds composed of one oil and gas interest, nine natural resources funds, and eight real estate funds. Thirty-two private equity funds comprised of five distressed securities, one opportunity credit fund, one private debt fund, twenty funds of funds, and five secondary funds. There are nineteen venture capital funds with fourteen venture capital funds and five direct investments in early venture startups.

All funds, except for one fund, is considered illiquid. Instead, distributions are received from liquidation of the underlying assets of the funds. The Foundation may sell its interests in non-marketable funds in a secondary market, but as of December 31, 2023, it had no plans to sell any such investments before liquidation.

- (d) Fixed income investments are comprised of four securities. There are three core investment funds and one multi-asset credit security. These securities invest in domestic investment grade bonds, high yield debt, bank loans, and domestic and foreign debt securities. The fair value of the fund estimated using the NAV of the Foundation's ownership interest in the funds.
- (e) 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.

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KANSAS HEALTH FOUNDATION
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NOTE 2 – INVESTMENTS (Continued)

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.

The following represents the changes in level 3 investments during the year:

	Beginning of the year	Purchases	Sales	Transfers in/out	Realized Gains/(Losses)	Unrealized Gains/(Losses)	End of the year
Real estate and natural resource funds	\$ 3,863,420	\$ -	\$ -	\$ -	\$ -	\$ (1,078,249)	\$ 2,785,171
Venture capital funds	-	449,989	-	-	-	-	449,989
Total	<u>\$ 3,863,420</u>	<u>\$ 449,989</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,078,249)</u>	<u>\$ 3,235,160</u>

Unobservable (Level 3) Inputs: The Foundation has six level 3 investments. A limited liability company that invests in oil, natural gas, and mineral interests and royalties 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 estimated with respect to future productions. The Foundation has five direct investments in early venture companies in which market value can only be determined at liquidation.

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 approximates \$1,329,000 and \$11,545,000 at December 31, 2023 and 2022, respectively.

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment at December 31, consists of:

	<u>2023</u>	<u>2022</u>
Land	\$ 587,273	\$ 587,273
Building and improvements	11,509,264	11,509,264
Equipment, furniture and fixtures	886,387	865,174
Building improvement	4,306,455	4,306,455
Artwork	376,495	376,495
Computer software	825,753	691,835
Computer hardware	1,387,014	1,371,149
	<u>19,878,641</u>	<u>19,707,645</u>
Less accumulated depreciation	<u>(9,388,344)</u>	<u>(8,799,067)</u>
Property and equipment, net	<u>\$ 10,490,297</u>	<u>\$ 10,908,578</u>

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KANSAS HEALTH FOUNDATION
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NOTE 4 – PROPERTY AND EQUIPMENT (Continued)

Depreciation expense was \$589,277 and \$610,715 for the years ended December 31, 2023 and 2022, respectively.

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>2023</u>	<u>2022</u>
Grant contracts	\$ 23,497,409	\$ 30,776,060
Discount to present value	<u>(1,287,449)</u>	<u>(1,423,000)</u>
Grants payable	<u>\$ 22,209,960</u>	<u>\$ 29,353,060</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, 2023 will be paid is as follows:

	<u>Grant Contracts</u>	<u>Authorized Grants</u>
2024	\$ 8,221,432	\$ 5,916,667
2025	9,292,643	5,916,667
2026	3,195,000	5,916,666
2027	<u>495,000</u>	<u>-</u>
	21,204,075	<u>\$ 17,750,000</u>
Amortization of Kansas Leadership Center's leased building	<u>2,293,334</u>	
Grants payable	<u>\$ 23,497,409</u>	

During 2023 and 2022, the Foundation paid \$5,400,000 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, 2023 and 2022, grants payable, net includes \$5,400,000 and \$10,800,000, respectively, 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 2023 and 2022, the Foundation paid \$3,000,000 each year for operations of a separate non-profit, tax-exempt corporation, the Kansas Leadership Center (KLC). At December 31, 2023 and 2022, grants payable, net includes \$6,000,000 and \$9,000,000, respectively, to be paid through 2026 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.

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KANSAS HEALTH FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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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 and August, 2022. Upon expiration in August 2022, KLC entered into another five year lease with the new terms expiring in July, 2027. 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 \$640,000 and \$636,000 at December 31, 2023 and 2022, respectively and the same amount was recognized in "other expenses" in the consolidated statements of activities. The remaining grant liability balance is \$2,293,000 and \$2,933,000 at December 31, 2023 and 2022, respectively.

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

Board designated net assets are comprised of authorized grants from approved multi-year initiatives. In 2023, the Foundation adopted a new strategic plan that changed its program focus areas. Board designated net assets reflect expenses in the new focus areas for 2023, and 2022 authorized grants were reclassified for comparison. The authorized grants are designated by the board for the following program areas:

	<u>2023</u>	<u>2022</u>
Building power	\$ 9,000,000	\$ 23,643
Network mobilization	3,500,000	-
Policy	<u>5,250,000</u>	<u>180,302</u>
	<u>\$ 17,750,000</u>	<u>\$ 203,945</u>

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KANSAS HEALTH FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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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>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 24,595,124	\$ 7,217,017
Investments	541,755,515	513,385,327
Due from underlying funds	<u>1,329,477</u>	<u>11,544,856</u>
	567,680,116	532,147,200
Investments with liquidity horizons greater than one year	<u>(162,401,535)</u>	<u>(153,842,331)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 405,278,581</u>	<u>\$ 378,304,869</u>

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:

2024	\$ 107,140
2025	107,140
2026	107,140
2027	107,140
2028	107,140
2028 - 2082	<u>5,670,148</u>
	<u>\$ 6,205,848</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 approximately \$284,000 and \$261,000, to the plans in 2023 and 2022, 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.

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KANSAS HEALTH FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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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, 2023, to determine the need for any adjustments or disclosures to the financial statements for the year ended December 31, 2023. Management has performed their analysis through September 10, 2024, the date the financial statements were available to be issued.