



Kansas Health Foundation

Financial Statements



Years ended December 31, 2009 and 2008
(with report of independent certified public accountants thereon)



Grant Thornton

Report of Independent Certified Public Accountants

Board of Directors
Kansas Health Foundation

Audit • Tax • Advisory

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We have audited the accompanying balance sheets of Kansas Health Foundation as of December 31, 2008 and 2007, and the related statements of activity and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America as established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kansas Health Foundation as of December 31, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Grant Thornton LLP

Wichita, Kansas
July 6, 2009

KANSAS HEALTH FOUNDATION
Balance Sheets
December 31, 2009 and 2008

	2009	2008
Assets		
Cash and cash equivalents	\$ 10,021,375	23,525,085
Investments (Note 3)	430,104,524	349,886,021
Accrued interest and dividends receivable	404,582	269,581
Due from brokers	48,215	11,792
Excise taxes receivable (Note 8)	291,630	291,630
Property and equipment, net (Note 4)	3,897,960	3,957,549
Other assets	<u>614,126</u>	<u>554,231</u>
	<u>\$ 445,382,412</u>	<u>378,495,889</u>
 Liabilities and Net Assets		
Due to brokers	\$ 25,469	15,296
Accounts payable	97,680	130,694
Grants payable (Note 7)	30,298,513	19,711,065
Accrued expenses	362,133	321,008
Deferred excise taxes payable (Note 8)	669,399	—
Commitments (Note 3)	<u> </u>	<u> </u>
Total liabilities	<u>31,453,194</u>	<u>20,178,063</u>
Net assets	<u>413,929,218</u>	<u>358,317,826</u>
	<u>\$ 445,382,412</u>	<u>378,495,889</u>

See accompanying notes to financial statements.

KANSAS HEALTH FOUNDATION
Statements of Activity
Years Ended December 31, 2009 and 2008

	2009	2008
Revenues and gains (losses):		
Investment income (Note 3)	\$ 6,032,575	8,183,077
Net realized and unrealized gains (losses) on investments (Note 3)	82,082,068	(144,197,911)
Investment expenses	(1,425,733)	(1,554,898)
Other income (Note 9)	919,369	654,221
	<hr/>	<hr/>
Total revenues and gains (losses)	87,608,279	(136,915,511)
	<hr/>	<hr/>
Program grants, net (Note 7)	27,414,446	17,439,558
	<hr/>	<hr/>
Operating expenses (Note 6):		
Compensation and benefits	2,271,925	2,428,169
Professional and contractual services	458,983	829,516
Depreciation	261,581	260,027
Other	770,553	697,044
	<hr/>	<hr/>
Total operating expenses	3,763,042	4,214,756
	<hr/>	<hr/>
Increase (decrease) in net assets before excise taxes	56,430,791	(158,569,825)
	<hr/>	<hr/>
Excise (taxes) benefit (Note 8)	(819,399)	1,850,084
	<hr/>	<hr/>
Increase (decrease) in net assets	55,611,392	(156,719,741)
	<hr/>	<hr/>
Net assets, beginning of year	358,317,826	515,037,567
	<hr/>	<hr/>
Net assets, end of year	\$ 413,929,218	358,317,826
	<hr/> <hr/>	<hr/> <hr/>

See accompanying notes to financial statements.

KANSAS HEALTH FOUNDATION
Statements of Cash Flows
Years Ended December 31, 2009 and 2008

	2009	2008
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ 55,611,392	(156,719,741)
Adjustments to reconcile (decrease) increase in net assets to net cash used in operating activities:		
Net realized and unrealized (gains) losses on investments	(82,082,068)	144,197,911
Depreciation	261,581	260,027
Net loss on disposition of equipment	8,458	10,488
Changes in assets and liabilities:		
Accrued interest and dividends receivable	(135,001)	147,771
Excise taxes receivable	—	(85,185)
Other assets	(59,895)	378,677
Accounts payable	(33,014)	41,077
Grants payable	10,587,448	(2,756,729)
Accrued expenses	41,125	(432,321)
Deferred excise taxes	669,399	(2,213,467)
	Net cash used in operating activities	(17,171,492)
	(15,130,575)	(17,171,492)
Cash flows from investing activities:		
Additions to property and equipment	(223,550)	(269,173)
Proceeds from sale of equipment	13,100	45,285
Proceeds from sale of investments	104,274,812	126,572,141
Purchase of investments	(102,411,247)	(92,555,557)
(Increase) decrease in due from brokers	(36,423)	229,666
Increase (decrease) in due to brokers	10,173	(603,334)
	Net cash provided by investing activities	33,419,028
	1,626,865	33,419,028
Net (decrease) increase in cash and cash equivalents	(13,503,710)	16,247,536
Cash and cash equivalents, beginning of year	23,525,085	7,277,549
Cash and cash equivalents, end of year	\$ 10,021,375	23,525,085

See accompanying notes to financial statements.

KANSAS HEALTH FOUNDATION
Notes to Financial Statements
December 31, 2009 and 2008

(1) Organization and Operations

The Kansas Health Foundation is driven by a mission to improve the health of all Kansans. To accomplish its mission, the Foundation focuses the majority of its grant making efforts in the following areas: promoting healthy behaviors by ensuring proper nutrition, increasing physical activity and decreasing tobacco use; strengthening the public health system; improving access to health care; growing community philanthropy; providing health data and information to policymakers; and building civic leadership.

The Foundation qualifies as an organization exempt from federal income tax pursuant to Internal Revenue Code (Code) Section 501(c)(3) and as a private foundation within the meaning of Code Section 509(a) under a determination letter received from the Internal Revenue Service dated December 29, 1993.

(2) Summary of Significant Accounting Policies

Basis of Accounting

The accompanying financial statements are prepared on the accrual basis of accounting. Revenue is recognized when earned and expenses are recognized upon receipt of goods or services.

Investments

Investments are recorded at fair value in the accompanying financial statements. The Foundation has adopted Financial Accounting Standards Board Accounting Standards Codification topic 820 (ASC 820), *Fair Value Measurements and Disclosures*, effective January 1, 2008. ASC 820 creates a single definition of fair value, establishes a framework for measuring fair value, and expands disclosure requirements about assets and liabilities measured at fair value. ASC 820 requires fair value to be determined as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date (that is, an exit price).

As described further in note 3, under ASC 820 fair value for level 1 assets is generally determined based on quoted market prices in active markets for identical assets and liabilities. Where quoted market prices are not available, the Foundation uses valuation techniques that place greater reliance on observable inputs and less reliance on unobservable inputs in determining fair value. For level 3 assets which are comprised of commingled funds and trusts, and limited partnerships (funds), these investments are valued by the Foundation at net asset value per share (NAV) as provided by the funds' administrator or general partner. Where available, the Foundation uses net assets from the funds' audited financial statements multiplied by the Foundation's interest in the funds to record the fair value of its investments.

The inputs used in valuing the Foundation's investments are not necessarily an indication of investment risks. The Foundation's investments are exposed to various risks, such as interest rate, credit, currency and overall market volatility risk. Due to these risks, it is possible that changes in the values of investments could occur in the near term and that such changes could materially affect the net assets recorded in the accompanying financial statements.

KANSAS HEALTH FOUNDATION
Notes to Financial Statements
December 31, 2009 and 2008

(2) Summary of Significant Accounting Policies, continued

Cash Equivalents

Cash equivalents represent short-term investments with original maturities of three months or less. A majority of cash equivalents are invested in an institutional, interest bearing money market fund.

Property and Equipment

Property and equipment are recorded at cost. Depreciation is being provided on depreciable assets over the estimated useful lives of the respective assets on the straight-line basis.

Program Grants

Program grants are recorded in the accompanying financial statements when the Foundation has an obligation to transfer assets to a grantee, normally when a grant contract is executed. Grants are recorded based on the present value of estimated future cash flows, discounted at an average annual market rate of interest in the year of approval.

Use of Estimates

Foundation management has made estimates and assumptions relating to the reporting of assets and liabilities, and the disclosure of contingent assets and liabilities, in preparing these financial statements in conformity with accounting principles generally accepted in the United States of America. Estimates also affect the reported amounts of revenues, gains and losses, program grants and operating expenses during the reporting period. Actual results could differ from these estimates.

Fair Value of Financial Instruments

ASC 825, "Financial Instruments", requires the Foundation to disclose estimated fair values for its financial instruments. The carrying values of the Foundation's financial instruments approximate their fair value.

Reclassification of 2008 Investment Gains and Losses

In 2008 approximately \$1.6 million of investment gains (losses), previously reported as realized, have been reclassified as unrealized in the accompanying financial statements (see note 3), to reflect an adjustment of cost on certain non-marketable investments as of December 31, 2008. This reclassification had no effect on the net assets or change in net assets of the Foundation as of December 31, 2009 or 2008.

Subsequent Events

The Foundation has evaluated and disclosed, if any, subsequent events that occurred after December 31, 2009 and through June 25, 2010, which represents the date the financial statements were available to be issued.

KANSAS HEALTH FOUNDATION
Notes to Financial Statements
December 31, 2009 and 2008

(3) Investments

Investment Objective

The Foundation's long-term financial objectives are to preserve and enhance the inflation adjusted value of its assets in perpetuity and provide a relatively stable stream of earnings consistent with spending needs. These financial objectives are intended to balance the needs of current and future generations of the Foundation's beneficiaries. The Foundation's primary long-term investment objective is to earn an average annual inflation adjusted total return of at least 5%, net of all investment management fees, operating expenses and taxes over long-term periods.

Composition of Investments

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

	December 31, 2009	
	<u>Cost</u>	<u>Fair Value</u>
Equity securities and commingled funds	\$ 208,849,433	230,954,221
Marketable alternative equities	43,657,515	57,099,223
Real estate investment trusts	13,866,955	13,457,293
Non-marketable investments	38,433,236	32,231,591
Fixed income commingled funds	73,987,982	75,856,505
U.S. Treasury and agency securities	<u>19,122,876</u>	<u>20,505,691</u>
	<u>\$ 397,917,997</u>	<u>430,104,524</u>
	December 31, 2008	
	<u>Cost</u>	<u>Fair Value</u>
Equity securities and commingled funds	\$ 217,343,850	169,336,086
Marketable alternative equities	47,262,152	50,565,340
Real estate investment trusts	20,857,598	14,576,840
Non-marketable investments	30,937,891	25,361,559
Fixed income commingled funds	76,545,939	77,726,293
U.S. Treasury securities	<u>11,851,777</u>	<u>12,319,903</u>
	<u>\$ 404,799,207</u>	<u>349,886,021</u>

KANSAS HEALTH FOUNDATION
Notes to Financial Statements
December 31, 2009 and 2008

(3) Investments, continued

Components of Investment Return

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

	2009	2008
Interest and dividends	\$ 6,032,575	8,183,077
Net realized gains (losses) on sale	(5,017,645)	21,234,386
Net unrealized gains (losses)	<u>87,099,713</u>	<u>(165,432,297)</u>
	<u>\$ 88,114,643</u>	<u>(136,014,834)</u>

Fair value measurements

As disclosed in note 2, the Foundation adopted ASC 820 effective January 1, 2008. ASC 820 establishes a fair value hierarchy that distinguishes between assumptions based on market data (observable inputs) and Foundation assumptions (unobservable inputs). The determination of where an asset or liability falls in the hierarchy requires significant judgment. The hierarchy consists of three broad levels as follows:

Level 1 – Quoted prices in active markets for identical assets or liabilities at the measurement date

Level 2 – Quoted market prices for similar assets and liabilities in an active market; quoted prices for identical or similar assets or liabilities in an inactive market and calculation techniques utilizing observable market inputs

Level 3 - Valuations derived from techniques in which one or more significant inputs is unobservable

Fair value of the Foundation's investments has been determined using the valuation hierarchy as follows:

	December 31, 2009		
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Equity securities and commingled funds	\$ 103,224,892	-	127,729,329
Marketable alternative equities	-	-	57,099,223
Real estate investment trusts	-	-	13,457,293
Non-marketable investments	-	-	32,231,591
Fixed income commingled funds	39,419,776	-	36,436,729
U.S. Treasury and agency securities	<u>20,505,691</u>	<u>-</u>	<u>-</u>
	<u>\$ 163,150,359</u>	<u>-</u>	<u>266,954,165</u>

KANSAS HEALTH FOUNDATION
Notes to Financial Statements
December 31, 2009 and 2008

(3) Investments, continued

	December 31, 2008		
	Level 1	Level 2	Level 3
Equity securities and commingled funds	\$ 78,492,067	-	90,844,019
Marketable alternative equities	-	-	50,565,340
Real estate investment trusts	-	-	14,576,840
Non-marketable investments	-	-	25,361,559
Fixed income commingled funds	33,255,300	-	44,470,993
U.S. Treasury obligations	12,319,903	-	-
	\$ 124,067,270	-	225,818,751

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

Investments	Equity securities and commingled funds	Marketable alternative equities	Real estate investment trusts	Non-marketable investments	Fixed income commingled funds	Total
Balance - January 1, 2009	\$ 90,844,019	50,565,340	14,576,840	25,361,559	44,470,993	225,818,751
Total realized and unrealized gains (losses)	34,499,191	10,138,520	6,813,087	(625,312)	(1,297,466)	49,528,020
Net purchases (sales)	2,386,119	(3,604,637)	(7,932,634)	7,495,344	(6,736,798)	(8,392,606)
Balance - December 31, 2009	\$ 127,729,329	57,099,223	13,457,293	32,231,591	36,436,729	266,954,165

Investments	Equity securities and commingled funds	Marketable alternative equities	Real estate investment trusts	Non-marketable investments	Fixed income commingled funds	Total
Balance - January 1, 2008	\$ 152,088,403	74,503,588	23,275,965	20,125,433	53,521,706	323,515,095
Total realized and unrealized gains (losses)	(63,867,166)	(12,529,472)	(10,464,065)	(5,258,884)	3,256,184	(88,863,403)
Net purchases (sales)	2,622,782	(11,408,776)	1,764,940	10,495,010	(12,306,897)	(8,832,941)
Balance - December 31, 2008	\$ 90,844,019	50,565,340	14,576,840	25,361,559	44,470,993	225,818,751

KANSAS HEALTH FOUNDATION
Notes to Financial Statements
December 31, 2009 and 2008

(3) Investments, continued

Investment strategies, liquidity restrictions and unfunded commitments, for December 31, 2009 investments, valued using level 3 inputs, are described in the following paragraphs.

Equity securities and commingled funds with a total fair value of \$127.7 million include commingled investments in an S&P 500 ex-tobacco index fund, an actively managed U.S. equity long/short fund, three actively managed international equity funds, an energy fund and a commodities fund. The underlying assets of all funds except the commodities fund are marketable

equity securities traded on national and international exchanges. The commodities fund invests 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. The Foundation may redeem all or a portion of its investment in these funds on a monthly basis with from 3 to 60 days written notice.

Marketable alternative equities include absolute return hedge funds, long/short hedge funds and an emerging market debt fund. Absolute return hedge funds with a total fair value of \$36.5 million include diversified, 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 leverage and to implement strategies on a U.S. or global basis. Long/short hedge fund managers (total fair value of \$14.3 million) have the flexibility to own securities both long and short, to use leverage and to invest in either U.S. or global markets. The Foundation uses a "fund of funds" approach investing in hedge funds.

The fair value of investments in both absolute and long/short hedge funds have been estimated based on the NAV of the underlying hedge funds as reported to the "fund of funds" manager. As of December 31, 2009, approximately 27% of the hedge fund balances cannot be redeemed for periods ranging from 12 to 36 months. The remaining hedge fund balances have withdrawal restrictions ranging from 3 to 12 months. 45 to 60 days written notice is required to affect redemption.

The emerging market debt fund (fair value of \$6.3 million) employs a globally diversified emerging market currency and local debt strategy that attains exposure to emerging market countries by investing in local market instruments. The fair value of this investment has been estimated using the NAV of the fund. Investments in the fund may be redeemed monthly with 60 days prior written notice.

Real estate investment trusts (REIT) with a total fair value of \$13.5 million include investments in two actively managed commingled funds. The funds invest in publicly traded U.S. and global REIT securities. The fair value of the REIT investments is estimated using the NAV of the Foundation's ownership interest in each trust. REIT investments may be redeemed monthly with 10 to 15 days written notice.

KANSAS HEALTH FOUNDATION
Notes to Financial Statements
December 31, 2009 and 2008

(3) Investments, continued

Non-marketable investments include real estate/natural resources funds, private equity funds and venture capital funds. Real estate/natural resources funds with a total fair value of \$16.9 million include investments in private real estate and natural resources funds of funds. Private real estate investments include U.S. and global commercial and residential investments in land and rental property. 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 with a total fair value of \$11.9 million 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 with a total fair value of \$3.4 million include investments in funds of funds, which invests 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 partners' fund of funds capital. Non-marketable investments may never be redeemed. Instead, the Foundation receives distributions from these investments as underlying funds are liquidated. Management estimates that the funds will be liquidated over the next 5 to 15 years. The Foundation has no plans to sell its interest in any non-marketable investments before they are liquidated.

One commingled, fixed income trust is valued using level 3 inputs. The trust, with a fair value of \$36.4 million, 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 trust. In 2008 the Foundation's liquidity in the trust was substantially restricted by the trustee due to concerns regarding the possible forced liquidation of underlying collateral in its securities lending program. Currently, the Foundation may only withdraw 4% of its funds from the trust monthly. Any amount up to the 4% limit not drawn in one month may be added to future monthly withdrawals. As of December 31, 2009, the Foundation could withdraw 20% of its investment in the trust. The Foundation has not incurred any losses due to this restriction.

As of December 31, 2009 the Foundation had made commitments totaling approximately \$46.5 million under investment management agreements to fund certain real estate/natural resources (\$23.4 million), private equity (\$10.4 million) and venture capital (\$12.7 million) investments as managers request the funds. Management anticipates these commitments will be funded over the next four to five years. Since December 31, 2009 the Foundation has funded capital calls on these commitments totaling \$4.3 million.

KANSAS HEALTH FOUNDATION
Notes to Financial Statements
December 31, 2009 and 2008

(4) Property and Equipment

A summary of property and equipment follows:

	2009	2008
Land	\$ 953,428	953,428
Building and Improvements	4,298,860	4,157,700
Equipment, furniture and fixtures	<u>1,726,424</u>	<u>1,747,170</u>
	6,978,712	6,858,298
Less accumulated depreciation	<u>(3,080,752)</u>	<u>(2,900,749)</u>
Property and equipment, net	<u>\$ 3,897,960</u>	<u>3,957,549</u>

Depreciation is provided on the straight-line basis over the following useful lives:

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

(5) 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 \$238,349 and \$223,665 to the plans in 2009 and 2008, 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 when the employee becomes eligible for participation.

(6) Functional Classification of Operating Expenses

The Foundation's operating expenses for 2009 and 2008 are allocated among the following functions on the basis of staff time incurred and office space utilization:

	2009	2008
Program activities	\$ 2,977,108	3,352,243
Investment activities	641,002	674,085
Management and general	<u>144,932</u>	<u>188,428</u>
	<u>\$ 3,763,042</u>	<u>4,214,756</u>

KANSAS HEALTH FOUNDATION
Notes to Financial Statements
December 31, 2009 and 2008

(7) Grants Payable and Program Grants

As discussed in note 2, program grants are recorded on a discounted present value basis. At December 31, 2009 and 2008, the grant contracts and discount were as follows:

	2009	2008
Grant contracts	\$ 35,463,676	32,649,593
Discount	<u>(5,165,163)</u>	<u>(12,938,528)</u>
Grants payable	<u>\$ 30,298,513</u>	<u>19,711,065</u>

In addition to grants payable recorded in the financial statements, the Foundation's Board of Directors has authorized funding for future grants for certain of its program areas. Authorized grants are not recorded as grants payable and program grants in the 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, 2009 will be paid is as follows:

	Grant Contracts	Authorized Grants
2010	\$ 8,754,651	\$ 2,016,762
2011	8,507,225	4,283,096
2012	7,609,854	3,416,303
2013	3,254,062	8,022,366
2014	3,413,137	9,958,650
2015-2020	<u>3,924,747</u>	<u>23,086,998</u>
	<u>\$ 35,463,676</u>	<u>\$ 50,784,175</u>

Included in December 31, 2009 grant contracts is \$18 million, estimated to be paid from 2010 through 2017 for core operations of the Kansas Health Institute (KHI), a non-profit, tax exempt corporation located in Topeka, Kansas. KHI was created by the Foundation in 1994 as a health policy and research institute for Kansas.

Included in December 31, 2009 grant contracts and authorized grants is \$7.85 million and \$12.9 million, respectively, estimated to be paid from 2010 through 2020, for core operations of a separate non-profit, tax exempt corporation, the Kansas Leadership Center (KLC). KLC was created by the Foundation in 2006 and began operations in Wichita, Kansas in 2007. KLC's mission is to strengthen and expand civic leadership across Kansas.

Program grants in the statements of activity are reported net of grant amounts refunded and grant contracts written off.

KANSAS HEALTH FOUNDATION
Notes to Financial Statements
December 31, 2009 and 2008

(8) Excise and Income Taxes

The Foundation is exempt from federal income taxes under Section 501(a) of the Internal Revenue Code of 1986, as amended, as an organization described in Section 501(c)(3). Accordingly, the Foundation is not subject to federal income tax, except to the extent that it has unrelated business taxable income. In the opinion of management, the Foundation did not have material unrelated business taxable income in 2009 or 2008. As of December 31, 2008, the Foundation had a cumulative net operating loss carryforward of about \$200,000 which is available to offset future taxable income. No provision for federal income taxes is recorded in the accompanying financial statements. In accordance with U.S. generally accepted accounting principles, the Foundation recognizes the income tax benefits, if any, of certain 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, 2006 through 2008) and concluded the Foundation did not require a provision for any uncertain tax positions as of December 31, 2009 or 2008.

The Foundation is classified as a private foundation under Section 509(a) and, as such, is subject to a Federal excise tax of 2% on net investment income, unless certain conditions are met, in which case the Federal excise tax is reduced to 1%. In 2009 and 2008, the Foundation was subject to an excise tax on net investment income of 1%. Taxes receivable in the accompanying balance sheets represent refunds due on federal excise taxes paid in excess of the related excise tax expense as of December 31, 2009 and 2008, respectively. The Foundation made estimated excise tax payments of \$150,000 in 2009 and \$450,000 in 2008.

Deferred excise taxes are provided for on the unrealized increase in the fair value of the Foundation's investment assets at a 2% rate as of December 31, 2009. As of December 31, 2008 the cost of the Foundation's portfolio exceeded its fair value and as a result no deferred taxes were provided. Excise tax expense consists of the following:

	2009	2008
Current excise tax expense	\$ (150,000)	(363,383)
Deferred excise tax (expense) benefit	<u>(669,399)</u>	<u>2,213,467</u>
Total excise (tax) benefit	<u>\$ (819,399)</u>	<u>1,850,084</u>

The Foundation is also required to make certain minimum qualifying distributions of its assets for charitable purposes in accordance with formulas provided by Federal law. The Foundation has complied with such requirements.

KANSAS HEALTH FOUNDATION
Notes to Financial Statements
December 31, 2009 and 2008

(9) Land Lease

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

2010	\$	107,140
2011		107,140
2012		107,140
2013		107,140
2014		107,140
2015-2081		<u>7,179,036</u>
	\$	<u><u>7,714,736</u></u>