



Kansas Health Foundation

Financial Statements



Years ended December 31, 2010 and 2009
(with report of independent certified public accounts 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, 2010 and 2009, 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, 2010 and 2009, 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 1, 2011

KANSAS HEALTH FOUNDATION
Balance Sheets
December 31, 2010 and 2009

	2010	2009
Assets		
Cash and cash equivalents	\$ 6,485,930	10,021,375
Investments (Note 3)	468,312,776	430,104,524
Accrued interest and dividends receivable	344,292	404,582
Due from brokers	30,246	48,215
Excise taxes receivable (Note 8)	—	291,630
Property and equipment, net (Note 4)	3,692,620	3,897,960
Other assets	<u>646,920</u>	<u>614,126</u>
	<u>\$ 479,512,784</u>	<u>445,382,412</u>
 Liabilities and Net Assets		
Due to brokers	\$ 28,493	25,469
Accounts payable	57,388	97,680
Grants payable (Note 7)	35,170,887	30,298,513
Accrued expenses	289,508	362,133
Excise taxes payable (Note 8)	1,513,269	669,399
Commitments (Notes 3 and 7)	<u> </u>	<u> </u>
Total liabilities	<u>37,059,545</u>	<u>31,453,194</u>
Net assets	<u>442,453,239</u>	<u>413,929,218</u>
	<u>\$ 479,512,784</u>	<u>445,382,412</u>

See accompanying notes to financial statements.

KANSAS HEALTH FOUNDATION
Statements of Activity
Years Ended December 31, 2010 and 2009

	2010	2009
Revenues and gains:		
Investment income (Note 3)	\$ 57,794,836	88,114,643
Investment expenses	(1,339,108)	(1,425,733)
Other income (Note 9)	481,308	919,369
	<u>56,937,036</u>	<u>87,608,279</u>
Total revenues and gains		
	<u>56,937,036</u>	<u>87,608,279</u>
Program grants, net (Note 7)	<u>23,182,955</u>	<u>27,414,446</u>
Operating expenses (Note 6):		
Compensation and benefits	2,558,255	2,271,925
Professional and contractual services	439,447	458,983
Depreciation	275,991	261,581
Other	820,867	770,553
	<u>4,094,560</u>	<u>3,763,042</u>
Total operating expenses		
	<u>4,094,560</u>	<u>3,763,042</u>
Increase in net assets before excise taxes	29,659,521	56,430,791
Excise taxes (Note 8)	<u>1,135,500</u>	<u>819,399</u>
Increase in net assets	28,524,021	55,611,392
Net assets, beginning of year	<u>413,929,218</u>	<u>358,317,826</u>
Net assets, end of year	<u>\$ 442,453,239</u>	<u>413,929,218</u>

See accompanying notes to financial statements.

KANSAS HEALTH FOUNDATION
Statements of Cash Flows
Years Ended December 31, 2010 and 2009

	2010	2009
Cash flows from operating activities:		
Increase in net assets	\$ 28,524,021	55,611,392
Adjustments to reconcile increase in net assets to net cash used in operating activities:		
Net realized and unrealized gains on investments	(52,698,655)	(82,082,068)
Depreciation	275,991	261,581
Net loss on disposition of equipment	2,624	8,458
Changes in assets and liabilities:		
Accrued interest and dividends receivable	60,290	(135,001)
Excise taxes receivable	291,630	—
Other assets	(32,794)	(59,895)
Accounts payable	(40,292)	(33,014)
Grants payable	4,872,374	10,587,448
Accrued expenses	(72,625)	41,125
Excise taxes payable	843,870	669,399
	(17,973,566)	(15,130,575)
Net cash used in operating activities		
Cash flows from investing activities:		
Additions to property and equipment	(86,306)	(223,550)
Proceeds from sale of equipment	13,031	13,100
Proceeds from sale of investments	129,477,860	104,274,812
Purchase of investments	(114,987,457)	(102,411,247)
Decrease (increase) in due from brokers	17,969	(36,423)
Increase in due to brokers	3,024	10,173
	14,438,121	1,626,865
Net cash provided by investing activities		
Net decrease in cash and cash equivalents	(3,535,445)	(13,503,710)
Cash and cash equivalents, beginning of year	10,021,375	23,525,085
Cash and cash equivalents, end of year	\$ 6,485,930	10,021,375

See accompanying notes to financial statements.

KANSAS HEALTH FOUNDATION
Notes to Financial Statements
December 31, 2010 and 2009

(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*. 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 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 and certain level 2 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 Foundation's policy is to recognize transfers between levels, if any, at the end of each year.

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, 2010 and 2009

(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.

Subsequent Events

The Foundation has evaluated and disclosed, if any, subsequent events that occurred after December 31, 2010 and through July 1, 2011, which represents the date the financial statements were available to be issued.

(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.

KANSAS HEALTH FOUNDATION
Notes to Financial Statements
December 31, 2010 and 2009

(3) Investments, continued

Composition of Investments

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

December 31, 2010		
	Cost	Fair Value
U.S. equities and commingled funds	\$ 121,768,820	147,875,273
International equities and commingled funds	74,803,529	104,912,431
Marketable alternative equities	46,112,491	60,380,222
Real estate investment trusts	5,449,071	11,175,292
Non-marketable investments:		
Real estate and natural resources funds	26,283,856	25,140,844
Private equity funds	15,907,974	15,950,803
Venture capital funds	5,685,225	6,029,792
Fixed income commingled funds	72,977,304	73,092,757
U.S. Treasury and agency securities	22,016,669	23,755,362
	\$ 391,004,939	468,312,776

December 31, 2009		
	Cost	Fair Value
U.S. equities and commingled funds	\$ 126,113,583	133,197,820
International equities and commingled funds	82,735,850	97,756,401
Marketable alternative equities	43,657,515	57,099,223
Real estate investment trusts	13,866,955	13,457,293
Non-marketable investments:		
Real estate and natural resources funds	21,051,797	16,941,660
Private equity funds	13,567,189	11,875,263
Venture capital funds	3,814,250	3,414,668
Fixed income commingled funds	73,987,982	75,856,505
U.S. Treasury and agency securities	19,122,876	20,505,691
	\$ 397,917,997	430,104,524

Components of Investment Income

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

	2010	2009
Interest and dividends	\$ 5,096,181	6,032,575
Net realized gains (losses) on sale	7,577,345	(5,017,645)
Net unrealized gains	45,121,310	87,099,713
	\$ 57,794,836	88,114,643

KANSAS HEALTH FOUNDATION
Notes to Financial Statements
December 31, 2010 and 2009

(3) Investments, continued

Fair value measurements

As disclosed in note 2, 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 Foundation evaluates inputs and assumptions used in measuring the fair value of investments at December 31 of each year and may transfer assets between levels based upon changes in those inputs or assumptions. At December 31, 2010 the Foundation transferred \$97,560,985 in investments from level 3 to level 2. The fair value 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:

Assets	December 31, 2010		
	Level 1	Level 2	Level 3
U.S. equities and commingled funds	\$ 57,973,211	69,147,777	20,754,285
International equities and commingled funds	58,368,828	21,927,480	24,616,123
Marketable alternative equities	–	6,485,728	53,894,494
Real estate investment trust	–	–	11,175,292
Non-marketable investments:			
Real estate and natural resources funds	–	–	25,140,844
Private equity funds	–	–	15,950,803
Venture capital funds	–	–	6,029,792
Fixed income commingled funds	35,854,061	–	37,238,696
U.S. Treasury and agency securities	23,755,362	–	–
	<u>\$ 175,951,462</u>	<u>97,560,985</u>	<u>194,800,329</u>

Assets	December 31, 2009		
	Level 1	Level 2	Level 3
U.S. equities and commingled funds	\$ 53,860,573	–	79,337,247
International equities and commingled funds	49,364,319	–	48,392,082
Marketable alternative equities	–	–	57,099,223
Real estate investment trusts	–	–	13,457,293
Non-marketable investments:			
Real estate and natural resources funds	–	–	16,941,660
Private equity funds	–	–	11,875,263
Venture capital funds	–	–	3,414,668
Fixed income commingled funds	39,419,776	–	36,436,729
U.S. Treasury and agency securities	20,505,691	–	–
	<u>\$ 163,150,359</u>	<u>–</u>	<u>266,954,165</u>

KANSAS HEALTH FOUNDATION
Notes to Financial Statements
December 31, 2010 and 2009

(3) Investments, continued

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

Investments	Beginning Balance 1/1/2009	Realized and Unrealized Gains (Losses)	Purchases	Sales	Transfers	Ending Balance 12/31/09
U.S. equities and commingled funds	\$ 55,727,572	21,114,776	15,506,192	(13,011,293)	-	79,337,247
International equities and commingled funds	35,116,447	13,384,415	-	(108,780)	-	48,392,082
Marketable alternative equities	50,565,340	10,138,520	4,021,676	(7,626,313)	-	57,099,223
Real estate investment trusts	14,576,840	6,813,087	245,099	(8,177,733)	-	13,457,293
Non-marketable investments:						
Real estate and natural resources funds	14,703,419	(2,030,997)	4,383,000	(113,762)	-	16,941,660
Private equity funds	8,339,759	1,439,398	2,200,896	(104,790)	-	11,875,263
Venture capital funds	2,318,381	(33,713)	1,180,000	(50,000)	-	3,414,668
Fixed income commingled funds	44,470,993	(1,297,466)	3,204,823	(9,941,621)	-	36,436,729
	<u>\$ 225,818,751</u>	<u>49,528,020</u>	<u>30,741,686</u>	<u>(39,134,292)</u>	<u>-</u>	<u>266,954,165</u>

Investments	Beginning Balance 1/1/2010	Realized and Unrealized Gains (Losses)	Purchases	Sales	Transfers	Ending Balance 12/31/10
U.S. equities and commingled funds	79,337,247	11,694,095	3,482,108	(4,611,388)	(69,147,777)	20,754,285
International equities and commingled funds	48,392,082	12,672,224	28,008	(14,548,711)	(21,927,480)	24,616,123
Marketable alternative equities	57,099,223	826,023	10,091,779	(7,636,803)	(6,485,728)	53,894,494
Real estate investment trusts	13,457,293	7,077,875	2,110,483	(11,470,359)	-	11,175,292
Non-marketable investments:						
Real estate and natural resources funds	16,941,660	3,676,135	5,585,000	(1,061,951)	-	25,140,844
Private equity funds	11,875,263	2,125,270	2,817,773	(867,503)	-	15,950,803
Venture capital funds	3,414,668	755,274	1,872,500	(12,650)	-	6,029,792
Fixed income commingled funds	36,436,729	(2,036,611)	38,012,046	(35,173,468)	-	37,238,696
	<u>266,954,165</u>	<u>36,790,285</u>	<u>63,999,697</u>	<u>(75,382,833)</u>	<u>(97,560,985)</u>	<u>194,800,329</u>

The following table presents liquidity information on level 2 and 3 investments:

Investments	Fair value (\$ millions)	Unfunded Commit- ments	Expected Liquidation Term	Redemption terms	Redemption Restrictions	Redemption Restrictions at 12/31/10
U.S. equities and commingled funds (a)	<u>\$ 89.9</u>	N/A	N/A	monthly, 3-60 days notice	N/A	N/A
International equities and commingled funds (a)	<u>\$ 46.5</u>	N/A	N/A	monthly, 3-60 days notice	N/A	N/A
Marketable alternative equities: (b)						Lockups:
Absolute return hedge funds	\$ 38.0	N/A	N/A	} 3 to 36 months, 45-60 days notice	8 funds with lockups from 1 to 3 years	4 funds to 12/31/11
Long/short hedge funds	15.9	N/A	N/A			2 funds to 6/30/12 1 fund to 12/31/12 1 fund to 12/31/13
Emerging market debt fund (c)	6.5	N/A	N/A	monthly 60 days notice	N/A	N/A
Total marketable alternative equities	<u>\$ 60.4</u>					
Real estate investment trust (d)	<u>\$ 11.2</u>	N/A	N/A	monthly 15 day's notice	N/A	N/A
Non-marketable investments: (e)						
Real estate/natural resources funds	\$ 25.1	17.9	5-15 years	N/A*	N/A*	N/A*
Private equity funds	16.0	7.7	5-15 years	N/A*	N/A*	N/A*
Venture capital funds	6.0	10.8	5-15 years	N/A*	N/A*	N/A*
Total non-marketable investments	<u>\$ 47.1</u>	<u>36.4</u>				
Fixed income commingled funds (f)	<u>\$ 37.2</u>	N/A	N/A	None	N/A	N/A

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

KANSAS HEALTH FOUNDATION
Notes to Financial Statements
December 31, 2010 and 2009

(3) Investments, continued

- (a) U.S. and international equities and commingled funds include commingled investments in an S&P 500 ex-tobacco index fund, an actively managed U.S. equity long/short fund, two 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 future contracts. The fair value of these commingled investments is estimated using the NAV of the Foundation's ownership interest in each fund.
- (b) Marketable alternative equities include absolute return hedge funds and long/short hedge funds. Absolute return hedge funds 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 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 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, 2010, approximately 16% of the hedge fund balances cannot be redeemed for periods ranging from 12 to 36 months.

- (c) The emerging market debt fund 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.
- (d) The real estate investment trust (REIT) is an actively managed commingled fund that invests in publicly traded U.S. REIT securities. The fair value of the fund is estimated using the NAV of the Foundation's ownership interest in the trust.
- (e) Non-marketable investments include real estate/natural resources funds, private equity funds and venture capital funds. Real estate/natural resources funds 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 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 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. These investments can never be redeemed. Instead, the nature of these non-marketable investments is that 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, 2010, it has no plans to sell any non-marketable investments before they are liquidated. Since December 31, 2010, the Foundation has funded capital calls on non-marketable investments totaling \$4.0 million.

KANSAS HEALTH FOUNDATION
Notes to Financial Statements
December 31, 2010 and 2009

(3) Investments, continued

(f) The commingled, fixed income fund invests in index funds, which in turn invest in U.S. Treasury and agency intermediate maturity bonds. The fair value is estimated using the NAV of the Foundation's ownership interest in the fund.

(4) Property and Equipment

A summary of property and equipment follows:

	2010	2009
Land	\$ 953,428	953,428
Building and Improvements	4,348,835	4,298,860
Equipment, furniture and fixtures	<u>1,646,358</u>	<u>1,726,424</u>
	6,948,621	6,978,712
Less accumulated depreciation	<u>(3,256,001)</u>	<u>(3,080,752)</u>
Property and equipment, net	<u>\$ 3,692,620</u>	<u>3,897,960</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 \$250,869 and \$238,349 to the plans in 2010 and 2009, 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 2010 and 2009 are allocated among the following functions on the basis of staff time incurred and office space utilization:

	2010	2009
Program activities	\$ 3,188,983	2,977,108
Investment activities	737,277	641,002
Management and general	<u>168,300</u>	<u>144,932</u>
	<u>\$ 4,094,560</u>	<u>3,763,042</u>

KANSAS HEALTH FOUNDATION
Notes to Financial Statements
December 31, 2010 and 2009

(7) Grants Payable and Program Grants

As discussed in note 2, program grants are recorded on a discounted present value basis. At December 31, 2010 and 2009, the grant contracts and discount were as follows:

	2010	2009
Grant contracts	\$ 40,351,324	35,463,676
Discount	<u>(5,180,437)</u>	<u>(5,165,163)</u>
Grants payable	<u>\$ 35,170,887</u>	<u>30,298,513</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, 2010 will be paid is as follows:

	Grant Contracts	Authorized Grants
2011	\$ 7,407,609	4,094,569
2012	10,676,537	3,713,736
2013	6,580,947	7,705,207
2014	6,448,562	5,763,514
2015	6,477,604	6,077,493
2016-2020	<u>2,760,065</u>	<u>9,980,836</u>
	<u>\$ 40,351,324</u>	<u>37,335,355</u>

Included in December 31, 2010 grant contracts is \$15 million, estimated to be paid from 2011 through 2015 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, 2010 grant contracts and authorized grants is \$3 million and \$12.5 million, respectively, estimated to be paid from 2011 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 accompanying statements of activity are reported net of grant amounts refunded and grant contracts written off.

(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 2010 or 2009. As of December 31, 2009, the Foundation had a federal cumulative net operating loss carryforward of about \$377,000 which is available to offset future taxable income.

KANSAS HEALTH FOUNDATION
Notes to Financial Statements
December 31, 2010 and 2009

(8) Excise and Income Taxes, continued

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, 2007 through 2009) and concluded the Foundation did not require a provision for any uncertain tax positions as of December 31, 2010 or 2009.

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 2010 and 2009, the Foundation was subject to an excise tax on net investment income of 2% and 1%, respectively. Excise 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. The Foundation made estimated excise tax payments of \$150,000 in 2009.

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, 2010 and 2009. Excise taxes payable and excise tax expense in the accompanying financial statements consist of the following:

	2010	2009
Current excise taxes payable	\$ 29,577	-
Deferred excise taxes payable	<u>1,483,692</u>	<u>669,399</u>
Total excise taxes payable	<u>\$ 1,513,269</u>	<u>669,399</u>
Current excise tax expense	\$ 321,207	150,000
Deferred excise tax expense	<u>814,293</u>	<u>669,399</u>
Total excise tax expense	<u>\$ 1,135,500</u>	<u>819,399</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.

(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:

2011	\$	107,140
2012		107,140
2013		107,140
2014		107,140
2015		107,140
2016-2081		<u>7,071,896</u>
	\$	<u>7,607,596</u>