



*Report of Independent Auditors and
Consolidated Financial Statements*

The Henry J. Kaiser Family Foundation

December 31, 2019 and 2018

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Report of Independent Auditors

To the Board of Trustees
The Henry J. Kaiser Family Foundation

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of The Henry J. Kaiser Family Foundation (“KFF”), which comprise the consolidated statements of financial position as of December 31, 2019 and 2018, and the related consolidated statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Henry J. Kaiser Family Foundation as of December 31, 2019 and 2018, 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.

Emphasis of Matter

As discussed in Note 1 to the consolidated financial statements, during 2019, KFF adopted Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) No. 2016-02, *Leases (Topic 842)*. The ASU has been applied using the modified-retrospective approach with the comparative option. Our opinion is not modified with respect to this matter.

A handwritten signature in cursive script that reads "Moss Adams LLP".

San Francisco, California

June 18, 2020

Consolidated Financial Statements

The Henry J. Kaiser Family Foundation
Consolidated Statements of Financial Position
December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
Cash and cash equivalents	\$ 13,093,585	\$ 6,560,274
Receivable for unsettled investment transactions	18,366,237	1,656,322
Receivable for investment income	298,156	415,819
Investments, at fair value	628,617,215	598,577,710
Contributions receivable, net	16,566,049	18,822,869
Accounts receivable, prepaids, and other assets	1,907,746	1,327,391
Operating lease right of use assets	20,379,728	24,506,939
Property and equipment, net	<u>36,411,955</u>	<u>38,423,662</u>
TOTAL ASSETS	<u>\$ 735,640,671</u>	<u>\$ 690,290,986</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable, accrued benefits, and other liabilities	\$ 6,867,677	\$ 7,045,495
Postretirement liability	34,457,518	33,082,244
Deferred federal excise taxes	-	4,329,806
Operating lease liabilities	21,257,320	25,295,161
Bonds payable	100,000,000	100,000,000
Note payable	<u>-</u>	<u>1,363,153</u>
TOTAL LIABILITIES	<u>162,582,515</u>	<u>171,115,859</u>
NET ASSETS		
Without donor restrictions		
Undesignated	537,100,522	483,208,102
Designated by the Board for budget reserve fund	<u>12,000,000</u>	<u>12,000,000</u>
	<u>549,100,522</u>	<u>495,208,102</u>
With donor restrictions		
Purpose and time restrictions	22,807,541	22,034,023
Purpose restrictions	<u>1,150,093</u>	<u>1,933,002</u>
	<u>23,957,634</u>	<u>23,967,025</u>
TOTAL NET ASSETS	<u>573,058,156</u>	<u>519,175,127</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 735,640,671</u>	<u>\$ 690,290,986</u>

The Henry J. Kaiser Family Foundation
Consolidated Statements of Activities and Changes in Net Assets
Years Ended December 31, 2019 and 2018

	2019	2018
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
Investment income		
Interest and dividends	\$ 902,408	\$ 1,710,907
Net realized and unrealized gains on investments	93,900,425	15,530,290
Investment expense	(3,748,037)	(4,517,323)
Net investment income	91,054,796	12,723,874
Net assets released from restrictions	11,691,584	11,325,765
Gain on insurance proceeds received for damage to equipment	672,115	-
Sublease rental income, contributions, and other income	372,309	226,822
Total net investment income, net assets released from restrictions, sublease rental income, contributions and other income	103,790,804	24,276,461
Expenses		
Program activities - direct charitable expenses		
Salaries and benefits	25,423,196	24,894,946
Consultants, contractors and survey fieldwork	6,157,002	5,572,761
Rent, building and occupancy	5,318,665	5,768,341
Interest	3,371,248	3,297,538
Social impact media	1,772,773	3,407,758
Web development, maintenance and other technology	1,676,349	1,658,944
Conferences, travel and other costs	2,207,148	2,016,233
	45,926,381	46,616,521
Administrative expenses		
Salaries and benefits	4,856,458	4,461,382
Rent, building and occupancy	3,733,392	3,144,136
Professional and consulting fees	432,488	701,035
Interest, travel and other costs	1,554,573	1,532,731
	10,576,911	9,839,284
Federal, state and local tax (benefit) expense	(5,095,407)	322,653
Total expenses	51,407,885	56,778,458
Change in postretirement liability - health care benefit plan	1,509,501	10,343,295
Change in net assets without donor restrictions	53,892,420	(22,158,702)
Net assets without donor restrictions, beginning of year	495,208,102	517,366,804
Net assets without donor restrictions, end of year	549,100,522	495,208,102
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS		
Contributions	11,682,193	25,245,147
Net assets released from restrictions	(11,691,584)	(11,325,765)
Change in net assets with donor restrictions	(9,391)	13,919,382
Net assets with donor restrictions, beginning of year	23,967,025	10,047,643
Net assets with donor restrictions, end of year	23,957,634	23,967,025
CHANGE IN TOTAL NET ASSETS	53,883,029	(8,239,320)
TOTAL NET ASSETS, beginning of year	519,175,127	527,414,447
TOTAL NET ASSETS, end of year	\$ 573,058,156	\$ 519,175,127

See accompanying notes.

The Henry J. Kaiser Family Foundation
Consolidated Statements of Cash Flows
Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in total net assets	\$ 53,883,029	\$ (8,239,320)
Adjustments to reconcile change in total net assets to net cash used in operating activities		
Net realized and unrealized gains on investments	(93,900,425)	(15,530,290)
Deferred federal excise taxes	(4,329,806)	216,837
Depreciation and amortization	2,304,089	1,852,272
Gain on insurance proceeds received for damage to equipment	(672,115)	-
Discount on contributions receivable	(84,308)	457,994
Write-off of construction in progress assets from prior year	180,930	395,957
Loss on disposal of fixed assets	-	14,557
Changes in operating assets and liabilities		
Contributions receivable	2,341,128	(13,638,272)
Accounts receivable, prepaids, and other assets	(580,355)	467,531
Accounts payable, accrued benefits, and other liabilities	(177,818)	(8,129,901)
Postretirement liability	1,375,274	(6,350,217)
Net cash used in operating activities	<u>(39,660,377)</u>	<u>(48,482,852)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(56,706,488)	(46,021,553)
Proceeds from sales and maturities of investments	120,567,408	74,285,293
Payments for options and derivatives settlements	-	(3,736,798)
(Increase) decrease in receivable for unsettled investment transactions	(16,709,915)	6,729,700
Decrease (increase) in receivable for investment income	117,663	(41,931)
Insurance proceeds received for damage to equipment	770,856	-
Purchases of property and equipment	(482,683)	(547,642)
Net cash provided by investing activities	<u>47,556,841</u>	<u>30,667,069</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from note payable	-	1,500,000
Payments on note payable	(1,363,153)	(10,136,847)
Proceeds from line of credit	25,500,000	22,500,000
Payments on line of credit	(25,500,000)	(22,500,000)
Net cash used in financing activities	<u>(1,363,153)</u>	<u>(8,636,847)</u>
Increase (decrease) in cash and equivalents	6,533,311	(26,452,630)
Cash and cash equivalents - beginning of year	6,560,274	33,012,904
Cash and cash equivalents - end of year	<u>\$ 13,093,585</u>	<u>\$ 6,560,274</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid for interest	<u>\$ (4,958,265)</u>	<u>\$ (5,299,257)</u>
Net refunds received (cash paid) for taxes on unrelated business income	<u>\$ 323,484</u>	<u>\$ (352,780)</u>
NONCASH DISCLOSURE OF INVESTING AND FINANCING ACTIVITIES		
Right of use assets obtained in exchange for operating lease liabilities	<u>\$ -</u>	<u>\$ 28,615,556</u>

The Henry J. Kaiser Family Foundation

Notes to Consolidated Financial Statements

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization – The Henry J. Kaiser Family Foundation is a highly specialized health policy research and health communications organization that provides timely information on health issues to policymakers, the media, and the public in the United States of America and globally.

Principles of consolidation – The accompanying consolidated financial statements include The Henry J. Kaiser Family Foundation and several wholly owned subsidiaries, including Darrin Capital Management and KF Fintech LLC, both founded in 2016 (collectively, “KFF”). Darrin Capital Management is located in Mauritius and holds private equity investments in India. KF Fintech LLC is a Delaware limited liability company and is the sole trustee of KF PS Trust, a Delaware statutory trust that was founded in 2016. KF PS Trust invests in fixed income investments and real assets. All significant intercompany accounts and transactions among these entities have been eliminated.

Basis of presentation – The consolidated financial statements are presented on the basis of net assets without donor restrictions and net assets with donor restrictions in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”).

Cash and cash equivalents – Cash and cash equivalents consist primarily of cash and money market funds. KFF considers investments with maturities of three months or less at the time of purchase to be cash equivalents.

Estimated fair value of financial instruments – The carrying amounts of cash and cash equivalents, investment receivables, accounts receivable, prepaids, and other assets, contributions receivable that are expected to be collected within one year, accounts payable, note payable, accrued benefits, and other liabilities approximate fair value because of the short maturity of these items. Contributions receivable that are expected to be collectible in future years are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset. Investments and derivative financial instruments are reflected at estimated fair value as described below.

Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 820, *Fair Value Measurement*, defines fair value, establishes a framework for measuring fair value, and requires enhanced disclosures about fair value measurements. Fair value is the amount 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 (i.e., the exit price). Market price observability is impacted by a number of factors, including the type of instrument, the characteristics specific to the instrument, and the state of the marketplace (including the existence and transparency of transactions between market participants). Instruments with readily available actively quoted prices or for which fair value can be measured from actively quoted prices in an orderly market will generally have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value.

Instruments measured and reported at fair value are classified and disclosed in one of the following categories based on inputs:

Level 1 – Quoted prices are available in active markets for identical instruments as of the reporting date. The type of instruments that would generally be included in Level I include listed equity securities. As required by ASC Topic 820, KFF, to the extent that it holds such instruments, does not adjust the quoted price for these instruments, even in situations where KFF holds a large position and a sale could reasonably impact the quoted price.

The Henry J. Kaiser Family Foundation

Notes to Consolidated Financial Statements

Level 2 – Pricing inputs are observable for the instruments, either directly or indirectly, as of the reporting date. Some are quoted prices in markets with limited activity and some are not the same as those used in Level 1. In the case of the latter, fair value is determined through the use of models or other valuation methodologies. The types of instruments that would generally be included in this category include unlisted derivative financial instruments or publicly traded securities with limited trading activity.

Level 3 – Pricing inputs are unobservable for the instrument and include situations where there is little, if any, market activity for the instrument. The inputs into the determination of fair value require significant judgment or estimation by KFF. The types of instruments that would generally be included in this category include equity securities issued by private entities.

NAV – Pricing inputs are based on capital statements provided by entities that qualify under U.S. GAAP and calculate fair value using net asset value per share (“NAV”) or its equivalent.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the determination of which category within the fair value hierarchy is appropriate for any given instrument is based on the lowest level of input that is significant to the fair value measurement. KFF’s assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the instrument.

KFF’s Valuation Committee (the “Committee”) is responsible for establishing valuation policy, reviewing ongoing compliance, and overseeing valuation procedures. The Committee meets at least annually to review the valuation policy and make decisions on any valuations requiring the Committee’s attention.

Investments – Investments are reflected on the consolidated statements of financial position at fair value with changes in unrealized gains and losses resulting from changes in fair value reflected in the consolidated statements of activities and changes in net assets as net realized and unrealized gains on investments.

Equity and fixed income securities that are classified as Level 1 are publicly traded investments in active markets and are reported at the market closing price as determined in good faith by KFF.

Investments in managers investing in equity and fixed income securities, hedge funds, private equity, and real assets (the “Investee Funds”) are reported at fair value. Fair value is based on the information provided by the Investee Funds, which reflects KFF’s share of the fair value of the net assets of the Investee Fund. If KFF determines, based on its own due diligence and investment valuation procedures, that the valuation for any Investee Fund based on information provided by the management of such Investee Fund does not represent fair value, KFF will estimate the fair value of the Investee Fund in good faith and in a manner that it reasonably chooses in accordance with KFF’s valuation policy as determined by the Committee. In addition, KFF invests directly into fixed income and equity securities of public and private companies. These investments are valued by the Committee (see Notes 2 and 3).

The values assigned to investments are based upon available information and do not necessarily represent amounts that might ultimately be realized, since such amounts depend on future circumstances and cannot be reasonably determined until the individual positions are liquidated.

Investment transactions are recorded on a trade-date basis for publicly traded investments or upon closing of the transaction for private investments.

The Henry J. Kaiser Family Foundation

Notes to Consolidated Financial Statements

Derivative financial instruments – KFF may use derivative financial instruments (“derivatives”) in order to gain tactical exposure to equity, foreign exchange, and fixed income factors. Derivative financial instruments are recorded at their estimated fair value in the accompanying consolidated statements of financial position (see Note 3). Changes in the underlying value of derivative financial instruments are recorded in net realized and unrealized gains on investments.

Contributions receivable, net – Contributions receivable consist of unconditional promises to give. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. Management believes the contributions receivable as of December 31, 2019 and 2018, approximate their net present value. Contributions receivable of approximately \$16,566,000 are net of unamortized discounts of approximately \$374,000 as of December 31, 2019, and are expected to be received as follows: \$8,535,000 in 2020, \$5,189,000 in 2021, \$2,029,000 in 2022, and \$1,187,000 in 2023. Contributions receivable of approximately \$18,823,000 are net of unamortized discounts of approximately \$458,000 as of December 31, 2019, and are expected to be received as follows: \$9,173,000 in 2019, \$5,038,000 in 2020, \$2,719,000 in 2021, \$1,164,000 in 2022, and \$1,187,000 in 2023. At December 31, 2019, four of KFF’s donors made up 82% of the contributions receivable balance. At December 31, 2018, two of KFF’s donors made up 64% of the contributions receivable balance. An allowance for uncollectible contributions receivable is established based upon estimated losses related to specific accounts. As of December 31, 2019 and 2018, KFF had no allowances on the contributions receivable. There were no conditional contributions receivable as of December 31, 2019 and 2018.

Property and equipment, net – Property and equipment is recorded at cost, less any accumulated depreciation and amortization. KFF’s policy is to capitalize all property and equipment additions over \$5,000. Depreciation and amortization are provided on the straight-line method over the estimated useful lives of the assets, which range from 3 to 40 years. Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. No such impairment was recorded during 2019 and 2018.

Net assets – Net assets, revenues, gains and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. The governing board has designated, from net assets without donor restrictions, net assets for a budget reserve fund.

Net Assets With Donor Restrictions – Net assets subject to donor imposed (or certain grantor imposed) restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource has been restricted has been fulfilled, or both (see Note 8).

Revenue recognition – Contributions are recognized as revenue when received or unconditionally promised. KFF reports contributions as donor restricted support if such contributions are received with donor stipulations that limit the use of the donated assets. When a donor restriction ends or is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported as net assets released from restrictions.

The Henry J. Kaiser Family Foundation

Notes to Consolidated Financial Statements

Functional allocation of expenses – The costs of direct charitable and administrative expenses have been summarized on a functional basis in the consolidated statements of activities and changes in net assets. The consolidated financial statements report certain categories of expenses that are attributed to program, administrative, or investment function. Therefore, certain expenses require allocation on a reasonable basis. For the fiscal years ended December 31, 2019 and 2018, the expenses that were allocated include rent, building and occupancy, which were allocated on a square footage basis, as well as salaries and benefits, office expenses, information technology, insurance, conferences, travel and other, which were allocated on the basis of estimated full-time equivalents. Certain interest expense was allocated between program and administrative costs based on a percentage of total expenses, excluding interest.

Tax-exempt status – KFF is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the “Code”) and from California franchise and income taxes under Section 23701d of the Revenue and Taxation Code. KFF received an advance ruling from the Internal Revenue Service (“IRS”) of public charity status for a 60-month period beginning January 1, 2014. In February 2019, after the completion of the 60-month period, KFF filed with the IRS documentation to support that it satisfied the requirements of Section 507(b)(1)(B) of the Code, and in June 2019, KFF received a determination letter from the IRS confirming its public charity status. Previously, KFF had been a private operating foundation. As a public charity, KFF is no longer subject to federal excise tax on net investment income. Single member LLCs owned by KFF and doing business in California are subject to the California minimum tax and gross receipts fee. KF PS Trust is a Delaware statutory trust and is disregarded for both federal and state purposes.

Income taxes – KFF adopted FASB ASC Topic 740, *Income Taxes*, in 2007. As of December 31, 2019, KFF analyzed the inventory of tax positions taken with respect to all applicable income tax issues for all open tax years (in each respective jurisdiction), including December 31, 2019 and 2018, and concluded that no reserve for uncertain tax positions was required.

Concentrations of credit risk – Financial instruments that potentially subject KFF to credit risk consist primarily of cash and cash equivalents, investment receivables, accounts receivable, contributions receivable, and investments. KFF maintains cash and cash equivalents with major financial institutions. At times, such amounts may exceed Federal Deposit Insurance Corporation limits. KFF’s investments have been placed with high-quality counterparties. KFF closely monitors these investments and has not experienced significant credit losses. KFF’s management monitors credit levels and the financial condition of its accounts receivable and contributions receivable and believes that an adequate provision for credit losses has been made in the accompanying consolidated financial statements.

Use of estimates – The preparation of consolidated financial statements in conformity with U.S. GAAP 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 consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications – Certain reclassifications have been made to the 2018 consolidated financial statements to conform to the 2019 consolidated financial statement presentation. These reclassifications had no impact on the change in net assets or net asset balances.

The Henry J. Kaiser Family Foundation

Notes to Consolidated Financial Statements

Recent accounting pronouncements – During 2019, KFF adopted FASB Accounting Standards Update (“ASU”) No. 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities, Financial Instruments – Overall (Subtopic 825-10)*, which enhances the reporting model for financial instruments to provide users of financial statements with more decision-useful information. The update addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. As a result of KFF’s adoption of the provisions of ASU No. 2016-01, KFF eliminated certain fair value disclosures no longer required.

Effective January 1, 2018, KFF adopted the new lease accounting guidance in FASB ASU No. 2016-02, *Leases (Topic 842)*. KFF has elected the package of practical expedients permitted in ASC Topic 842, which among other things, allowed KFF to carryforward the historical lease classification. In addition, KFF made an accounting policy election to keep leases with an initial term of 12 months or less off of the consolidated statements of financial position. KFF will continue to recognize those lease payments for short-term leases in the consolidated statements of activities and changes in net assets on a straight-line basis over the lease term. As a result of the adoption of the new lease accounting guidance, KFF recognized on January 1, 2018 (the beginning of the earliest period presented) (a) a lease liability of \$29,214,469, which represents the present value of the remaining lease payments, discounted using KFF’s incremental borrowing rate, and (b) a right-of-use asset of \$28,615,556, which represents the lease liability adjusted for accrued rent (see Note 10).

During 2019, KFF adopted FASB ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*, which provides guidance on eight specific cash flow issues including: debt repayment or debt extinguishment costs, settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing, contingent consideration payments made after a business combination, proceeds from settlement of insurance claims, proceeds from the settlement of corporate-owned life insurance policies, distributions received from equity method investees, beneficial interests in securitization transactions, and separately identifiable cash flows and application of the predominance principle. The adoption of ASU No. 2016-15 did not have a significant impact on KFF’s consolidated financial statements.

During 2019, KFF adopted FASB ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, which requires the statement of cash flows to explain the change during the period in the total cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. The adoption of ASU No. 2016-18 did not have an impact on KFF’s consolidated financial statements.

During 2019, KFF adopted FASB ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. The amendments in this update should assist entities in evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of FASB ASC Topic 958, *Not-for-Profit Entities*, or as exchange (reciprocal) transactions subject to other guidance, and also in determining whether a contribution is conditional. The adoption of ASU No. 2018-08 did not have an impact on KFF’s consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*, to remove and modify certain disclosure requirements on fair value measurements in Topic 820, *Fair Value Measurement*. This update is effective for fiscal years beginning after December 15, 2019. The adoption is effective for KFF for calendar year ending December 31, 2020. Management is currently evaluating the impact of the provisions of ASU No. 2018-13 on the consolidated financial statements.

The Henry J. Kaiser Family Foundation

Notes to Consolidated Financial Statements

NOTE 2 – INVESTMENTS

As of December 31, 2019 and 2018, KFF's investments consisted of the following:

	<u>2019</u>	<u>2018</u>
Equity securities	\$ 128,442,623	\$ 109,969,704
Fixed income securities	43,434,242	75,858,845
Hedge funds	89,223,961	117,026,137
Private equity	332,385,587	257,598,310
Options and derivatives	(16,319,951)	(11,822,288)
Real assets	51,450,753	49,947,002
	<u>\$ 628,617,215</u>	<u>\$ 598,577,710</u>

KFF had commitments under partnership agreements to make additional capital contributions to alternative investments of approximately \$61,250,000 and \$85,668,000 as of December 31, 2019 and 2018, respectively.

Total realized and unrealized gains recorded for all investments are reported in net realized and unrealized gains on investments in the consolidated statements of activities and changes in net assets.

Certain KFF investments are denominated in foreign currencies that may be negatively affected by movements in the rate of exchange between the U.S. dollar and such foreign currencies.

There may also be risk associated with the concentration of investments in one geographic region or in certain industries.

NOTE 3 – FAIR VALUE MEASUREMENTS

The levels in the ASC Topic 820 fair value hierarchy into which KFF's investments fall as of December 31, 2019 and 2018, were as follows:

	<u>2019</u>	<u>2018</u>
Level 1		
Equities and fixed income securities	<u>\$ 12,636,265</u>	<u>\$ 85,371</u>
Level 3		
Equities and fixed income securities	12,475,304	21,738,400
Private equity	330,260,865	257,598,310
Fixed income options and derivatives	(16,319,951)	(11,822,288)
Real assets	51,450,753	49,947,002
Total Level 3	<u>377,866,971</u>	<u>317,461,424</u>
NAV		
Equities and fixed income securities	146,765,296	164,004,778
Hedge funds	89,223,961	117,026,137
Private equity	2,124,722	-
Total NAV	<u>238,113,979</u>	<u>281,030,915</u>
Total investments	<u>\$ 628,617,215</u>	<u>\$ 598,577,710</u>

The Henry J. Kaiser Family Foundation Notes to Consolidated Financial Statements

The equities and fixed income securities category represents investments with managers investing in a diversified pool of publicly traded small, medium, and large capitalization global equities and fixed income securities, along with internally-managed investments managed by KFF's investment team. The reported fair value of these investments is based on quoted prices in active markets, or on information provided by the Committee, or reflects NAV.

The hedge funds category represents investments with managers investing across the globe, both long and short, in a variety of asset classes including, but not limited to debt and equity securities, real estate, structured products, and foreign exchange instruments. Pending market conditions, managers have latitude to shift investment strategies and security types to exploit market inefficiencies, as well as employ leverage. The fair values of investments in this category have been determined using NAV of the Investee Funds.

The private equity category represents investments with managers investing in a broad range of foreign and domestic privately-owned companies. Underlying strategies within this category include venture capital, leveraged buyouts, and distressed debt. Post investment, managers work closely with portfolio companies to create value within the businesses through a variety of strategies. Investment periods range from three to six years, with initial distributions expected in years five and six. Managers generally attempt to fully liquidate the portfolio of investments within ten years, although managers may extend the time to liquidate if necessary to benefit the portfolio. These investments are valued based on information provided by the Investee Funds or by the Committee.

The fixed income options and derivatives category is comprised of interest rate swap agreements. The fair values of these instruments are based on quotes from the market makers for similar instruments.

The real assets category is comprised of KFF's investments in real estate, forestland, and energy-related private partnerships. The fair values of investments in this category have been determined based on recent appraisal information or based on cost for recent purchases.

The changes in investments classified as Level 3 for the years ended December 31, 2019 and 2018, were as follows:

	Equities and Fixed Income Securities	Private Equity	Fixed Income Options & Derivatives	Real Assets	Total Level 3
Balance, December 31, 2017	\$ 36,408,387	\$ 223,120,841	\$ (13,822,840)	\$ 49,018,313	\$ 294,724,701
Purchases and other acquisitions	6,901,708	38,309,171	-	288,831	45,499,710
Sales and other dispositions	(21,469,759)	(39,103,885)	-	(1,101,586)	(61,675,230)
Realized (depreciation) appreciation	1,346,851	9,289,138	-	-	10,635,989
Unrealized (depreciation) appreciation	<u>(1,448,787)</u>	<u>25,983,045</u>	<u>2,000,552</u>	<u>1,741,444</u>	<u>28,276,254</u>
Balance, December 31, 2018	21,738,400	257,598,310	(11,822,288)	49,947,002	317,461,424
Transfer fixed income securities to real assets	(1,235,000)	-	-	1,235,000	-
Purchases and other acquisitions	-	40,476,957	-	2,013,852	42,490,809
Sales and other dispositions	(7,244,920)	(23,044,740)	-	(4,465,404)	(34,755,064)
Realized (depreciation) appreciation	(67,795)	1,050,641	-	(5,382)	977,464
Unrealized (depreciation) appreciation	<u>(715,381)</u>	<u>54,179,697</u>	<u>(4,497,663)</u>	<u>2,725,685</u>	<u>51,692,338</u>
Balance, December 31, 2019	<u>\$ 12,475,304</u>	<u>\$ 330,260,865</u>	<u>\$ (16,319,951)</u>	<u>\$ 51,450,753</u>	<u>\$ 377,866,971</u>

Transfers of investments between different levels of the fair value hierarchy are recorded as of the end of the reporting period. Changes in the unrealized gains in the investments included on the consolidated statements of activities and changes in net assets relating to Level 3 investments still held at December 31, 2019 and 2018, were approximately \$57,126,000 and \$33,201,000, respectively.

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Notes to Consolidated Financial Statements

Investment strategy and redemption information – The following table summarizes the investment strategy types, unfunded commitments, and redemption features of the investment portfolio classified as Level 3 or NAV as of December 31, 2019. The table does not include any option or derivative investments which are held directly by KFF. KFF had commitments under the associated investment agreements to make additional capital contributions as noted.

	<u>Unfunded Commitments</u>	<u>Redemption Frequency (if Currently Eligible)</u>	<u>Redemption Notice Period</u>
Level 3			
Private equity	\$ 61,250,385	Illiquid	-
NAV			
Equities and fixed income securities	\$ -	Monthly, quarterly, biennially, triennially	5 - 180 days notice
Hedge funds	\$ -	Quarterly, semi-annually	60 - 180 days notice
Private equity	\$ -	Illiquid	-

The levels in the ASC Topic 820 fair value hierarchy into which KFF's receivable for unsettled investment transactions fell as of December 31, 2019 and 2018, were as follows:

	<u>2019</u>	<u>2018</u>
Level 1		
Equities and fixed income securities	\$ 546,633	\$ -
Level 3		
Private equity	1,585,675	1,656,322
NAV		
Equities and fixed income securities	14,339,949	-
Hedge funds	1,893,980	-
Total NAV	<u>16,233,929</u>	<u>-</u>
	<u>\$ 18,366,237</u>	<u>\$ 1,656,322</u>

Derivatives – KFF may use derivative instruments to manage its exposure to market risks, for income enhancement, and to provide equity exposure without actual ownership of the underlying asset. KFF's management believes the use of such instruments in its investment management program is appropriate in providing for the long-term and short-term financial needs of KFF. Though the use of these instruments reduces certain investment risks and generally adds value to the portfolio, the instruments themselves do involve some investment and counterparty risk. KFF has internal policies to manage its counterparty exposure and actively monitors its margin exposure to any counterparty on a daily basis.

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As of December 31, 2019 and 2018, the fair values of derivatives consisted of the following:

	2019	2018
Fixed income options and derivatives liability	\$ (16,319,951)	\$ (11,822,288)

Prior to 2015, KFF categorized its interest rate swaps as a derivative liability associated with its 2001 District of Columbia Revenue Bonds and Northern Trust Loan. With KFF's 2015 Bond issue and subsequent repayment of its 2001 District of Columbia Revenue Bonds (the "2001 DC Bonds") and Northern Trust Loan, the fair value of the interest rate swaps is included in investments (see Note 5). The interest rate swap related to the Northern Trust Loan expired in February 2017.

The estimated fair values of the interest rate swap agreements are based on quotes from the market makers for similar instruments and, therefore, are classified as Level 3 under the ASC Topic 820 fair value hierarchy.

NOTE 4 – PROPERTY AND EQUIPMENT, NET

As of December 31, 2019 and 2018, property and equipment consisted of the following:

	2019	2018
Land	\$ 7,463,063	\$ 7,463,063
Buildings and improvements	42,174,710	42,117,904
Office furniture and equipment	7,147,709	7,408,449
	56,785,482	56,989,416
Accumulated depreciation	(20,569,496)	(19,147,991)
	36,215,986	37,841,425
Construction in progress	195,969	582,237
Property and equipment - net	\$ 36,411,955	\$ 38,423,662

Depreciation expense was \$2,214,719 and \$1,658,390 for the years ended December 31, 2019 and 2018, respectively, included in rent, building, and occupancy in the accompanying consolidated statements of activities and changes in net assets.

NOTE 5 – BONDS PAYABLE

In June 2015, KFF issued \$100,000,000 in interest-only taxable fixed rate bonds: \$65,000,000 of Henry J. Kaiser Family Foundation Bond 3.356% 12/1/2025 (the "2025 Bonds") and \$35,000,000 of Henry J. Kaiser Family Foundation Bond 4.407% 12/1/2045 (the "2045 Bonds"). Interest expense for the years ended December 31, 2019 and 2018, was as follows:

	2019	2018
Henry J. Kaiser Family Foundation Bond 3.356% 12/1/2025 \$65 million	\$ 2,181,400	\$ 2,181,400
Henry J. Kaiser Family Foundation Bond 4.407% 12/1/2045 \$35 million	1,542,450	1,542,450
	\$ 3,723,850	\$ 3,723,850

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The proceeds of the new bond issue were used to retire the 2001 DC Bonds and the Northern Trust Loan (see Note 3). The new issuance is unsecured and rated AAA by Standard and Poor's at issuance and currently.

Interest rate swap agreements – Prior to 2015, interest rate swap agreements (“Swaps”) were used by KFF to mitigate the risk of changes in interest rates associated with variable interest rate indebtedness. Under such arrangements, variable rate indebtedness was converted to fixed rates based on a notional principal amount. The Swaps related to the 2001 DC Bonds effectively fixed the interest rate on a notional amount of \$42,000,000 at 3.46% for the remaining term of the 2001 DC Bonds (see Note 3). As KFF retired its variable interest rate indebtedness and did not retire its Swaps, these Swaps no longer mitigate an operational risk, but instead reflect an investment thesis predicated on rising interest rates. As such, the Swaps have been reclassified to investment within KFF's investment portfolio. Interest expense related to these Swaps was approximately \$824,000 and \$885,000 for the years ended December 31, 2019 and 2018, respectively.

NOTE 6 – NOTE PAYABLE

In November 2016, KF PS Trust entered into a \$10,000,000 Revolving Line of Credit and Term Loan Agreement (“Agreement”) with Western Alliance Bank, guaranteed by KF Fintech LLC, and collateralized by KF PS Trust's fixed income investments and trust bank account with U.S. Bank, with a backstop provided by KFF for any fraud, gross negligence or willful misconduct committed by KF PS Trust. The Agreement also required KFF to maintain a \$250,000 compensating balance in its Western Alliance bank account. During 2016 and 2017, KF PS Trust borrowed \$10,000,000 against the Agreement at variable rates of the greater of 4.50% or 4% over LIBOR. On August 29, 2017, the Agreement was amended to increase the borrowing limit to \$15,000,000 and required an unused line fee of twenty-five (25) basis points during any quarter in which advances against the facility fell below \$7,500,000. An additional \$1,500,000 was borrowed against the facility on January 8, 2018, and payments were subsequently made through April 2018 to bring the outstanding balance down to \$6,000,000. On June 26, 2018, the facility was amended to reduce the borrowing limit to \$7,500,000. At the expiration of the Agreement on November 22, 2018, the outstanding balance owed had been reduced to \$2,000,000 and was converted to a term loan, due November 22, 2019. As of December 31, 2018, the outstanding balance owed had been further reduced to \$1,363,153, and was fully repaid on February 25, 2019. Interest expense for the borrowings against the revolving line of credit was approximately \$8,000 and \$336,000 for the years ended December 31, 2019 and 2018, respectively.

Line of credit – KFF has a \$40,000,000 revolving line of credit agreement with Bank of America for operational purposes. The outstanding balance accrues interest at the annual rate of LIBOR Daily Floating rate plus fifty (50) basis points and is paid on a monthly basis in arrears on amounts drawn. Additionally, all undrawn amounts are subject to a commitment fee of ten (10) basis points annually, paid on a quarterly basis. KFF repaid all outstanding principal in December 2019. The \$40,000,000 revolving line of credit was renewed on December 10, 2019 with the same terms and conditions for calendar 2020 and an expiration date of January 2, 2021. Interest expense for the revolving line of credit was approximately \$432,000 and \$270,000 for the years ended December 31, 2019 and 2018, respectively.

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NOTE 7 – FEDERAL, STATE, AND LOCAL TAXES

The provision for current and deferred taxes for the years ended December 31, 2019 and 2018, was as follows:

	2019	2018
Provision for federal taxes		
Current	\$ 227,386	\$ 230,494
Deferred	(5,351,287)	(11,670)
	(5,123,901)	218,824
Other state and local taxes	28,494	103,829
	\$ (5,095,407)	\$ 322,653

KFF had been a private operating foundation exempt from federal income tax under the Code Section 501(c)(3) and, as such, subject to a federal excise tax on net investment income at a rate of 2%, or 1% if certain distribution criteria were met. KFF received an advance ruling from the IRS of public charity status for a 60-month period beginning January 1, 2014. If KFF satisfied the requirements of Section 507(b)(1)(B) of the Code, KFF would no longer be subject to the federal excise tax on net investment income. In February 2019, after the completion of the 60-month period, KFF filed with the IRS documentation to support that it satisfied the requirements of Section 507(b)(1)(B) of the Code, and in June 2019 received a determination letter from the IRS confirming its public charity status. For 2018 and prior years, KFF had recorded deferred excise taxes, which arose primarily from unrealized tax-basis gains on investments. For the year ended December 31, 2018, deferred taxes were calculated at an effective rate of 2%, which was the maximum rate possible to be paid by KFF on such amounts at that time. In 2019, upon receiving the determination letter of public charity status from the IRS, and no longer subject to federal excise tax on net investment income, KFF reversed its deferred tax liability of \$4,329,806 resulting in a negative deferred excise tax provision in the consolidated statement of activities and changes in net assets for the year ended December 31, 2019.

NOTE 8 – NET ASSETS WITH DONOR RESTRICTIONS AND NET ASSETS RELEASED FROM RESTRICTIONS

As of December 31, 2019 and 2018, net assets with donor restrictions consisted of the following:

	2019	2018
Purpose and time restrictions:		
U.S. health policy analysis and journalism	\$ 22,549,148	\$ 21,292,988
Social impact media (GTA)	258,393	741,035
Total purpose and time restrictions	22,807,541	22,034,023
Purpose restrictions:		
U.S. health policy analysis and journalism	1,150,093	1,933,002
Total purpose restrictions	1,150,093	1,933,002
	\$ 23,957,634	\$ 23,967,025

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Net assets released from restrictions for the years ended December 31, 2019 and 2018, were as follows:

	<u>2019</u>	<u>2018</u>
U.S. health policy analysis and journalism	\$ 10,302,682	\$ 8,116,468
Social impact media (GTA)	1,388,902	3,209,297
	<u>\$ 11,691,584</u>	<u>\$ 11,325,765</u>

NOTE 9 – EMPLOYEE RETIREMENT AND OTHER ACCRUED BENEFITS

KFF provides certain postretirement health care benefits to eligible employees. Estimated cost is accrued over periods of employee service on an actuarially determined basis. KFF has determined that prescription drug benefits included in its postretirement health care plan are actuarially equivalent to Part D of the Medicare Prescription Drug Improvement and Modernization Act of 2003. However, as the amount of subsidy that KFF is eligible for is not material, no reduction has been made to the postretirement obligations included in the accompanying consolidated financial statements.

KFF amended the postretirement health care benefit plan in 2018 to close the plan to new entrants.

KFF used a December 31 measurement date for its postretirement health care benefit plan.

Obligations and funded status – For the years ended December 31, 2019 and 2018, the benefit obligations, fair value of assets, and unfunded status for the postretirement health care benefit plan were as follows:

	<u>2019</u>	<u>2018</u>
Projected benefit obligation as of January 1	\$ 38,554,913	\$ 45,199,812
Service cost	1,864,979	2,410,266
Interest cost	1,605,873	1,603,446
Benefits paid	(350,333)	(406,531)
Actuarial gain	(428,296)	(10,252,080)
Projected benefit obligation as of December 31	41,247,136	38,554,913
Less: Fair value of plan assets as of December 31	6,789,618	5,472,669
Unfunded status	<u>\$ 34,457,518</u>	<u>\$ 33,082,244</u>

The costs, contributions, expenses paid, and benefits paid for the years ended December 31, 2019 and 2018, for the postretirement health care benefit plan were as follows:

	<u>2019</u>	<u>2018</u>
Benefit cost	\$ 3,199,775	\$ 4,443,078
Employer contribution	315,000	450,000
Expenses paid	-	-
Benefits paid	(350,333)	(406,531)

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Amounts not yet reflected in net periodic benefit cost and the cumulative net period benefit cost in excess of employer contributions as of December 31, 2019 and 2018, consisted of the following:

	2019	2018
Prior service cost	\$ 236,576	\$ 300,224
Accumulated loss	3,461,844	4,907,697
Accumulated other comprehensive income	3,698,420	5,207,921
Cumulative net periodic benefit cost in excess of employer contributions	30,759,098	27,874,323
Net liability recognized in consolidated statements of financial position	\$ 34,457,518	\$ 33,082,244

The components of the postretirement health care benefit-related changes other than net periodic benefit cost reflected in the consolidated statements of activities and changes in net assets for the years ended December 31, 2019 and 2018, were as follows:

	2019	2018
Amortization of prior service cost	\$ (63,648)	\$ (63,648)
Amortization of net actuarial loss	(48,362)	(769,433)
Net actuarial gain	(1,397,491)	(9,510,214)
	\$ (1,509,501)	\$ (10,343,295)

The amount to be reflected in net periodic benefit cost in 2020 is as follows:

	2020
Prior service cost	\$ 63,648

Assumptions – The weighted-average assumptions used in computing the projected benefit obligations as of December 31, 2019 and 2018, were as follows:

	2019	2018
Discount rate	3.25%	4.25%

The weighted-average assumptions used in computing the net periodic benefit cost for the years ended December 31, 2019 and 2018, were as follows:

	2019	2018
Discount rate	4.25%	3.65%
Expected return on plan assets	7.00%	7.00%

The trend rate for health care benefits pre-65/post-65 for 2019 and 2018, is 7.25%/7.0% and 7.75%/8.0%, respectively. In subsequent years, the rate of increase is assumed to decline until an ultimate rate of 4.50% is attained in 2028.

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Plan assets – The reconciliation of the changes in the plan assets of KFF’s postretirement health care benefit plan as of December 31, 2019 and 2018, was as follows:

	<u>2019</u>	<u>2018</u>
Fair value as of January 1	\$ 5,472,669	\$ 5,767,351
Actual gain (loss) on plan assets	1,352,282	(338,151)
Employer contributions	315,000	450,000
Expenses paid	-	-
Benefits paid	<u>(350,333)</u>	<u>(406,531)</u>
Fair value as of December 31	<u>\$ 6,789,618</u>	<u>\$ 5,472,669</u>

Asset classes – The asset allocation of KFF’s postretirement health care plan as of December 31, 2019 and 2018, was as follows:

	<u>2019</u>	<u>2018</u>
Level 1		
Cash and cash equivalents	\$ 188,765	\$ 206,774
Marketable equity securities	5,421,992	4,319,849
Fixed income securities	<u>1,178,861</u>	<u>946,046</u>
Total Level 1	<u>\$ 6,789,618</u>	<u>\$ 5,472,669</u>

The plan invests in mutual funds that seek a high total return by investing in a portfolio of cash, common stocks, treasuries, corporate bonds, and money market instruments.

Allocation of plan assets may change over time based upon investment manager determination of the relative attractiveness of each security type. KFF periodically assesses allocation of plan assets by investment type and evaluates external sources of information regarding the long-term historical returns and expected future returns for each investment type. KFF’s target and actual asset allocation at December 31, 2019 and 2018, were as follows:

	<u>2019</u>		<u>2018</u>	
	<u>Target Allocation</u>	<u>Actual</u>	<u>Target Allocation</u>	<u>Actual</u>
Cash and cash equivalents	3.00%	2.78%	3.00%	3.78%
Marketable equity securities	80.00%	79.86%	80.00%	78.93%
Fixed income securities	15.00%	17.36%	15.00%	17.29%
Other	<u>2.00%</u>	<u>0.00%</u>	<u>2.00%</u>	<u>0.00%</u>
	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

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Estimated future benefit payments – Anticipated future benefit payments, which reflect future services, to be paid either from future contributions to the plan or directly from plan assets, are as follows:

<u>Year Ending December 31,</u>	
2020	\$ 535,000
2021	620,000
2022	719,000
2023	783,000
2024	896,000
2025-2029	6,092,000

KFF also sponsors a qualified defined contribution pension plan covering substantially all of its employees. The plan is funded by employee and employer contributions. KFF contributes an amount based upon eligible compensation as defined in the plan. Pension expense related to this plan was approximately \$3,432,000 and \$3,233,000 for the years ended December 31, 2019 and 2018, respectively.

In addition, accounts payable, accrued benefits, and other liabilities on the consolidated statements of financial position included approximately \$781,000 and \$705,000 of accrued employee benefits associated with certain unfunded executive compensation plans, and approximately \$3,747,000 and \$3,946,000 of accrued flexible time off and sabbatical leave as of December 31, 2019 and 2018, respectively.

NOTE 10 – LEASE COMMITMENTS

In May 2017, KFF entered into a ten-year agreement to lease office space in San Francisco, CA as part of the move of KFF's headquarters to San Francisco in March 2018. The initial lease term commenced on January 1, 2018, and expires ten years after lease commencement date. KFF has the option to renew the lease for two additional ten-year terms. KFF also leases office facilities in Menlo Park, CA under a noncancellable operating lease for a ten-year period, expiring June 30, 2021. KFF has subleased the Menlo Park space to multiple organizations for the remainder of the lease. Rental expense for the office facilities was approximately \$4,554,000 for both years ended December 31, 2019 and 2018.

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The maturities of lease liabilities in excess of one year are as follows:

2020	\$ 4,597,849
2021	3,459,716
2022	2,287,906
2023	2,356,490
2024	2,427,130
Thereafter	<u>7,726,747</u>
Total lease payments	22,855,838
Less: Present value discount	<u>(1,598,518)</u>
Operating lease liability	<u>\$ 21,257,320</u>

Lease Term and Discount Rate

Weighted average remaining lease term (in years)	6.94
Weighted average discount rate	1.88%

NOTE 11 – LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure, within one year of the statements of financial position date at December 31, 2019 and 2018, comprised the following:

	<u>2019</u>	<u>2018</u>
Financial assets, at year end		
Cash and cash equivalents	\$ 13,093,585	\$ 6,560,274
Receivable for unsettled investment transactions	18,366,237	1,656,322
Receivable for investment income	298,156	415,819
Contributions receivable, net	16,566,049	18,822,869
Investments, at fair value	<u>628,617,215</u>	<u>598,577,710</u>
	<u>676,941,242</u>	<u>626,032,994</u>
Less assets unavailable for general expenditures within one year		
Cash held with donor restrictions, net of amounts expected to be released from restrictions in the following year	(688,198)	(1,185,960)
Cash held as compensating balance for note payable	-	(250,000)
Receivable for unsettled transactions and investment income receivable, non-current	(2,021,207)	(601,089)
Contributions receivable, non-current	(8,404,648)	(9,650,572)
Investments with liquidity restrictions or pledged as debt collateral	(447,211,604)	(345,289,180)
Board designated budget reserve fund	<u>(12,000,000)</u>	<u>(12,000,000)</u>
	<u>(470,325,657)</u>	<u>(368,976,801)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 206,615,585</u>	<u>\$ 257,056,193</u>

To maintain the real value of its assets and spending over time, KFF uses a formula-based budgeting approach. The formula establishes an annual spending target based on average asset levels over the most recent twelve quarters at an established percentage payout rate. Further, the board has designated \$12,000,000 as a budget reserve fund to cushion spending in the event of a prolonged recession. In addition, KFF has a practice of holding liquid investments, redeemable within one year, adequate to cover three years of operating expenses, debt service, and investment commitments. KFF also has available for general expenditures the \$40,000,000 line of credit agreement with Bank of America (see Note 6).

NOTE 12 – SUBSEQUENT EVENTS

FASB ASC Topic 855, *Subsequent Events*, requires accounting for and disclosures of events that occur after the date of the consolidated statements of financial position, but before the consolidated financial statements are issued.

Subsequent to December 31, 2019, the World Health Organization declared the novel coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, customers, economies, and financial markets globally, potentially leading to an economic downturn. It has also disrupted the normal operations of many businesses and organizations, including KFF. It is not possible for management to predict the duration or magnitude of the adverse results of the outbreak and its disruptive effects on KFF's operations and financial results at this time. KFF held various investments at December 31, 2019, that have experienced a decline in market value through March 2020 as a result of the market's reaction to the pandemic. KFF will continue to monitor the situation closely, but the market volatility and the continuing situation surrounding the pandemic is uncertain. At this time, management believes that the decline in fair value for these investments is temporary.

KFF evaluated subsequent events through June 18, 2020, the date the consolidated financial statements were issued, and determined that no additional disclosures were necessary.

