Report of Independent Auditors and
Consolidated Financial Statements

The Henry J. Kaiser Family Foundation

December 31, 2020 and 2019

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MOSSADAMS

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, 2020 and 2019, 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, 2020 and 2019, 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.

Moss Adams LLP

San Francisco, California
June 10, 2021

Consolidated Financial Statements

The Henry J. Kaiser Family Foundation
Consolidated Statements of Financial Position
December 31, 2020 and 2019

	2020	2019
ASSETS		
Cash and cash equivalents	$ 14,998,507	$ 13,093,585
Receivable for unsettled investment transactions	67,921,106	18,366,237
Receivable for investment income, net	15,280	298,156
Investments, at fair value	738,764,084	628,617,215
Contributions receivable, net	16,469,714	16,566,049
Accounts receivable, prepaids, and other assets	3,264,038	1,907,746
Operating lease right of use assets	16,195,128	20,379,728
Property and equipment, net	34,544,374	36,411,955
TOTAL ASSETS	$ 892,172,231	$ 735,640,671
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable, accrued benefits, and other liabilities	$ 7,161,111	$ 6,321,044
Payable for unsettled investment transactions	5,640,234	546,633
Postretirement liability	39,279,871	34,457,518
Operating lease liabilities	17,029,131	21,257,320
Bonds payable	100,000,000	100,000,000
TOTAL LIABILITIES	169,110,347	162,582,515
NET ASSETS		
Without donor restrictions		
Undesignated	685,692,036	537,100,522
Designated by the Board for budget reserve fund	14,400,000	12,000,000
	700,092,036	549,100,522
With donor restrictions		
Purpose and time restrictions	22,491,770	22,807,541
Purpose restrictions	478,078	1,150,093
	22,969,848	23,957,634
TOTAL NET ASSETS	723,061,884	573,058,156
TOTAL LIABILITIES AND NET ASSETS	$ 892,172,231	$ 735,640,671

See accompanying notes.

The Henry J. Kaiser Family Foundation
Consolidated Statements of Activities and Changes in Net Assets
Years Ended December 31, 2020 and 2019

	2020	2019
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
Investment income		
Interest and dividends	$ 962,183	$ 902,408
Net realized and unrealized gains on investments	197,101,975	93,900,425
Investment expense	(4,524,946)	(3,748,037)
Net investment income	193,539,212	91,054,796
Net assets released from restrictions	13,229,994	11,691,584
Gain on insurance proceeds received for damage to equipment	-	672,115
Contributions, sublease rental income, and other income	1,814,682	372,309
Total net investment income, net assets released from restrictions, contributions, sublease rental income, and other income	208,583,888	103,790,804
Expenses		
Program activities - direct charitable expenses		
Salaries and benefits	26,956,622	25,423,196
Rent, building, and occupancy	5,362,288	5,318,665
Consultants, contractors, and survey fieldwork	5,293,094	6,157,002
Interest	3,167,627	3,371,248
Social impact media	2,490,781	1,772,773
Web development, maintenance, and other technology	1,507,516	1,676,349
Conferences, travel, and other costs	1,108,951	2,207,148
	45,886,879	45,926,381
Administrative expenses		
Salaries and benefits	4,910,429	4,856,458
Rent, building, and occupancy	3,493,933	3,733,392
Professional and consulting fees	295,420	432,488
Interest, travel, and other costs	1,054,876	1,554,573
	9,754,658	10,576,911
Federal, state, and local tax benefit	(301,361)	(5,095,407)
Total expenses	55,340,176	51,407,885
Change in postretirement liability - health care benefit plan	(2,252,198)	1,509,501
Change in net assets without donor restrictions	150,991,514	53,892,420
Net assets without donor restrictions, beginning of year	549,100,522	495,208,102
Net assets without donor restrictions, end of year	700,092,036	549,100,522
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS		
Contributions	12,242,208	11,682,193
Net assets released from restrictions	(13,229,994)	(11,691,584)
Change in net assets with donor restrictions	(987,786)	(9,391)
Net assets with donor restrictions, beginning of year	23,957,634	23,967,025
Net assets with donor restrictions, end of year	22,969,848	23,957,634
CHANGE IN TOTAL NET ASSETS	150,003,728	53,883,029
TOTAL NET ASSETS, beginning of year	573,058,156	519,175,127
TOTAL NET ASSETS, end of year	$ 723,061,884	$ 573,058,156

See accompanying notes.

The Henry J. Kaiser Family Foundation
Consolidated Statements of Cash Flows
Years Ended December 31, 2020 and 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in total net assets	$ 150,003,728	$ 53,883,029
Adjustments to reconcile change in total net assets to net cash used in operating activities		
Net realized and unrealized gains on investments	(197,101,975)	(93,900,425)
Deferred federal excise taxes	-	(4,329,806)
Depreciation and amortization	2,208,028	2,304,089
Gain on insurance proceeds received for damage to equipment	-	(672,115)
Discount on contributions receivable	(177,212)	(84,308)
Write-off of construction in progress assets from prior year	8,363	180,930
Loss on disposal of fixed assets	24,496	-
Changes in operating assets and liabilities		
Contributions receivable	273,547	2,341,128
Accounts receivable, prepaids, and other assets	(1,356,292)	(580,355)
Accounts payable, accrued benefits, and other liabilities	840,067	(724,451)
Postretirement liability	4,822,353	1,375,274
Net cash used in operating activities	(40,454,897)	(40,207,010)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(106,481,409)	(56,706,488)
Proceeds from sales and maturities of investments	193,690,331	120,567,408
Increase in receivable for unsettled investment transactions	(49,554,869)	(16,709,915)
Increase in payable for unsettled investment transactions	5,093,601	546,633
Decrease in net receivable for investment income	29,061	117,663
Insurance proceeds received for damage to equipment	-	770,856
Purchases of property and equipment	(416,896)	(482,683)
Net cash provided by investing activities	42,359,819	48,103,474
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on note payable	-	(1,363,153)
Proceeds from line of credit	8,000,000	25,500,000
Payments on line of credit	(8,000,000)	(25,500,000)
Net cash used in financing activities	-	(1,363,153)
Increase in cash and equivalents	1,904,922	6,533,311
Cash and cash equivalents - beginning of year	13,093,585	6,560,274
Cash and cash equivalents - end of year	$ 14,998,507	$ 13,093,585
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid for interest	$ (5,073,539)	$ (4,958,265)
Cash (paid) net refunds received for taxes on unrelated business income	$ (3,526)	$ 323,484

See accompanying notes.

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, 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 1 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.

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.

Retroactive to January 1, 2019, KFF adopted provisions of ASC Topic 820 that allow for investments that meet certain criteria to be measured at net asset value per share as a practical expedient. The Committee reevaluated these investments and concluded the net asset value per share of the investment as a practical expedient is more appropriate. As of January 1, 2019, $243,430,244 of private equity investments were reclassified from Level 3 to net asset value per share (see Note 3). These reclassifications had no impact on the change in net assets or net asset balances.

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.

Derivative financial instruments – KFF may use derivative financial instruments ("derivatives") in order to gain tactical exposure to equity, foreign exchange, and fixed income factors. Derivatives are recorded at their estimated fair value in the accompanying consolidated statements of financial position (see Note 3). Changes in the underlying value of derivatives 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, 2020 and 2019, approximate their net present value. Contributions receivable of approximately $16,470,000 are net of unamortized discounts of approximately $196,000 as of December 31, 2020, and are expected to be received as follows: $9,349,000 in 2021, $5,308,000 in 2022, and $2,009,000 in 2023. 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. At December 31, 2020, six of KFF's donors made up 85% of the contributions receivable balance. At December 31, 2019, four of KFF's donors made up 82% 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, 2020 and 2019, KFF had no allowances on the contributions receivable. There were no conditional contributions receivable as of December 31, 2020 and 2019.

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 2020 and 2019.

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.

Donated goods and services are recorded as in-kind donations at their estimated fair value on the date of receipt. Such donations are reported as contribution revenue without donor restrictions unless the donor has restricted the donated asset to a specific purpose or time period. Assets donated with explicit restrictions regarding use are reported as contribution revenue with donor restrictions. In 2020, KFF received in-kind contributions without donor restrictions for online advertising services valued at $1,114,309 and these services were used to promote KFF content and information. In-kind contributions received in 2019 were nominal.

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, 2020 and 2019, 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, 2020, 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, 2020 and 2019, 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.

COVID-19 – In March 2020, the World Health Organization publicly characterized COVID-19 as a global pandemic. As a result of the ongoing pandemic, there has been increased volatility in financial markets and a negative impact on the global economy. This volatility has not significantly impacted KFF's ability to advance its mission and operate as planned.

Reclassifications – Certain reclassifications have been made to the 2019 consolidated financial statements to conform to the 2020 consolidated financial statement presentation. These reclassifications had no impact on the change in net assets or net asset balances.

Recent accounting pronouncements – During 2020, KFF adopted FASB Accounting Standards Update ("ASU") No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*, which removes and modifies certain disclosure requirements on fair value measurements in Topic 820, *Fair Value Measurement*. The adoption of ASU No. 2018-13 resulted in the addition of a new disclosure to provide significant unobservable inputs for Level 3 assets and removed certain disclosures that are no longer required.

In September 2020, the FASB issued ASU No. 2020-07, *Not-For-Profit Entities (Topic 958): Presentation and Disclosures by Not-For-Profit Entities for Contributed Nonfinancial Assets*, which increases the transparency of contributed nonfinancial assets for not-for-profit organizations through enhancements to presentation and disclosure. The update addresses certain stakeholders' concerns about the lack of transparency about the measurement of contributed nonfinancial assets recognized by not-for-profit organizations, as well as the amount of those contributions used in a not-for-profit organization's programs and other activities. This update is effective for fiscal years beginning after June 15, 2021. The adoption is effective for KFF for calendar year ending December 31, 2022. Management is currently evaluating the impact of the provisions of ASU No. 2020-07 on the consolidated financial statements.

NOTE 2 – INVESTMENTS

As of December 31, 2020 and 2019, KFF's investments consisted of the following:

	2020	2019
Equity securities	$ 140,577,981	$ 128,442,623
Fixed income securities	26,602,995	43,434,242
Hedge funds	104,111,055	89,223,961
Private equity	443,143,306	332,385,587
Fixed income options and derivatives	(20,856,205)	(16,319,951)
Real assets	45,184,952	51,450,753
	$ 738,764,084	$ 628,617,215

KFF had commitments under partnership agreements to make additional capital contributions to alternative investments of $52,088,735 and $61,250,385 as of December 31, 2020 and 2019, 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, 2020 and 2019, were as follows:

	2020	2019
Level 1		
Equities and fixed income securities	$ 34,480,202	$ 12,636,265
Level 2		
Fixed income options and derivatives	(20,856,205)	(16,319,951)
Level 3		
Fixed income securities	11,516,501	12,475,304
Private equity	8,030,305	18,741,255
Real assets	45,184,952	51,450,753
Total level 3	64,731,758	82,667,312
Investments Measured at Net Asset Value		
Equities and fixed income securities	121,184,273	146,765,296
Hedge funds	104,111,055	89,223,961
Private equity	435,113,001	313,644,332
Total investments measured at net asset value	660,408,329	549,633,589
	$ 738,764,084	$ 628,617,215

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 is based on information provided by the Committee, or estimated using the net asset value per share of the investment as a practical expedient.

The hedge funds category represents investments with managers investing across the globe, both long and short positions, 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 value of investments in this category has been estimated using the net asset value per share of the investment as a practical expedient.

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. The fair values for the majority of these investments are estimated using the net asset value per share of the investment as a practical expedient, with the remaining investment values 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. As such, these investments have been reclassified to Level 2 investments, effective January 1, 2019.

The real assets category is comprised of KFF’s investments in real estate and natural resources-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, 2020 and 2019, were as follows:

	Fixed Income Securities	Private Equity	Real Assets	Total Level 3
Balance, December 31, 2018	$ 21,738,400	$ 14,168,066	$ 49,947,002	$ 85,853,468
Transfer fixed income securities to real assets	(1,235,000)	-	1,235,000	-
Purchases and other acquisitions	-	60,395	2,013,852	2,074,247
Sales and other dispositions	(7,244,920)	(140,676)	(4,465,404)	(11,851,000)
Realized depreciation	(67,795)	(1,910,697)	(5,382)	(1,983,874)
Unrealized (depreciation) appreciation	(715,381)	6,564,167	2,725,685	8,574,471
Balance, December 31, 2019	12,475,304	18,741,255	51,450,753	82,667,312
Transfer fixed income securities to real assets	(172,250)	-	172,250	-
Purchases and other acquisitions	-	-	6,309,548	6,309,548
Sales and other dispositions	(1,322,366)	(2,820,808)	(10,025,145)	(14,168,319)
Realized appreciation	272,105	1,676,346	4,130,041	6,078,492
Unrealized appreciation (depreciation)	263,708	(9,566,488)	(6,852,495)	(16,155,275)
Balance, December 31, 2020	$ 11,516,501	$ 8,030,305	$ 45,184,952	$ 64,731,758

The following table presents the ranges of significant unobservable inputs used to value certain Level 3 assets. While the inputs described below represent the range of inputs utilized as of December 31, 2020, these inputs may change over time, which may have a material effect on the valuation of these types of investments in the future.

Category	Fair Value	Valuation Techniques	Unobservable Inputs	Range	Weighted Average
Fixed income securities	$ 1,416,502	Collateral coverage market risk factor	Collateral	100%	100%
Private equity	8,030,305	Market comparables	Recent transactions	N/A	N/A
Real assets		Net present value	Discount rate	13% - 17%	15%
	38,432,871	Discount for lack of marketability	Discount rate	20%	20%
	$ 47,879,678				

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 measured at net asset value as of December 31, 2020. 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.

	Unfunded Commitments	Redemption Frequency (if Currently Available)	Redemption Notice Period
Level 3			
Private equity	$ -	Illiquid	-
Investments Measured at Net Asset Value			
Equities and fixed income securities	$ -	Monthly, quarterly	5 to 60 days notice
Hedge funds	$ -	Quarterly, semi-annually	60 to 90 days notice
Private equity	$ 52,088,735	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, 2020 and 2019, were as follows:

	2020	2019
Level 1		
Equities and fixed income securities	$ 27,160,402	$ 546,633
Level 3		
Private equity	147,836	1,030,989
Investments Measured at Net Asset Value		
Equities and fixed income securities	39,719,577	14,339,949
Hedge funds	-	1,893,980
Private Equity	893,291	554,686
Total investments measured at net asset value	40,612,868	16,788,615
	$ 67,921,106	$ 18,366,237

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.

As of December 31, 2020 and 2019, the fair values of derivatives consisted of the following:

	2020	2019
Fixed income options and derivatives liability	$ (20,856,205)	$ (16,319,951)

Prior to 2015, KFF categorized its interest rate swaps as a derivative liability associated with its 2001 District of Columbia Revenue Bonds ("2001 DC Bonds") and Northern Trust Loan. With KFF's 2015 Bond issue and subsequent repayment of its 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 2 under the ASC Topic 820 fair value hierarchy.

NOTE 4 – PROPERTY AND EQUIPMENT, NET

As of December 31, 2020 and 2019, property and equipment consisted of the following:

	2020	2019
Land	$ 7,463,063	$ 7,463,063
Buildings and improvements	42,515,333	42,174,710
Office furniture and equipment	7,335,490	7,147,709
	57,313,886	56,785,482
Accumulated depreciation	(22,784,370)	(20,569,496)
	34,529,516	36,215,986
Construction in progress	14,858	195,969
Property and equipment - net	$ 34,544,374	$ 36,411,955

Depreciation expense was $2,251,618 and $2,214,719 for the years ended December 31, 2020 and 2019, 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, 2020 and 2019, was as follows:

	2020	2019
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

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 investments within KFF's investment portfolio. Interest expense related to these Swaps was approximately $1,310,000 and $824,000 for the years ended December 31, 2020 and 2019, 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. On August 29, 2017, the Agreement was amended to increase the borrowing limit to $15,000,000. 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 for the year ended December 31, 2019.

Line of credit – KFF has a $40,000,000 revolving line of credit agreement with Bank of America for operational purposes. During 2020 and 2019, the outstanding balance accrued interest at the annual rate of LIBOR Daily Floating rate plus fifty (50) basis points, paid on a monthly basis in arrears on amounts drawn. Additionally, all undrawn amounts were subject to a commitment fee of ten (10) basis points annually, paid on a quarterly basis. KFF repaid all outstanding principal in December 2020. The $40,000,000 revolving line of credit was renewed on December 23, 2020 with an annual borrowing rate of LIBOR Daily Floating rate plus one percentage point (1.00%), a commitment fee on undrawn amounts of twenty (20) basis points annually, paid on a quarterly basis, and an expiration date of January 2, 2022. Interest expense for the revolving line of credit was approximately $83,000 and $432,000 for the years ended December 31, 2020 and 2019, respectively.

NOTE 7 – FEDERAL, STATE, AND LOCAL TAXES

The provision for current and deferred taxes for the years ended December 31, 2020 and 2019, was as follows:

	2020	2019
Provision for federal taxes		
Current (benefit) expense	$ (190,768)	$ 227,386
Deferred benefit	(57,119)	(5,351,287)
	(247,887)	(5,123,901)
Other state and local taxes (benefit) expense	(53,474)	28,494
	$ (301,361)	$ (5,095,407)

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. 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, 2020 and 2019, net assets with donor restrictions consisted of the following:

	2020	2019
Purpose and time restrictions:		
U.S. health policy analysis and journalism	$ 22,166,311	$ 22,549,148
Social impact media (GTA)	250,459	258,393
Public opinion and survey research	75,000	-
Total purpose and time restrictions	22,491,770	22,807,541
Purpose restrictions:		
U.S. health policy analysis and journalism	478,078	1,150,093
Total purpose restrictions	478,078	1,150,093
	$ 22,969,848	$ 23,957,634

All net assets with donor restrictions are expected to be released from restriction by December 31, 2023.

Net assets released from restrictions for the years ended December 31, 2020 and 2019, were as follows:

	2020	2019
U.S. health policy analysis and journalism	$ 12,457,414	$ 10,302,682
Social impact media (GTA)	772,580	1,388,902
	$ 13,229,994	$ 11,691,584

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, 2020 and 2019, the benefit obligations, fair value of assets, and unfunded status for the postretirement health care benefit plan were as follows:

	2020	2019
Projected benefit obligation as of January 1	$ 41,247,136	$ 38,554,913
Service cost	2,048,733	1,864,979
Interest cost	1,366,504	1,605,873
Benefits paid	(382,208)	(350,333)
Actuarial loss (gain)	2,973,307	(428,296)
Projected benefit obligation as of December 31	47,253,472	41,247,136
Less: Fair value of plan assets as of December 31	7,973,601	6,789,618
Unfunded status	$ 39,279,871	$ 34,457,518

The costs, contributions, expenses paid, and benefits paid for the years ended December 31, 2020 and 2019, for the postretirement health care benefit plan were as follows:

	2020	2019
Benefit cost	$ 3,030,155	$ 3,199,775
Employer contribution	460,000	315,000
Expenses paid	-	-
Benefits paid	(382,208)	(350,333)

Amounts not yet reflected in net periodic benefit cost and the cumulative net periodic benefit cost in excess of employer contributions as of December 31, 2020 and 2019, consisted of the following:

	2020	2019
Prior service cost	$ 172,928	$ 236,576
Accumulated loss	5,777,690	3,461,844
Accumulated other comprehensive income	5,950,618	3,698,420
Cumulative net periodic benefit cost in excess of employer contributions	33,329,253	30,759,098
Net liability recognized in consolidated statements of financial position	$ 39,279,871	$ 34,457,518

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, 2020 and 2019, were as follows:

	2020	2019
Amortization of prior service cost	$ (63,648)	$ (63,648)
Amortization of net actuarial loss	(26,543)	(48,362)
Net actuarial loss (gain)	2,342,389	(1,397,491)
	$ 2,252,198	$ (1,509,501)

The amount to be reflected in net periodic benefit cost in 2021 is as follows:

	2021
Prior service cost	$ 63,648
Net actuarial loss	94,296

Assumptions – The weighted-average assumptions used in computing the projected benefit obligations as of December 31, 2020 and 2019, were as follows:

	2020	2019
Discount rate	2.55%	3.25%

The weighted-average assumptions used in computing the net periodic benefit cost for the years ended December 31, 2020 and 2019, were as follows:

	2020	2019
Discount rate	3.25%	4.25%
Expected return on plan assets	7.00%	7.00%

The trend rate for health care benefits pre-65/post-65 for 2020 and 2019, is 6.25%/6.00% and 7.00%/6.75%, respectively. In subsequent years, the rate of increase is assumed to decline until an ultimate rate of 4.50% is attained in 2032.

Plan assets – The reconciliation of the changes in the plan assets of KFF's postretirement health care benefit plan as of December 31, 2020 and 2019, was as follows:

	2020	2019
Fair value as of January 1	$ 6,789,618	$ 5,472,669
Actual gain on plan assets	1,106,191	1,352,282
Employer contributions	460,000	315,000
Expenses paid	-	-
Benefits paid	(382,208)	(350,333)
Fair value as of December 31	$ 7,973,601	$ 6,789,618

Asset classes – The asset allocation of KFF's postretirement health care plan as of December 31, 2020 and 2019, was as follows:

	2020	2019
Level 1		
Cash and cash equivalents	$ 742,226	$ 188,765
Marketable equity securities	6,302,769	5,421,992
Fixed income securities	928,606	1,178,861
Total Level 1	$ 7,973,601	$ 6,789,618

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, 2020 and 2019, were as follows:

	2020		2019	
	Target Allocation	Actual	Target Allocation	Actual
Cash and cash equivalents	3.00%	9.00%	3.00%	2.78%
Marketable equity securities	80.00%	79.00%	80.00%	79.86%
Fixed income securities	15.00%	12.00%	15.00%	17.36%
Other	2.00%	0.00%	2.00%	0.00%
	100.00%	100.00%	100.00%	100.00%

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:

Year Ending December 31,	
2021	$ 601,000
2022	701,000
2023	751,000
2024	868,000
2025	968,000
2026-2030	6,440,000

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 $3,597,000 and $3,432,000 for the years ended December 31, 2020 and 2019, respectively.

In addition, accounts payable, accrued benefits, and other liabilities on the consolidated statements of financial position included approximately $865,000 and $781,000 of accrued employee benefits associated with certain unfunded executive compensation plans, and approximately $4,718,000 and $3,747,000 of accrued flexible time off and sabbatical leave as of December 31, 2020 and 2019, 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, 2020 and 2019.

The maturities of lease liabilities with an initial term in excess of one year are as follows:

2021	$ 3,459,716
2022	2,287,906
2023	2,356,490
2024	2,427,130
2025	2,499,890
Thereafter	5,226,858
Total lease payments	18,257,990
Less: Present value discount	(1,228,859)
Operating lease liability	$ 17,029,131

Lease Term and Discount Rate

Weighted average remaining lease term (in years)	6.55
Weighted average discount rate	1.99%

NOTE 11 – LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditure within one year of the statements of financial position date at December 31, 2020 and 2019, comprised the following:

	2020	2019
Financial assets, at year end		
Cash and cash equivalents	$ 14,998,507	$ 13,093,585
Receivable for unsettled investment transactions	67,921,106	18,366,237
Receivable for investment income, net	15,280	298,156
Contributions receivable, net	16,469,714	16,566,049
Investments, at fair value	738,764,084	628,617,215
	838,168,691	676,941,242
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	(691,700)	(688,198)
Receivable for unsettled transactions and investment income receivable, non-current	(15,879,787)	(2,021,207)
Contributions receivable, non-current	(7,317,161)	(8,404,648)
Investments with liquidity restrictions	(533,927,794)	(447,211,604)
Board designated budget reserve fund	(14,400,000)	(12,000,000)
	(572,216,442)	(470,325,657)
Financial assets available to meet cash needs for general expenditures within one year	$ 265,952,249	$ 206,615,585

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 $14,400,000 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.

KFF evaluated subsequent events through June 10, 2021, the date the consolidated financial statements were issued, and determined that no additional disclosures were necessary.