# The REACH Healthcare Foundation

## Independent Auditor's Report and Consolidated Financial Statements

**December 31, 2022 and 2021**

# The REACH Healthcare Foundation
## December 31, 2022 and 2021

### Contents

FORV/S

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# Independent Auditor's Report

Board of Directors
The REACH Healthcare Foundation
Overland Park, Kansas

## *Opinion*

We have audited the consolidated financial statements of The REACH Healthcare Foundation (the Foundation), which comprise the consolidated statements of financial position as of December 31, 2022 and 2021, and the related consolidated statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Foundation as of December 31, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## *Basis for Opinion*

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are required to be independent of the Foundation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## *Emphasis of Matter*

As discussed in *Note 6* to the consolidated financial statements, in 2022, the Foundation adopted the Accounting Standards Update (ASU) 2016-02, *Leases* (Topic 842). Our opinion is not modified with respect to this matter.

## *Responsibilities of Management for the Consolidated Financial Statements*

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

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern within one year after the date that these consolidated financial statements are available to be issued.

### *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements*

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits, significant audit findings, and certain internal control-related matters that we identified during the audits.

FORVIS, LLP

Kansas City, Missouri
July 11, 2023

# The REACH Healthcare Foundation

## Consolidated Statements of Financial Position

## December 31, 2022 and 2021

### Assets

| | 2022 | 2021 |
|---|---|---|
| Cash | $ 219,326 | $ 92,186 |
| Prepaid expenses and other assets | 463,384 | 482,148 |
| Investments | 135,228,189 | 161,313,129 |
| Right-of-use asset - operating lease | 2,510,596 | - |
| Property and equipment, net of accumulated depreciation; 2022 - $416,795, 2021 - $284,102 | 842,263 | 974,956 |
| Total assets | $ 139,263,758 | $ 162,862,419 |

### Liabilities and Net Assets

| | 2022 | 2021 |
|---|---|---|
| **Liabilities** | | |
| Accounts payable and accrued expenses | $ 521,597 | $ 565,767 |
| Grants payable | 2,366,545 | 2,303,717 |
| Operating lease liability | 2,536,326 | - |
| Total liabilities | 5,424,468 | 2,869,484 |
| **Net Assets Without Donor Restrictions** | 133,839,290 | 159,992,935 |
| Total liabilities and net assets | $ 139,263,758 | $ 162,862,419 |

# The REACH Healthcare Foundation

## Consolidated Statements of Activities

## Years Ended December 31, 2022 and 2021

| | 2022 | 2021 |
|---|---|---|
| **Revenues and Gains (Losses)** | | |
| Investment return (loss) | $ (19,931,492) | $ 26,015,549 |
| Other income | - | 1,000,000 |
| Total revenues and gains (losses) | (19,931,492) | 27,015,549 |
| **Expenses** | | |
| Grants and program | 5,298,411 | 6,308,974 |
| Management and general | 923,742 | 898,675 |
| Total expenses | 6,222,153 | 7,207,649 |
| **Change in Net Assets** | (26,153,645) | 19,807,900 |
| **Net Assets, Beginning of Year** | 159,992,935 | 140,185,035 |
| **Net Assets, End of Year** | $ 133,839,290 | $ 159,992,935 |

# The REACH Healthcare Foundation

## Consolidated Statement of Functional Expenses

## Year Ended December 31, 2022

| | Grants and Program | Management and General | Total Expenses |
|---|---|---|---|
| Grants | $ 3,889,625 | $ - | $ 3,889,625 |
| Salaries and related expenses | 851,300 | 488,745 | 1,340,045 |
| Professional fees | 242,071 | 67,159 | 309,230 |
| Advertising and promotion | 7,520 | - | 7,520 |
| Office supplies and expense | 49,243 | 33,463 | 82,706 |
| Information technology | 21,776 | 26,223 | 47,999 |
| Occupancy | 101,405 | 155,552 | 256,957 |
| Travel | 9,118 | 17,488 | 26,606 |
| Conferences, conventions and meetings | 40,999 | 11,193 | 52,192 |
| Depreciation | 68,214 | 64,479 | 132,693 |
| Insurance | - | 29,206 | 29,206 |
| Equipment leasing and expense | 4,169 | 12,114 | 16,283 |
| Membership dues | 21,900 | 6,164 | 28,064 |
| Staff development | 2,738 | 5,711 | 8,449 |
| Grant refunds and adjustments | (14,051) | - | (14,051) |
| Other | 2,384 | 6,245 | 8,629 |
| | $ 5,298,411 | $ 923,742 | $ 6,222,153 |

# The REACH Healthcare Foundation

## Consolidated Statement of Functional Expenses

## Year Ended December 31, 2021

| | Grants and Program | Management and General | Total Expenses |
|---|---|---|---|
| Grants | $ 4,811,658 | $ - | $ 4,811,658 |
| Salaries and related expenses | 876,790 | 484,392 | 1,361,182 |
| Professional fees | 306,516 | 102,373 | 408,889 |
| Advertising and promotion | 9,460 | 220 | 9,680 |
| Office supplies and expense | 48,370 | 28,988 | 77,358 |
| Information technology | 22,864 | 25,020 | 47,884 |
| Occupancy | 105,005 | 134,341 | 239,346 |
| Travel | 224 | 774 | 998 |
| Conferences, conventions and meetings | 30,781 | 4,008 | 34,789 |
| Depreciation | 69,716 | 66,379 | 136,095 |
| Insurance | - | 25,388 | 25,388 |
| Equipment leasing and expense | 1,484 | 16,509 | 17,993 |
| Membership dues | 22,355 | 1,205 | 23,560 |
| Staff development | 1,282 | (4,945) | (3,663) |
| Other | 2,469 | 14,023 | 16,492 |
| | $ 6,308,974 | $ 898,675 | $ 7,207,649 |

# The REACH Healthcare Foundation
## Consolidated Statements of Cash Flows
## Years Ended December 31, 2022 and 2021

| | 2022 | 2021 |
|---|---|---|
| **Operating Activities** | | |
| Change in net assets | $ (26,153,645) | $ 19,807,900 |
| Items not requiring (providing) operating activities cash flows | | |
| Depreciation | 132,693 | 136,095 |
| Net realized and unrealized (gains) losses on investments | 20,580,973 | (25,822,931) |
| Noncash operating lease expense | 124,234 | - |
| Changes in | | |
| Prepaid expenses and other assets | 18,764 | (464,512) |
| Accounts payable and accrued expenses | (44,170) | 450,311 |
| Grants payable | 62,828 | (278,654) |
| Operating lease liability | (98,504) | - |
| Net cash used in operating activities | (5,376,827) | (6,171,791) |
| **Investing Activities** | | |
| Purchase of investments | (14,279,379) | (25,691,789) |
| Proceeds from disposition of investments | 19,682,788 | 31,603,630 |
| Distribution from equity method investment | 100,558 | 251,468 |
| Net cash provided by investing activities | 5,503,967 | 6,163,309 |
| **Increase (Decrease) in Cash** | 127,140 | (8,482) |
| **Cash, Beginning of Year** | 92,186 | 100,668 |
| **Cash, End of Year** | $ 219,326 | $ 92,186 |

## Note 1: Nature of Operations and Summary of Significant Accounting Policies

### *Nature of Operations*

The REACH Healthcare Foundation was created as a Kansas not-for-profit foundation in August 2003, pursuant to an agreement (Memorandum of Understanding) between Health Midwest and the Kansas Attorney General, in connection with the sale of assets by Health Midwest to HCA, Inc. (HCA). Health Midwest, a Missouri public benefit corporation, operated various not-for-profit hospitals and other health care facilities in Kansas and Missouri which were among the assets sold to HCA, a for-profit company. The Settlement Agreement provided that two foundations would be established and that the net proceeds of the sale, as defined, would be distributed 80 percent to the Missouri foundation (Health Forward Foundation), and 20 percent to the Kansas Foundation (REACH or the Foundation). Community Health Group (CHG), successor to Health Midwest, made distributions to the two foundations pursuant to the Settlement Agreement.

The accompanying consolidated financial statements for the fiscal years 2022 and 2021 include the accounts of the Foundation and REACH Real Estate Holdings, LLC, a non-profit corporation controlled by the Foundation (hereinafter collectively known as the Foundation). All significant intercompany accounts and transactions have been eliminated upon consolidation.

The Foundation's stated purpose is to fund, conduct or take part in programs to improve, protect and/or restore individual, community and public health within specified communities in Eastern Kansas and the Greater Kansas City metropolitan area, with particular emphasis on individuals who are medically indigent or underserved.

The initial board of directors was appointed by Health Midwest, various elected officials and governing bodies in the Kansas state government and specified county governments. Subsequent board members are nominated by a Community Advisory Committee (CAC), and elected by the Foundation's board of directors. CAC members are appointed by governing bodies in the Kansas state government and specified county governments. Effective June 1, 2022, the Foundation is governed by a board of directors, of which, 51 percent are appointed by five governmental appointing authorities and 49 percent are elected by the board.

### *Use of Estimates*

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues, expenses, gains, losses and other changes in net assets during the reporting period. Actual results could differ from those estimates.

### *Cash*

The Foundation maintains its bank accounts at an institution where accounts up to $250,000 are insured by the FDIC. At December 31, 2022 and 2021, the Foundation had no cash balances in excess of this limit. Uninvested cash included in investment accounts are considered to be investments for reporting purposes.

### *Investments and Net Investment Return*

Investments in debt securities and in equity securities having a readily determinable fair value are carried at fair value. Marketable securities held by a custodian are valued by the custodian based on quoted market prices.

Alternative investments are valued using the most recent valuation available by the respective external fund manager. Valuation of investments in alternative investments, such as common trust funds, marketable partnership interests and private equity funds, is estimated based on valuations provided by external investment managers as of the prior quarter, adjusted for cash receipts and disbursements through December 31. The Foundation compares this carrying value, which is based on net asset value per share or its equivalent as a practical expedient, to the December 31 audited financial statements provided by the respective Fund's external auditors and believes the carrying value of these financial instruments is a reasonable estimate of fair value.

The Foundation owns a non-controlling interest in a for-profit real estate limited liability company that invests in an office building. The interest is nontransferable and may not be redeemed unless there is unanimous consent of all member interests. The Foundation accounts for its investment in the company using the equity method of accounting.

Investment return includes dividend, interest and other investment income; realized and unrealized gains and losses on investments carried at fair value; and unrealized gains and losses on equity method investments, less external investment expenses.

Investment securities, in general, are exposed to various risks such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the accompanying consolidated statements of financial position.

### *Property and Equipment*

Property and equipment are stated at cost less accumulated depreciation. Depreciation is charged to expense using the straight-line method over the estimated useful life of each asset. Assets classified as leasehold improvements are depreciated over the shorter of the lease term or their respective estimated useful lives.

### *Net Assets*

Net assets, revenues, gains and losses are classified based on the existence or absence of donor- or grantor-imposed restrictions. Net assets without donor restrictions are board-restricted endowment funds that are available for use in general operations and not subject to donor restrictions.

### *Other Income*

Other income consists of support funded by government grants. Revenue is recognized as the Foundation meets the conditions prescribed by the grant agreement. Grant activities and outlays are subject to audit and acceptance by the granting agency and, as a result of such audit, adjustments could be required.

### *Grants*

Grant expenses are recorded when approved. Grants authorized and unpaid at year end are reported as liabilities in the consolidated statements of financial position. Grants payable at December 31, 2022 and 2021 were $2,366,545 and $2,303,717, respectively, and were expected to be paid within two years.

### *Income Taxes*

The Foundation has been determined to be a public charity and is exempt from income taxes under Section 501 of the Internal Revenue Code and similar provisions of state law. However, the Foundation is subject to federal income tax on any unrelated business taxable income. The Foundation files tax returns in the U.S. federal jurisdiction.

### *Functional Allocation of Expenses*

The costs of supporting the Foundation's programs and other activities have been summarized on a functional basis in the consolidated statements of activities. The consolidated statements of functional expenses present the natural classification detail of expenses by function. Certain costs have been allocated among the grants and program and management and general categories based on management's estimate of usage.

### *Subsequent Events*

Subsequent events have been evaluated through July 11, 2023, which is the date the consolidated financial statements were available to be issued.

### Note 2: Investments

Investments at December 31 consisted of the following:

| | 2022 | 2021 |
|---|---|---|
| Investments in marketable securities at fair value | | |
| Money market funds | $ 1,861,117 | $ 3,273,537 |
| Common stocks | 8,250 | 17,250 |
| Mutual funds | 32,781,181 | 40,784,711 |
| Total investments at fair value | 34,650,548 | 44,075,498 |
| Investments at net asset value | | |
| Common trust funds | 35,612,761 | 44,611,205 |
| Marketable partnership interests | 28,740,168 | 27,905,659 |
| Marketable alternative investments | 7,322,318 | 12,416,503 |
| Private equity funds | 25,509,511 | 27,106,890 |
| Total investments at net asset value | 97,184,758 | 112,040,257 |
| Investments at equity method | | |
| Partnership interests | 425,280 | 632,937 |
| Cash | 2,967,603 | 4,564,437 |
| | $ 135,228,189 | $ 161,313,129 |

### *Investments at Fair Value*

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. The hierarchy comprises three levels of inputs that may be used to measure fair value:

**Level 1** Quoted prices in active markets for identical assets or liabilities

**Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

**Level 3** Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

The following table presents the fair value measurements of investments recognized in the accompanying consolidated statements of financial position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2022 and 2021:

| | | Fair Value Measurements Using | | |
|---|---|---|---|---|
| | Fair Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| December 31, 2022 | | | | |
| Money market funds | $ 1,861,117 | $ 1,861,117 | $ - | $ - |
| Common stocks | 8,250 | 8,250 | - | - |
| Mutual funds | 32,781,181 | 32,781,181 | - | - |
| Total | $ 34,650,548 | $ 34,650,548 | $ - | $ - |
| December 31, 2021 | | | | |
| Money market funds | $ 3,273,537 | $ 3,273,537 | $ - | $ - |
| Common stocks | 17,250 | 17,250 | - | - |
| Mutual funds | 40,784,711 | 40,784,711 | - | - |
| Total | $ 44,075,498 | $ 44,075,498 | $ - | $ - |

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

### *Investments at Net Asset Value (NAV)*

At December 31, 2022 and 2021, the Foundation held the following investments in certain entities that calculate net asset value per share or its equivalent as a practical expedient.

| | 2022 NAV | 2021 NAV | Restrictions of Redemption | Redemption Notice Period |
|---|---|---|---|---|
| Common trust funds (A) | $ 35,612,761 | $ 44,611,205 | Daily, weekly or monthly redemption | Daily or 30 days |
| Marketable partnership interests (B) | 28,740,168 | 27,905,659 | Monthly or quarterly redemption | 10 to 180 days notice |
| Marketable alternative investments (C) | 7,322,318 | 12,416,503 | Daily or quarterly | None to 65 days notice |
| Private equity funds (D) | 25,509,511 | 27,106,890 | Nonredeemable | None |
| | $ 97,184,758 | $ 112,040,257 | | |

(A) Common Trust Funds

Common trust funds permit the commingling or pooling of investors' money into one account (known as a common fund) for the purpose of creating a single investment. Because they are a bank product, common trust funds are not required to be registered with the Securities and Exchange Commission and they are not considered to be a security under state and federal securities laws. Much like mutual funds, common trust funds strike a net asset value on a periodic basis and have varying investment strategies that primarily include investments in traditional assets such as domestic and international equity, fixed income securities and other securities. The Foundation's investments in common trust funds may be redeemed at net asset value on a daily, weekly or monthly basis, depending on the fund.

(B) Marketable Partnership Interests

Marketable partnership interests include investments in limited partnerships that seek capital appreciation and income by managing assets in investment pools, investment partnerships and similar entities (*i.e.*, a fund of funds). Fair value has been estimated using the net asset value per share of the investments. The marketable partnership interests are available for redemption on a monthly or quarterly basis.

(C) Marketable Alternative Investments

Marketable alternative investments include investments in limited partnerships that seek capital appreciation and income by managing assets in investment pools, investment partnerships and similar entities (*i.e.,* fund of funds). Fair value has been estimated using the net asset value per share of the investments. The marketable alternative investments are available for redemption on a daily or quarterly basis.

(D) Private Equity Funds

Private equity funds include several private fund of funds that invest primarily in private capital investment vehicles, each of which may invest in public or private securities. Fair value has been estimated using the net asset value per share of the investment. Each fund operates in accordance with the terms of a limited partnership agreement and continues to operate year to year, unless dissolved in accordance with the agreements. There are significant restrictions on transfer and assignment of these limited partnership interests. The nature of the investments in this category is that distributions are received periodically when the fund incurs short- or long-term gains, return of capital, royalties, rents or other ordinary income. Outstanding unfunded commitments to these partnerships as of December 31, 2022 and 2021 were $13,229,656 and $7,806,414, respectively.

### *Investments at Equity Method*

The Foundation has a 33.53 percent ownership percentage in a partnership interest that is accounted for using the equity method of accounting. The partnership interest represents an investment in a corporate building in which the main financial statement components include the property and equipment, loan payable and rental income. Changes in the interest are included in the change in net assets. Transfers of assets between the Foundation and the partnership are recognized as increases or decreases in the interest in the net assets of the Foundation with corresponding decreases or increases in the assets transferred and have no effect on the change in net assets. The Foundation's interest in the investment as of December 31, 2022 and 2021 was $425,280 and $632,937, respectively.

## Note 3: Board-restricted Endowment

As discussed in *Note 1*, the Foundation operates pursuant to a settlement agreement governing the spending of the distributions received toward its formation. The Foundation's governing body is subject to the *Uniform Prudent Management of Institutional Funds Act* (UPMIFA) as adopted in the State of Kansas applies to the Foundation, and in accordance with UPMIFA, the Foundation considers the following factors in determining whether to expend or accumulate endowment funds:

1. Duration and preservation of the fund
2. Purpose of the Foundation and the fund
3. General economic conditions
4. Possible effect of inflation and deflation
5. Expected total return from investment income and appreciation or depreciation of investments
6. Other resources of the Foundation
7. Investment policies of the Foundation

The Asset Purchase Agreement (APA), as amended, provides that funds may be expended on grants in any fiscal year of the Foundation no more than the greater of (i) the net appreciation, realized and unrealized, in the fair market value of the Foundation's assets over the historic dollar value of such assets, calculated in accordance with the *Uniform Management of Institutional Funds Act* (UMIFA) in effect in Kansas on the effective date of the APA, or (ii) an amount equal to 7 percent of the fair market value of the Foundation's assets, plus such additional expenditures, if any, that are required by the Internal Revenue Code (the "Code") (including, without limitation, under the minimum distribution requirements of Section 4942 of the Code), regardless of whether it is a "private foundation" within the meaning of Section 509 of the Code or a "public charity." For purposes of section (ii) above, the "fair market value of the Foundation's assets" for any given year shall be established as of the end of the third quarter of the immediately preceding fiscal year of the Foundation (the "FMV Quarter"), and shall be determined by calculating the average of the market value of the Foundation's assets as of the FMV Quarter and each of the 11 consecutive quarters immediately preceding it. The Foundation's board has resolved that the historic dollar value of distributions received from CHG to be $117,252,319 as of December 31, 2022 and 2021. From time to time, the fair value of the fund's assets may fall below the historic dollar value threshold.

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs and other items supported by its endowment while seeking to maintain the purchasing power of the endowment. Under the Foundation's policies, endowment assets are invested in a manner that is intended to produce results to earn an average annual inflation-adjusted (real) total return of at least 5 percent, net of all investment-related expenses, over the long term (rolling 10 and 15-year periods). Actual returns in any given year may vary from this amount.

To satisfy its long-term rate of return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both current yield (investment income such as dividends and interest) and capital appreciation (both realized and unrealized). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

The Foundation has a policy (the spending policy) of appropriating for expenditure each year 5 percent of its endowment fund's average fair value over the prior three years, as determined at the end of each quarter. The fund's actual spending rate is expected to vary annually around the 5 percent target rate, depending upon program needs and changes in the fund's average market value. The Foundation attempts to keep the actual spending rate from the fund in any one fiscal year below 6 percent of the three year average of ending market values of the fund. In establishing this policy, the Foundation considered the long-term expected return on its investments. Accordingly, over the long term, the Foundation expects the current spending policy to preserve, and possibly enhance the value of the corpus adjusted for the effects of inflation. This is consistent with the Foundation's objective to balance the needs of current and future generations of beneficiaries of the Foundation.

## Note 4: Liquidity and Availability

Financial assets available for general expenditures, that is, without donor or other restrictions limiting their use, within one year of December 31, 2022 and 2021, comprise the following:

| | 2022 | 2021 |
|---|---|---|
| Cash | $ 219,326 | $ 92,186 |
| Endowment spending appropriations approved by the Board of Directors | 6,879,000 | 6,286,000 |
| | $ 7,098,326 | $ 6,378,186 |

The Foundation's endowment funds consist of funds that were derived from the APA. Income from these funds is to be used to meet the mission of the Foundation. It is the Foundation's policy to appropriate for annual expenditure approximately 5 percent of its endowment fund's average fair value over the prior three years, as determined at the end of each quarter. The fund's actual spending rate is expected to vary annually around the 5 percent target rate, depending upon program needs and changes in the fund's average market value.

As part of the Foundation's liquidity management plan, management reviews cash and investment balances regularly and compares these to the monthly requirements.

## Note 5: Property and Equipment

Property and equipment at December 31, 2022 and 2021 consist of:

| | 2022 | 2021 |
|---|---|---|
| Leasehold improvements | $ 832,858 | $ 832,858 |
| Computer and office equipment | 203,631 | 203,631 |
| Office furniture | 222,569 | 222,569 |
| | 1,259,058 | 1,259,058 |
| Less accumulated depreciation | 416,795 | 284,102 |
| | $ 842,263 | $ 974,956 |

## Note 6: Operating Leases

### *Change in Accounting Principle*

In February 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). This ASU requires lessees to recognize a lease liability and a right-of-use (ROU) asset on a discounted basis, for substantially all leases, as well as additional disclosures regarding leasing arrangements. Disclosures are required to enable users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. In July 2018, the FASB issued ASU 2018-11, *Leases* (Topic 842): *Targeted Improvements*, which provides an optional transition method of applying the new lease standard. Topic 842 can be applied using either a modified retrospective approach at the beginning of the earliest period presented or, as permitted by ASU 2018-11, at the beginning of the period in which it is adopted, *i.e.,* the comparatives under ASC 840 option.

The Foundation adopted Topic 842 on January 1, 2022 (the effective date), using the comparatives under ASC 840 transition method, which applies Topic 842 at the beginning of the period in which it is adopted. Prior period amounts have not been adjusted in connection with the adoption of this standard. The Foundation elected the package of practical expedients under the new standard, which permits entities to not reassess lease classification, lease identification or initial direct costs for existing or expired leases prior to the effective date. The Foundation has a lease agreement with nonlease components that relate to the lease components. The Foundation elected the practical expedient to account for nonlease components and the lease components to which they relate as a single lease component for all. Also, the Foundation elected to keep short-term leases with an initial term of 12 months or less off the consolidated statement of financial position. The Foundation did not elect the hindsight practical expedient in determining the lease term for existing leases as of January 1, 2022.

The most significant impact of adoption was the recognition of operating lease ROU assets and operating lease liabilities of $2,634,830. The standard did not significantly affect the consolidated statements of activities or cash flows.

The cumulative effect of the changes made to the consolidated statement of financial position for the adoption of this standard was as follows:

| | December 31, 2021 As Reported | ASC 842 Adjustment on January 1, 2022 | January 1, 2022 As Adjusted |
|---|---|---|---|
| Right-of-use assets - operating leases[(A)] | $ - | $ 2,634,830 | $ 2,634,830 |
| Operating lease liabilities[(B)] | - | (2,634,830) | (2,634,830) |

(A) The adjustment represents the capitalization of right-of-use assets - operating leases.

(B) The adjustment represents the recognition of operating lease liabilities.

### *Accounting Policies*

The Foundation determines if an arrangement is a lease or contains a lease at inception. Leases result in the recognition of ROU assets and lease liabilities on the consolidated statements of financial position. ROU assets represent the right to use an underlying asset for the lease term, and lease liabilities represent the obligation to make lease payments arising from the lease, measured on a discounted basis. The Foundation determines lease classification as operating or finance at the lease commencement date.

At lease inception, the lease liability is measured at the present value of the lease payments over the lease term. The ROU asset equals the lease liability adjusted for any initial direct costs, prepaid or deferred rent, and lease incentives. The Foundation has made a policy election to use a risk-free rate (the rate of a zero-coupon U.S. Treasury instrument) for the initial and subsequent measurement of all lease liabilities. The risk-free rate is determined using a period comparable with the lease term.

The lease term may include options to extend or to terminate the lease that the Foundation is reasonably certain to exercise. Lease expense is generally recognized on a straight-line basis over the lease term.

The Foundation has elected not to record leases with an initial term of 12 months or less on the consolidated statements of financial position. Lease expense on such leases is recognized on a straight-line basis over the lease term.

### *Nature of Leases*

The Foundation has entered into the following lease arrangements:

***Operating Leases***

The Foundation has a lease for office space that expires in 2031. This lease contains a renewal option for a five-year period followed by one-year options for the next three years. The Foundation expects to exercise the renewal options and has included the renewal periods in the remaining lease term. The lease requires the Foundation to pay all executory costs (property taxes, maintenance and insurance). Lease payments have an escalating fee schedule, which increase 1.8 percent each year. Termination of the leases is generally prohibited unless there is a violation under the lease agreement. The Foundation's lease agreements does not contain any material residual value guarantees or material restrictive covenants.

### *Quantitative Disclosures*

The lease cost and other required information for the year ended December 31, 2022, are:

| | |
|---|---|
| Lease cost | |
| Operating lease cost | $ 152,518 |
| Variable lease cost | 78,709 |
| | $ 231,227 |
| Other information | |
| Cash paid for amounts included in the measurement of lease liabilities | |
| Operating cash flows from operating leases | $ 124,234 |
| Weighted-average remaining lease term | |
| Operating leases | 17 years |
| Weighted-average discount rate | |
| Operating leases | 2.05% |

Future minimum lease payments and reconciliation to the consolidated statement of financial position at December 31, 2022, are as follows:

| | Operating Leases |
|---|---|
| 2023 | $ 155,282 |
| 2024 | 158,086 |
| 2025 | 160,920 |
| 2026 | 163,794 |
| 2027 | 166,738 |
| Thereafter | 2,251,118 |
| Total future undiscounted lease payments | 3,055,938 |
| Less interest | 519,612 |
| Lease liabilities | $ 2,536,326 |

### *Disclosures Related to Periods Prior to Adoption of ASC 842*

The Foundation has a lease for office space that expires in 2031. Future minimum lease payments at December 31, 2021, were:

| | |
|---|---|
| 2022 | $ 152,518 |
| 2023 | 155,282 |
| 2024 | 158,086 |
| 2025 | 160,920 |
| 2026 | 163,794 |
| Thereafter | 864,310 |
| Total minimum lease payments | $ 1,654,910 |

Rental expense was $239,346 for the year ended December 31, 2021.

## Note 7: Pension and Other Postretirement Benefit Plans

The Foundation sponsors a retirement savings plan for employees who meet certain length of service requirements. The Foundation matches 100 percent of the employee contributions up to 6 percent of employee compensation. The Foundation may also make annual discretionary contributions. The Foundation contributed $98,781 and $97,178 to the Plan for the years ended December 31, 2022 and 2021, respectively.

The Foundation also adopted a 457(b) Deferred Compensation Plan effective April 2008 for the benefit of selected management or highly compensated key employees. Under the Plan, participating employees may defer and contribute to the Plan a percentage of their compensation subject to Internal Revenue Code limits. The Foundation may, at its discretion, make matching or additional non-elective contributions to the Plan on behalf of each eligible participant. Participants are fully vested in the Foundation contributions at age 65. Participants also vest in Foundation contributions at a rate of 20 percent after two years of service and then an additional 20 percent each year thereafter, until fully vested after six years. Total expense under the Plan was $20,500 and $19,500 during the years ended December 31, 2022 and 2021, respectively.

## Note 8: Line of Credit

The Foundation has a $5,000,000 revolving line of credit that expires in October 2023. The line is collateralized by approximately $10,000,000 of pledged investments. For the year ended 2022, interest varies at a rate equal to 2.11 percent plus the greater of 0 percent or the one-month SOFR rate, which was 6.23 percent and is payable monthly. For the year ended 2021, interest varies at a rate equal to 2 percent plus the one-month LIBOR rate, which was 2.11 percent and is payable monthly.

At December 31, 2022 and 2021, there were no amounts borrowed against this line.