

KANSAS CITY MEDICAL SOCIETY FOUNDATION

**INDEPENDENT AUDITORS' REPORT
ON FINANCIAL STATEMENTS**

DECEMBER 31, 2018

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT	1 - 2
FINANCIAL STATEMENTS:	
Statement of Financial Position	3 - 4
Statement of Activities	5
Statement of Functional Expenses	6
Statement of Changes in Net Assets	7
Statement of Cash Flows.....	8
Notes to Financial Statements.....	9 - 15

INDEPENDENT AUDITORS' REPORT

November 11, 2019

To the Board of Directors
Kansas City Medical Society Foundation

We have audited the accompanying financial statements of the Kansas City Medical Society Foundation (a nonprofit organization), which comprise the statement of financial position as of December 31, 2018, and the related statements of activities, functional expenses, changes in net assets and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Foundation's preparation and fair presentation of the 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 Foundation'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 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 financial statements referred to above present fairly, in all material respects, the financial position of the Kansas City Medical Society Foundation as of December 31, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Christopher J. Clair, CPA, P.A.
Shawnee, KS**

Kansas City Medical Society Foundation
Statement of Financial Position
December 31, 2018

ASSETS

Current Assets:

Cash and cash equivalents	\$ 86,349
Cash - restricted	26,385
Due from KCMS	3,884
Grants receivable	<u>517,610</u>
 Total Current Assets	 634,228

Total Assets	<u>\$ 634,228</u>
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(See Independent Auditors' Report and Accompanying Notes)

Kansas City Medical Society Foundation
Statement of Financial Position
December 31, 2018

LIABILITIES AND NET ASSETS

Current Liabilities:

Accounts payable - general	\$ 23,442
Shared grant payable - NHCA	33,333
Due to KCMS	22,073
Due to WYJO Medical Society	46,328
Payable to KC Society of O&O	15,200
Shared grant unearned revenue - NHCA	66,667
Unearned grant revenue - HFF	<u>266,667</u>
 Total Current Liabilities	 473,710

Net Assets:

Without donor restrictions	(70,198)
With donor restrictions	<u>230,716</u>
 Total Net Assets	 <u>160,518</u>

Total Liabilities and Net Assets	<u><u>\$ 634,228</u></u>
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(See Independent Auditors' Report and Accompanying Notes)

Kansas City Medical Society Foundation
Statement of Activities
Year Ended December 31, 2018

Revenues:

Restricted grants

HFF - Access/Care shared grant	\$ 441,667
HFF - Technical Assistance Grant	76,100
WHF - Care Specialist Support	11,938
HCF/Reach Foundation - Technical Assistance Grant	<u>47,500</u>
	577,205

Unrestricted funds

Individual and corporate donations	2,640
Impact investor donations	1,839
Interest income	<u>17</u>
	4,496

Total Revenues	581,701
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Expenses:

Program services	469,315
Supporting services - management and general	69,504
Supporting services - fundraising	<u>13,839</u>

Total Expenses	<u>552,658</u>
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Increase in Net Assets (See statement)	<u>\$ 29,043</u>
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(See Independent Auditors' Report and Accompanying Notes)

**Kansas City Medical Society Foundation
Statement of Changes in Net Assets
Year Ended December 31, 2018**

	<u>TOTAL</u>	<u>WITHOUT DONOR RESTRICTIONS</u>	<u>WITH DONOR RESTRICTIONS</u>
NET ASSETS AT DECEMBER 31, 2017 FOR WYJO FOUNDATION, PER AUDIT REPORT, PRIOR TO MERGER	55,033	(15,859)	70,892
2018 ACTIVITY:			
MERGER TRANSACTIONS (EFFECTIVE JANUARY 1, 2018):			
METROCARE TRANSFER OF CASH FUNDS	64,457	18,048	46,409
METROCARE TRANSFER OF PREPAID EXPENSES	6,000	6,000	0
METROCARE TRANSFER OF ACCOUNTS PAYABLE	(7,860)	(2,200)	(5,660)
OLD KCMS FOUNDATION TRANSFER OF PAYABLE TO O&O	(15,200)	0	(15,200)
OLD KCMS FOUNDATION TRANSFER OF MISCELLANEOUS ACCRUALS	(2,920)	(2,920)	0
OLD KCMS FOUNDATION TRANSFER OF CASH FUNDS	31,965	5,580	26,385
NET MERGER ACTIVITY	76,442	24,508	51,934
ADJUSTED BEGINNING NET ASSETS AS OF JANUARY 1, 2018, AFTER MERGER	131,475	8,649	122,826
REVENUES	581,701	4,496	577,205
EXPENSES	552,658	83,343	469,315
INCREASE (DECREASE) IN NET ASSETS FOR 2018	29,043	(78,847)	107,890
NET ASSETS AT DECEMBER 31, 2018	160,518	(70,198)	230,716

(See Independent Auditors' Report and Accompanying Notes)

Kansas City Medical Society Foundation
Statement of Functional Expenses
Year Ended December 31, 2018

		<u>Supporting Services</u>		
	<u>Program</u>	<u>Management</u>	<u>Fund</u>	<u>Total</u>
	<u>Services</u>	<u>and General</u>	<u>Raising</u>	
Patient database fees	\$25,110	\$0	\$0	\$25,110
Marketing/communication fees	35,151	0	0	35,151
Accounting services	3,689	14,756	0	18,445
Executive Director contract	20,146	25,183	5,037	50,366
Other consulting and professional fees	7,700	0	0	7,700
E.D. contract expense - MetroCare	2,400	3,600	0	6,000
Partnership expense - NHCA	125,000	0	0	125,000
Wages - Associate Director	40,347	0	0	40,347
Wages - referral specialists	110,194	0	0	110,194
Payroll taxes	12,722	0	0	12,722
Staff development	2,489	0	0	2,489
Provider outreach/recruitment	37,847	0	0	37,847
Legal fees	0	229	0	229
Benefits	13,270	0	0	13,270
Recruiting	2,327	0	1,551	3,878
Grant writing	0	0	7,251	7,251
Payroll fees	2,172	0	0	2,172
Insurance	0	1,472	0	1,472
Rent & admin	15,220	6,522	0	21,742
Meetings and travel	7,145	2,382	0	9,527
Telephone	1,624	4,869	0	6,493
Office supplies/expenses	814	2,439	0	3,253
Computer	3,948	5,920	0	9,868
Bank charges	0	348	0	348
Miscellaneous	<u>0</u>	<u>1,784</u>	<u>0</u>	<u>1,784</u>
Total Expenses	<u>\$469,315</u>	<u>\$69,504</u>	<u>\$13,839</u>	<u>\$552,658</u>

(See Independent Auditors' Report and Accompanying Notes)

Kansas City Medical Society Foundation
Statement of Cash Flows
Year Ended December 31, 2018

Cash flows from operating activities:

Increase in net assets	\$ 29,043
Changes in assets and liabilities:	
Increase in grants receivable	(517,610)
Decrease in prepaid expenses	12,024
Increase in due from KCMS	(3,884)
Shared grant payable - NHCA	33,333
Increase in due to KCMS	22,073
Increase in due to WYJO Medical Society	46,328
Increase in shared grant unearned revenue - NHCA	66,667
Increase in unearned grant revenue - HFF	266,667
Decrease in accounts payable - general	<u>(31,400)</u>
Net cash used in operating activities	<u>(76,759)</u>

Cash flows from investing activities:

Increase in cash held for restricted purposes	(26,385)
Cash funds received from merger	<u>96,422</u>
Net cash provided by investing activities	<u>70,037</u>

Net decrease in cash and cash equivalents **(6,722)**

Cash and cash equivalents, beginning of year **93,071**

Cash and cash equivalents, end of year **\$ 86,349**

(See Independent Auditors' Report and Accompanying Notes)

Kansas City Medical Society Foundation
Notes to Financial Statements
December 31, 2018

Note A - Nature of Organization

The Kansas City Medical Society Foundation (the “Foundation”), formerly known as the Medical Society of Johnson and Wyandotte Counties Foundation, is a non-profit organization that was originally formed on December 29, 2005 as a Kansas nonprofit corporation. The Foundation was reorganized with the name change effective on December 22, 2017 by filing a certificate of merger. The merger is discussed below.

Effective January 1, 2018, MetroCare of Greater Kansas City and the KSMS Foundation, Inc. agreed to merge its operations with the Foundation. After the merger, the Foundation is the surviving corporation and MetroCare and the KCMS Foundation will no longer exist as stand alone organizations. All assets and liabilities of MetroCare and KCMS Foundation were transferred to the Foundation effective as of January 1, 2018 and are included in these 2018 financial statements.

The Foundation’s new program mission is as follows: Physicians collaborating with the community to improve health of all people in greater Kansas City through charitable care, prevention & wellness, and education.

The Foundation connects safety net clinic patients with specialists willing to donate their time and expertise to care for the low-income, uninsured. It is an opportunity for physicians, hospitals, city and county governments, and other community agencies to help existing safety net clinics and agencies provide needed care in a way that is coordinated, efficient, and more effective than any single entity could provide alone.

The Foundation serves as a centralized point of entry for safety net clinics’ patient specialty referrals. Patients can be referred by providers working in the safety net clinics or two county health departments. Patients are assigned to specialists on a rotating basis to ensure an equal distribution of these patients among the physicians who signed up to participate. A similar rotating assignment protocol is used for the hospital-based laboratory, imaging studies, surgeries and inpatient care needed.

The Foundation’s major source of program service revenue is derived from their annual shared grant from the Health Forward Foundation (HFF) and other additional special project grants from HFF, such as the Technical Assistance Grant. In addition, the Foundation typically receives other grants from various healthcare foundations, as well as corporate and individual donations at times.

(See Independent Auditors' Report)

Kansas City Medical Society Foundation
Notes to Financial Statements
December 31, 2018

Note B - Summary of Significant Accounting Policies

A summary of the Foundation's significant accounting policies applied in the preparation of the accompanying financial statements follows:

Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Estimates

The Foundation uses estimates and assumptions in preparing financial statements in accordance with generally accepted accounting principles in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were assumed in preparing the financial statements.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Foundation considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents. Cash and cash equivalents consist of demand deposits held in checking accounts at Country Club Bank and Commerce Bank.

Recognition of Grantor Restrictions

Grant revenue support that is restricted by the grantor is reported as an increase to net assets with donor restrictions. As restrictions expire and expenditures are incurred, the net assets with donor restrictions are reduced accordingly.

Income Taxes

The Foundation is a not-for-profit organization exempt from Federal and State income tax under Section 501(c)(3) of the Internal Revenue Code and similar state statutes. The Foundation has no significant income taxable under the Internal Revenue Code as "unrelated business taxable income." Subsequent to the merger, the Foundation retains its 501(c)(3) status and continues to file Form 990 tax returns utilizing its original federal identification number. Both merged entities, MetroCare and the KCMS Foundation, filed final 990 tax returns as standalone organizations for the 2017 tax year.

Grant Revenues

Depending on the nature and terms of the specific grant, support revenue funded by grants is either recognized upon approval for the grant award or as the Foundation performs the contracted services or incurs outlays eligible for reimbursement under the terms of the particular grant award agreements. Grant activities and outlays are subject to audit and acceptance by the grantor entity and, as a result of such audit, adjustments could be required.

(See Independent Auditors' Report)

Kansas City Medical Society Foundation
Notes to Financial Statements
December 31, 2018

Note B - Summary of Significant Accounting Policies (Continued)

Financial Statement Presentation

In accordance with the recently issued *Accounting Standards Update (ASU) No. 2016-14*, the Foundation is required to report information regarding its financial position and activities according to two new classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Net assets with donor restrictions as of December 31, 2018 consist of grantor restricted revenues whose uses have been subject to certain limitations and requirements according to specific time periods, goals and purposes. The restrictions and limitations are typically specified by the grantor in the particular grant award agreements. As the specific restrictions expire and as goals and purposes are achieved, the net assets with donor restrictions are reduced accordingly. The specific grantors typically do not require that the Foundation segregate grant funds into specific designated restricted bank accounts.

Restricted Cash

Upon merger, the KCMS Foundation transferred restricted cash funds totaling \$26,385, which were held in its bank operating account. The restricted cash funds consist of the following: Funds of \$11,185 from the dissolved John Lock Society being held for Board directed uses and funds of \$15,200 to be used for educational purposes as directed by the Board of the Kansas City Society of Ophthalmology and Otolaryngology (O&O). The restricted cash of \$15,200 is also recorded as a payable to O&O at December 31, 2018. These funds were disbursed to O&O on August 16, 2019 for the Simone Speaker Endowment Fund.

Grants Receivable and Unearned Revenue

The Foundation initially records the total grant awarded as receivable and revenue upon approval from the grantor and execution of the grant agreement. Revenue amounts are typically recognized equally over the stated term of the grant period as outlined in the grant agreement. The unearned portion of the grant award is reported as unearned revenue at year end on the statement of financial position.

Donated Services

Services donated to the Foundation are generally philanthropic in nature. The value of these services are not recorded in the accompanying financial statements. The Foundation would only record donated services to the extent that they would create or enhance non-financial assets. Donated services from doctors and hospitals for 2018 are discussed further in Note C.

(See Independent Auditors' Report)

Kansas City Medical Society Foundation
Notes to Financial Statements
December 31, 2018

Note B - Summary of Significant Accounting Policies (Continued)

Expense Allocation

Directly identifiable expenses are allocated to program services and fundraising supporting services. Typically, expenses related to more than one function are allocated utilizing management's estimate. Management and general expenses include those expenses that are not identifiable with any other specific function but provide for the overall support and direction of the Foundation.

Note C - In-Kind Donations

The Foundation has recruited various health care providers, including physicians, imaging centers, hospitals, laboratories and surgical centers, who have committed to accepting patient referrals and treating patients at no cost. Medical services, supplies and equipment are donated. Local hospitals donate surgical, radiology and supplies to the patients. Participating providers are asked to submit a non-payable claim to Blue Cross Blue Shield of Kansas City or to the Foundation directly. The Foundation tracks the diagnoses, procedures performed, cost of the donated physician care and cost of the donated hospital services. Costs are reported as self-pay charges, as this would be the required payment from the patient if not being donated.

During 2018, there were approximately 775 physicians, all hospitals in Johnson and Wyandotte Counties, and several labs participating, which resulted in medical services being provided for approximately 1,300 patient referrals with an estimated value of \$6,500,000. The basis for recording the value of the medical services is the lowest reimbursement offered by area insurers (BlueKC and United Healthcare) when patients are insured.

Note D - Related Party Transactions

The Foundation and the Medical Society of Johnson and Wyandotte Counties (the "Society") share staff and personnel positions. The Foundation accrued and/or reimbursed the Society \$78,469 of wages, payroll taxes, benefits and other expenses for 2018, of which \$46,328 remains payable to the Society as of December 31, 2018.

The Foundation and the Kansas City Medical Society (KCMS) share staff and personnel positions, as well as sharing office space and operational costs. The Foundation accrued and/or reimbursed KCMS \$142,753 of wages, payroll taxes, benefits, office rent and other expenses for 2018, of which \$22,073 remains payable to the Society as of December 31, 2018.

The Foundation was also owed \$3,884 of general operations costs from KCMS as of December 31, 2018.

(See Independent Auditors' Report)

Kansas City Medical Society Foundation
Notes to Financial Statements
December 31, 2018

Note E – Shared Grant - HFF

The Foundation was awarded a \$500,000 annual grant by the Health Forward Foundation (HFF) to support the *Access to Primary & Specialty Care Project*, which is a joint collaboration between the Foundation and Northland Health Care Access (NHCA). The Foundation has a shared arrangement with NHCA where \$100,000 of these grant funds are allocated to NHCA.

The performance grant period typically is for 12-months and generally runs from September through August each year. The Foundation is subject to various terms and reporting requirements within the structure of the grant award agreement. All expenditures of grant funds must be consistent with the “Project Budget” and approved by HFF. Interim project status reports are to be provided to HFF six months into the grant period and final progress and financial reports are to be provided to HFF within thirty days after project completion.

In accordance with the grant award agreement, the disbursement of the \$500,000 of grant funds is as follows: \$225,000 (45%) within 30 days of the executed agreement, \$225,000 (45%) upon receipt and approval of the interim progress and financial report and the final payment of \$50,000 (10%) upon receipt and approval of the final progress and financial report. HCF typically pays MetroCare the full grant disbursement amount and then MetroCare cuts checks to NHCA and the Foundation for their allocated share amounts.

The full \$500,000 of these grant funds is included in grants receivable as of December 31, 2018. These grant funds were all received in 2019. Unearned revenue for this grant was \$266,667 as of December 31, 2018.

Grant funds payable to NHCA were \$33,333 and are included in accounts payable - general as of December 31, 2018. The remaining amount of \$66,667 owed to NHCA is recorded as unearned revenue as of December 31, 2018.

Note F – Consulting Agreement - Executive Director Services

The Foundation and an independent consultant entered into a consulting agreement to engage the consultant as an independent contractor to provide management services, including part-time Executive Director services. The agreement was effective on January 1, 2018, however, the consulting contract services did not begin until April 15, 2018 due to delays for contract approval. Total fees incurred under this contract were \$50,366 for 2018, which included an approved revision to the contract, effective September 1, 2018. This contract has continued into the 2019 year.

(See Independent Auditors' Report)

Kansas City Medical Society Foundation
Notes to Financial Statements
December 31, 2018

Note G – Technical Assistance Grants

The Reach Healthcare Foundation approved funds of \$75,000 to the Foundation as a Technical Assistance Grant to assist in covering expenditures related to the merger discussed in Note A. The final half of these grant funds in the amount of \$37,500 were received and recorded into revenue during 2018.

The Foundation also was awarded Technical Assistance Grant funds of \$76,100 from the Health Forward Foundation in November, 2018 to assist in merger transition expenses. The Foundation received \$68,490 of the grant funds in December, 2018 and the remaining \$7,610 is included in grants receivable as of December 31, 2018 and will be received in 2019.

Note H – Tax Positions

As a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code, the Foundation is required to file a Form 990 annually. The information in these returns is used by the IRS to substantiate the Foundation's continuing tax exempt status. These returns are subject to examination by taxing authorities for a period of three years from the date they are filed. As of December 31, 2018, returns for the tax years 2015, 2016 and 2017 remain open and potentially subject to IRS examination. The Foundation has no material uncertain tax positions to be accounted for in the financial statements under ASC Topic 740-10, *Accounting for Uncertainty in Income Taxes*. Any assessments by taxing authorities could result in potential penalties and interest being assessed.

Note I – Subsequent Events

Management has evaluated subsequent events through November 11, 2019, the date that the financial statements were available to be issued. No significant subsequent events have been identified that would require adjustment of or disclosure in the accompanying financial statements, except for those noted below.

The Foundation was awarded two new grants in 2019, one for \$25,000 from the Kansas Health Foundation for capacity building and another for \$30,000 from the Sunflower Foundation for developing infrastructure and pipeline.

Also, the Foundation has been awarded the \$500,000 Access grant from HFF for the 2019/2020 grant period (Year 10).

(See Independent Auditors' Report)

Kansas City Medical Society Foundation
Notes to Financial Statements
December 31, 2018

Note J - Liquidity and Availability of Financial Assets

In accordance with *Accounting Standards Update (ASU) 2016-14*, the Foundation is required to disclose qualitative and quantitative information about how it manages its liquid resources to meet cash needs for general expenditures within one year of the date of the statement of financial position and whether its financial assets are available to meet those cash needs. The following reflects the Foundation's financial assets as of the balance sheet date, reduced by amounts not available for general use because of potential donor-imposed restrictions or from Board designated restrictions.

Financial assets at year-end	\$ 634,228
Less those unavailable for general expenditures within one year:	
With donor restrictions	230,716
Restricted cash	<u>26,385</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 377,127</u>

As part of the Foundation's liquidity management, it invests cash in excess of daily requirements in bank money market funds.

(See Independent Auditors' Report)