



REPORT OF INDEPENDENT AUDITORS
AND FINANCIAL STATEMENTS

**HEADWATERS HEALTH FOUNDATION
OF WESTERN MONTANA**

December 31, 2019 and 2018



MOSSADAMS

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Report of Independent Auditors

To the Board of Directors of
Headwaters Health Foundation of Western Montana

Report on the Financial Statements

We have audited the accompanying financial statements of Headwaters Health Foundation of Western Montana (the Foundation), which comprise the statements of financial position as of December 31, 2019 and 2018, and the related statements of activities, functional expenses, and cash flows for the years 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 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 financial statements are free from 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 entity'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 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 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 Headwaters Health Foundation of Western Montana as of December 31, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Moss Adams LLP

Portland, Oregon
July 27, 2020

Headwaters Health Foundation of Western Montana

Statements of Financial Position

ASSETS

	December 31,	
	2019	2018
Cash and cash equivalents	\$ 379,215	\$ 975,329
Investments	103,541,258	94,231,533
Accounts receivable	79,290	100,959
Taxes receivable	67,104	-
Prepaid expenses	-	8,927
Property and equipment, net	92,824	55,491
	<u>104,159,691</u>	<u>95,372,239</u>
Total assets	<u>\$ 104,159,691</u>	<u>\$ 95,372,239</u>

LIABILITIES AND NET ASSETS

LIABILITIES

Grants payable	\$ 50	\$ 341,200
Accounts payable	39,433	13,244
Accrued expenses	109,354	83,173
Taxes payable	-	15,547
Deferred tax liability	114,852	111,603
	<u>263,689</u>	<u>564,767</u>
Total liabilities	263,689	564,767

NET ASSETS

Without donor restrictions	<u>103,896,002</u>	<u>94,807,472</u>
Total net assets	<u>103,896,002</u>	<u>94,807,472</u>
Total liabilities and net assets	<u>\$ 104,159,691</u>	<u>\$ 95,372,239</u>

Headwaters Health Foundation of Western Montana

Statements of Activities

	Years Ended December 31,	
	2019	2018
REVENUE, SUPPORT, AND GAINS		
Contributions	\$ -	\$ 12,467,585
Investment return (loss), net	14,540,493	(7,829,854)
Total revenue, support, and gains	14,540,493	4,637,731
EXPENSES		
Program services	4,719,370	3,283,090
Support services	691,995	751,088
Total expenses	5,411,365	4,034,178
CHANGE IN NET ASSETS BEFORE TAX EXPENSE (BENEFIT)	9,129,128	603,553
TAX EXPENSE (BENEFIT)	40,598	(3,979)
CHANGE IN NET ASSETS	9,088,530	607,532
NET ASSETS WITHOUT DONOR RESTRICTIONS, beginning of year	94,807,472	94,199,940
NET ASSETS WITHOUT DONOR RESTRICTIONS, end of year	\$ 103,896,002	\$ 94,807,472

Headwaters Health Foundation of Western Montana

Statements of Functional Expenses

Year Ended December 31, 2019					
	Supporting Services			Total Supporting Services	Total
	Program Services	Investment Management	Administration and General		
Grants awarded	\$ 3,462,358	\$ -	\$ -	\$ -	\$ 3,462,358
Salaries, payroll taxes, and benefits	749,431	130,747	222,408	353,155	1,102,586
Professional fees	195,581	27,843	105,248	133,091	328,672
Recruitment, staff development	98,318	-	12,333	12,333	110,651
Occupancy	15,602	-	89,729	89,729	105,331
Travel, meals, meetings	71,167	-	27,094	27,094	98,261
Communications	86,881	-	-	-	86,881
Computer and software	37,233	-	13,600	13,600	50,833
Insurance	-	-	38,057	38,057	38,057
Depreciation	-	-	12,667	12,667	12,667
Miscellaneous	454	-	9,924	9,924	10,378
Supplies	2,345	-	2,345	2,345	4,690
	<u>\$ 4,719,370</u>	<u>\$ 158,590</u>	<u>\$ 533,405</u>	<u>\$ 691,995</u>	<u>\$ 5,411,365</u>

Year Ended December 31, 2018					
	Supporting Services			Total Supporting Services	Total
	Program Services	Investment Management	Administration and General		
Grants awarded	\$ 2,378,300	\$ -	\$ -	\$ -	\$ 2,378,300
Salaries, payroll taxes, and benefits	599,149	104,529	177,809	282,338	881,487
Professional fees	222,180	31,630	119,561	151,191	373,371
Recruitment, staff development	43,777	-	97,727	97,727	141,504
Occupancy	9,541	-	69,966	69,966	79,507
Travel, meals, meetings	8,282	-	96,954	96,954	105,236
Communications	18,467	-	-	-	18,467
Computer and software	3,320	-	16,489	16,489	19,809
Insurance	-	-	17,453	17,453	17,453
Depreciation	-	-	7,843	7,843	7,843
Miscellaneous	-	-	8,284	8,284	8,284
Supplies	74	-	2,843	2,843	2,917
	<u>\$ 3,283,090</u>	<u>\$ 136,159</u>	<u>\$ 614,929</u>	<u>\$ 751,088</u>	<u>\$ 4,034,178</u>

See accompanying notes.

Headwaters Health Foundation of Western Montana

Statements of Cash Flows

	Years Ended December 31,	
	2019	2018
CASH FLOWS USED IN OPERATING ACTIVITIES		
Change in net assets	\$ 9,088,530	\$ 607,532
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Donated securities	-	(11,133,469)
Realized and unrealized losses (gains) on investments	(13,971,507)	8,931,967
Depreciation expense	12,667	7,843
Change in deferred taxes	3,249	(19,576)
Changes in operating assets and liabilities:		
Accounts receivable	21,669	(80,419)
Prepaid expenses	8,927	(8,927)
Intangible assets	-	4,917
Grants payable	(341,150)	341,200
Accounts payable	26,189	(55,603)
Accrued expenses	26,181	24,123
Taxes receivable/payable, net	(82,651)	(38,415)
Net cash used in operating activities	(5,207,896)	(1,418,827)
CASH FLOWS PROVIDED BY INVESTING ACTIVITIES		
Purchases of investments	(16,884,400)	(41,266,036)
Proceeds from sale of investments	21,546,182	43,273,918
Purchase of property and equipment	(50,000)	(63,334)
Net cash provided by investing activities	4,611,782	1,944,548
CHANGE IN CASH AND CASH EQUIVALENTS	(596,114)	525,721
CASH AND CASH EQUIVALENTS, beginning of year	975,329	449,608
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 379,215</u>	<u>\$ 975,329</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Donated securities	\$ -	\$ 11,133,469
Cash paid for excise taxes	\$ 65,000	\$ 60,000
Cash paid for grants	\$ 3,803,508	\$ 2,037,100

Headwaters Health Foundation of Western Montana

Notes to Financial Statements

Note 1 – Nature of Organization

Organization

Headwaters Health Foundation of Western Montana (the “Foundation”) is a tax-exempt organization described in Section 501(c)(3) of the Internal Revenue Code (the “Code”) and classified as a private foundation under Section 509(a) of the Code. The Foundation promotes health and wellness to Western Montanans, with a vision to positively transform the overall health of the population. The Foundation was formed on January 11, 2016.

Note 2 – Summary of Significant Accounting Policies

Basis of accounting

The financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Accordingly, revenues are recognized when earned, and expenses are recognized when incurred.

Financial statement presentation

The 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. The definitions used to classify and report net assets are as follows:

Net assets without donor restrictions – Net assets available for use in general operations and not subject to donor-imposed stipulations.

Net assets with donor restrictions – Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Foundation and/or the passage of time. When a restriction is met, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. Also included in this category are net assets subject to donor-imposed stipulations which must be maintained in perpetuity by the Foundation. Generally, the donors of these assets permit the use of all or part of the income earned on any related investments for general or specific purposes. There were no net assets under this category as of December 31, 2019 or 2018.

Income taxes

The Internal Revenue Service has determined that the Foundation is described in Section 501(c)(3) of the Code and, accordingly, is generally exempt from federal income taxes under the provision of Section 501(a) of the Code. However, certain activities not directly related to the Foundation’s tax-exempt purposes are not exempt and are subject to federal income taxes. The Foundation is subject to a 1% to 2% excise tax on net investment income.

Headwaters Health Foundation of Western Montana

Notes to Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

The Foundation recognizes the tax benefit from uncertain tax positions only if it is more likely than not that the tax positions will be sustained on examination by the tax authorities, based on the technical merits of the position. The tax benefit is measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The Foundation recognizes interest and penalties, if any, related to income tax matters in tax expense.

The Foundation had no unrecognized tax benefits at December 31, 2019 or 2018. No interest and penalties were accrued for the years ended December 31, 2019 or 2018.

Cash and cash equivalents

For purposes of financial statement classification, the Foundation considers all highly liquid investments, including money-market accounts, with original maturities of three months or less to be cash equivalents.

Investments and investment return

The Foundation carries investments at their fair values in the statements of financial position. Net investment return (loss) is reported on the statements of activities and consists of interest and dividend income, realized and unrealized gains and losses, less external and direct internal investment expenses.

Revenue recognition

Contributions, including donated securities, are recorded at fair value on the date of donation. Subsequent gains or losses on donated securities are recognized in the statements of activities as investment return (loss). Donor-restricted contributions are reported as increases in the appropriate category of net assets depending on the nature of the restrictions. There were no contributions during the year ended December 31, 2019 and there were no restrictions on contributions for the year ended December 31, 2018.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. Those estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Concentrations

The Foundation maintains portions of its cash in bank deposits which, at times, may exceed federally insured limits. The Foundation has not experienced any losses in such accounts to date.

The Foundation invests in marketable securities and in non-marketable funds and limited partnerships. These funds and partnerships, in turn, hold a variety of marketable and non-marketable investments, including equity ownership interests in private companies. Investment securities, in general, are exposed to various risks, such as interest rate, market volatility, and credit risks and investments in funds and partnerships are exposed to additional risks such as liquidity and marketability.

Headwaters Health Foundation of Western Montana

Notes to Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

Due to the level of risks associated with investments and the level of uncertainty related to changes in the value of investments, it is at least reasonably possible that changes in the value of investments will occur in the near term and that such changes could materially affect the value of the amounts reported in the statements of financial position.

At December 31, 2019, approximately \$104 million or 99% of the Foundation's total assets represent investments, and of these, \$80 million or 77% of the Foundation's investments are in redeemable and nonredeemable alternative investments. At December 31, 2018, approximately \$94 million or 99% of the Foundation's total assets represent investments, and of these, \$69 million or 73% of the Foundation's investments are in redeemable and nonredeemable alternative investments.

The Foundation's sole source of income during 2018 is from the proceeds of the sale of Community Medical Center, Inc., which sold all of its assets to RCHP Billings – Missoula, LLC effective as of January 12, 2015. See Note 7.

Property and equipment

Acquisitions of property and equipment in excess of \$5,000 are capitalized and are recorded at cost or, if acquired by donation, at the value on the date of the donation. Depreciation of property and equipment is provided over the estimated useful lives of the assets, five to seven years, using the straight-line method. Accumulated depreciation as of December 31, 2019 and 2018 was \$20,510 and \$7,843, respectively.

Functional allocation of expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. In general, the expenses that are allocated are based upon the percentage of staff's time related to program services and to support services.

Recently adopted accounting standards

During the year ended December 31, 2019, the Foundation adopted Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. This guidance clarifies current guidance about whether a transfer of assets is a contribution or an exchange transaction, where exchange transactions are characterized by the resource provider receiving commensurate value in return for the resources transferred. For asset transfers that are considered to be contributions, entities must determine whether the contribution is conditional on the basis of whether an agreement includes a barrier that must be overcome and either a right of return of assets transferred or a right of release of a promisor's obligation to transfer assets. If the contribution is determined to be unconditional, an entity must then determine whether the contribution is restricted on the basis of the current definition of a donor-imposed restriction, which includes a consideration of how broad or narrow the purpose of the agreement is, and whether the resources are available for use only after a specified date. This update applies to both resources received by a recipient and resources given by a resource provider, except for transfers of assets from government entities to business entities. The adoption of ASU 2018-08 had no impact on the Foundation's net assets or change in net assets.

Headwaters Health Foundation of Western Montana

Notes to Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

Subsequent events

Subsequent events are events or transactions that occur after the statement of financial position date but before the financial statements are available to be issued. The Foundation recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statement of financial position, including any estimates inherent in the process of preparing the financial statements. The Foundation's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statement of financial position but arose after the statement of financial position date and before the financial statements were available to be issued. The Foundation has evaluated subsequent events through July 27, 2020, which is the date the financial statements are available to be issued. See Note 11 for further discussion.

Note 3 – Liquidity and Availability

Financial assets readily accessible to meet cash needs for general expenditures within one year of the statement of financial position date are as follows at December 31:

	2019	2018
Cash and cash equivalents	\$ 379,215	\$ 975,329
Accounts receivable	79,290	100,959
Level I investments	23,898,473	24,667,086
Redeemable alternative investments held at net asset value	67,551,944	57,361,054
	<u>\$ 91,908,922</u>	<u>\$ 83,104,428</u>

The Foundation's cash flows have a predictable pattern, based on monthly budgeted expenses and grant making. However, during the year, notable concentrations exist surrounding the grant making periods. The Foundation's goal is to maintain cash on hand equal to three to six months of operating expenses. The Foundation works with their investment consultant to determine which investments to liquidate based upon performance and cash flow needs.

Headwaters Health Foundation of Western Montana

Notes to Financial Statements

Note 4 – Investments

Investments, presented in accordance with asset classifications adopted by the Foundation's Board of Directors, are as follows as of December 31:

	2019	2018
Equity securities:		
Marketable equity securities	\$ 10,891,335	\$ 8,592,748
Marketable bond funds	2,987,844	3,245,552
Marketable exchange traded funds	816,809	1,175,340
Marketable fixed income funds	9,202,485	11,653,446
Certificates of deposit greater than 90 days	-	888,000
Alternative investments	79,642,785	68,676,447
	<u>\$ 103,541,258</u>	<u>\$ 94,231,533</u>

The Foundation invests in various alternative investments. These instruments may contain elements of both credit and market risk. Such risks include, but are not limited to, limited liquidity, absence of regulatory oversight, dependence upon key individuals, and nondisclosure of portfolio composition. The Foundation holds both redeemable and non-redeemable alternative investments.

Note 5 – Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The standard describes three levels of inputs that may be used to measure fair value:

Level I – Quoted prices in active markets for identical assets or liabilities.

Level II – 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 III – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. The Foundation does not have any investments valued with Level 3 inputs.

The Foundation used the following methods and significant assumptions to estimate fair value for its assets measured and carried at fair value in the financial statements:

Headwaters Health Foundation of Western Montana

Notes to Financial Statements

Note 5 – Fair Value Measurements (continued)

Investments – Investments are comprised of equity securities, bond funds, exchange traded funds, fixed income funds, certificates of deposits, and alternative investments at December 31, 2019 and 2018. Equity securities, bond funds, exchange traded funds, and fixed income funds fair values are based on quoted market prices. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities. Certificates of deposit are valued using quoted market prices for similar securities. Alternative investments are valued at the net asset value (NAV) as reported by the general partner or investment manager unless specific evidence indicates that net asset value should be adjusted. The valuation methods utilized by the investment managers are subject to regular review by the Foundation. There were no changes in the valuation methodologies or assumptions used by the Foundation for the years ended December 31, 2019 and 2018.

Management determines the fair value measurement valuation policies and procedures. The Foundation's Board of Directors assesses and approves these policies and procedures. At least annually, management (1) determines if the current valuation techniques used in fair value measurements are still appropriate, and (2) evaluates and adjusts the unobservable inputs used in the fair value measurements based on current market conditions and third-party information.

While the Foundation believes its valuation methods are appropriate and consistent with those used by other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

The following summarizes the categorization of the Foundation's assets based on the level of inputs utilized in determining the value of such assets.

	December 31, 2019			
	Level I	Level II	Level III	Total
Investments				
Marketable equity securities	\$ 10,891,335	\$ -	\$ -	\$ 10,891,335
Marketable bond funds	2,987,844	-	-	2,987,844
Marketable exchange traded funds	816,809	-	-	816,809
Marketable fixed income funds	9,202,485	-	-	9,202,485
	23,898,473	-	-	23,898,473
Investments measured at NAV (practical expedient)	-	-	-	79,642,785
Total investments	<u>\$ 23,898,473</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 103,541,258</u>

Headwaters Health Foundation of Western Montana

Notes to Financial Statements

Note 5 – Fair Value Measurements (continued)

	December 31, 2018			
	Level I	Level II	Level III	Total
Investments				
Marketable equity securities	\$ 8,592,748	\$ -	\$ -	\$ 8,592,748
Marketable bond funds	3,245,552	-	-	3,245,552
Marketable exchange traded funds	1,175,340	-	-	1,175,340
Marketable fixed income funds	11,653,446	-	-	11,653,446
Certificates of deposit	-	888,000	-	888,000
	24,667,086	888,000	-	25,555,086
Investments measured at NAV (practical expedient)	-	-	-	68,676,447
Total investments	\$ 24,667,086	\$ 888,000	\$ -	\$ 94,231,533

The Foundation uses NAV to determine the fair value of all underlying investments which (a) do not have readily determinable fair values and (b) prepare their financial statements consistent with the measurement principles or have the attributes of an investment company. The following table shows the fair value, unfunded commitments, and redemption restrictions reported at NAV as of December 31, 2019:

Investment Type	Fair Value at 12/31/19	Unfunded Commitments	Redemption Frequency	Redemption Notice Period	Other Restrictions
Real Estate (a)	\$ 4,965,651	\$ 947,540	Monthly and N/A *	15 days and N/A*	Minimum capital balance prior to withdrawal
Infrastructure (b)	3,436,534	-	Monthly	30 days	Minimum subscription of \$100,000
Public Equity (c)	44,494,120	-	Daily and Monthly	5, 10, and 20 days	N/A
Natural Resources (d)	801,257	370,000	Monthly and N/A *	10 days and N/A*	N/A
Hedge Fund (e)	17,428,796	-	Quarterly, Semi-Annually	65 days, 95 days	Invested for 36 months prior to withdrawal
Credit sensitive (f)	596,512	3,427,134	N/A *	N/A *	N/A *
Private Equity (g)	2,043,263	5,067,212	N/A *	N/A *	N/A *
Hedged Equity (h)	5,876,652	-	Quarterly	45 days	1 year lock-up
	<u>\$ 79,642,785</u>	<u>\$ 9,811,886</u>			

* These funds have a private equity structure, with no ability to be redeemed.

- a) These investments invest in securities issued by publicly held real estate companies and storage facilities that are primarily in North America, Europe, Australia, Asia, France, Germany, Poland, and the U.K.
- b) This investment focuses on managing portfolios of publicly-traded midstream energy securities.
- c) This category includes multiple investments. One investment focuses on a diversified portfolio of mid and smaller capitalization equity securities generally located in countries outside of the United States and Canada in order to achieve strong risk-adjusted long-term returns. The other investments were organized for the purpose of trading and investing in securities and other financial instruments.

Headwaters Health Foundation of Western Montana

Notes to Financial Statements

Note 5 – Fair Value Measurements (continued)

- d) This investment invests in exchange-traded commodity futures contracts, high quality short term investments, and renewable energy investments.
- e) This category includes two investments. One invests primarily into one fund which focuses on investing in long term and short term equity investments as well as event driven, relative value, and global macro strategies. The other invests primarily into one fund which has a diversified, absolute return philosophy and concentrates on investments who have low volatility of returns.
- f) These investments' objective is to achieve long-term appreciation by principally investing in in-tranche loans, stretch senior secured loans, or other debt like securities that have conversion features or that may be combined with other equity participation rights or enhancements.
- g) These investments' objective is to generate income and gains through acquisition, holding, managing, and distribution or other disposition of private equity investments.
- h) This category includes one investment which invests primarily in hedge funds throughout the global financial markets, with the objective of seeking capital appreciation over a full market cycle while maintaining a lower level of volatility when compared to the global equity market.

Those investments noted above with unfunded commitments held at year-end have estimated commitments due as follows:

Years ending December 31,	2020	\$ 2,747,933
	2021	2,163,422
	2022	1,501,541
	2023	1,044,942
	2024	729,324
	Thereafter	<u>1,624,724</u>
		<u><u>\$ 9,811,886</u></u>

Note 6 – Grants Payable

Grants payable represent all unconditional grants that have been authorized prior to year-end, but remain unpaid as of year-end. Conditional grants are expensed in the period the conditions are substantially satisfied. Unconditional grants payable as of December 31, 2019 and December 31, 2018 were \$50 and \$341,200, respectively. There were no conditional grants or grants over more than a one-year period as of year-end.

Headwaters Health Foundation of Western Montana

Notes to Financial Statements

Note 7 – Related Party Transactions

The Foundation received 100% of its contributions in 2018 from Community Medical Center, Inc., an interim organization created to hold the proceeds from the sale of the Missoula Community Hospital. There is approximately \$8 million remaining to distribute to the Foundation, which will occur in January 2022. Amount to be distributed is dependent on any outstanding claims or legal fees.

Note 8 – Benefit Plan

The Foundation has a 401(k) profit sharing plan, effective as of September 5, 2017. The plan covers full-time employees that have been employed for at least three months, with no age requirement. The Foundation matches contributions to the plan, up to 6% of the covered employees' salaries, and may also make additional discretionary matching contributions to the plan. The Foundation made employer contributions of \$28,043 and \$20,896 to the plan during the years ended December 31, 2019 and 2018, respectively.

Note 9 – Commitments

The Foundation holds two operating leases for copier equipment and an office facility in Missoula, Montana. The leases expire at various dates through 2021. Total rent expense was \$83,861 and \$66,661 for the years ended December 31, 2019 and 2018, respectively. Future lease commitments are as follows:

Years ending December 31,	2020	\$	70,000
	2021		<u>71,000</u>
		\$	<u><u>141,000</u></u>

Headwaters Health Foundation of Western Montana

Notes to Financial Statements

Note 10 – Excise Tax

The Foundation has deferred tax liabilities in the amount of \$114,852 and \$111,603 that consist of the tax effect of estimated unrealized gains through December 31, 2019 and 2018, respectively. Current tax expense consists of a 1% to 2% excise tax on net investment income and federal, state, and local tax liabilities due to unrelated business income. Tax expense (benefit) consists of the following as of December 31:

	2019	2018
Current tax expense	\$ 37,349	\$ 15,597
Deferred tax expense (benefit)	3,249	(19,576)
Tax expense (benefit)	<u>\$ 40,598</u>	<u>\$ (3,979)</u>

Note 11 – Subsequent Events

In March 2020, the Foundation closed on the purchase of an office building, which will house the Foundation's headquarters in addition to other commercial tenants. In December 2019, the Foundation deposited \$50,000 into escrow and settled the remaining consideration due of \$1,030,000 subsequent to year end. A limited liability corporation was formed to hold the building. The Foundation is the single member of the LLC.

Subsequent to year-end, the COVID-19 outbreak in the United States was declared a national emergency. The COVID-19 outbreak has caused disruption through mandated and voluntary closings of various businesses. While the disruption is currently expected to be temporary, there is considerable uncertainty about the duration of the closings. The outbreak could have a negative impact on the Foundation's operating results and investment returns due to the volatility of the market. The related financial impact and duration cannot be reasonably estimated at this time.

