



REPORT OF INDEPENDENT AUDITORS
AND CONSOLIDATED FINANCIAL STATEMENTS

**HEADWATERS HEALTH FOUNDATION
OF WESTERN MONTANA AND SUBSIDIARY**

December 31, 2020 and 2019



MOSSADAMS

Table of Contents

	PAGE
Report of Independent Auditors	1–2
Consolidated Financial Statements	
Consolidated statements of financial position	3
Consolidated statements of activities	4
Consolidated statements of functional expenses	5
Consolidated statements of cash flows	6
Notes to consolidated financial statements	7–16

Report of Independent Auditors

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

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Headwaters Health Foundation of Western Montana and Subsidiary (collectively, the Foundation), which comprise the consolidated statements of financial position as of December 31, 2020 and 2019, 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.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Headwaters Health Foundation of Western Montana and Subsidiary as of December 31, 2020 and 2019, and the changes in their net assets and their 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 29, 2021

Headwaters Health Foundation of Western Montana and Subsidiary

Consolidated Statements of Financial Position

ASSETS

	December 31,	
	2020	2019
Cash and cash equivalents	\$ 4,787,407	\$ 379,215
Investments	100,093,611	103,541,258
Accounts receivable	58,343	79,290
Taxes receivable	-	67,104
Property and equipment, net	1,209,580	92,824
	<u>1,209,580</u>	<u>92,824</u>
Total assets	<u>\$ 106,148,941</u>	<u>\$ 104,159,691</u>

LIABILITIES AND NET ASSETS

LIABILITIES

Grants payable	\$ -	\$ 50
Accounts payable	12,805	39,433
Accrued expenses	99,869	109,354
Taxes payable	25,286	-
Deferred tax liability	138,800	114,852
	<u>138,800</u>	<u>114,852</u>
Total liabilities	276,760	263,689

NET ASSETS

Without donor restrictions	<u>105,872,181</u>	<u>103,896,002</u>
Total net assets	<u>105,872,181</u>	<u>103,896,002</u>
Total liabilities and net assets	<u>\$ 106,148,941</u>	<u>\$ 104,159,691</u>

Headwaters Health Foundation of Western Montana and Subsidiary

Consolidated Statements of Activities

	Years Ended December 31,	
	2020	2019
REVENUE, SUPPORT, AND GAINS		
Contributions	\$ 500,000	\$ -
In-kind revenue	23,100	-
Investment return, net	7,069,868	14,540,493
Total revenue, support, and gains	7,592,968	14,540,493
EXPENSES		
Program services	4,909,184	4,719,370
Support services	590,503	691,995
Total expenses	5,499,687	5,411,365
CHANGE IN NET ASSETS BEFORE TAX EXPENSE	2,093,281	9,129,128
TAX EXPENSE	117,102	40,598
CHANGE IN NET ASSETS	1,976,179	9,088,530
NET ASSETS WITHOUT DONOR RESTRICTIONS, beginning of year	103,896,002	94,807,472
NET ASSETS WITHOUT DONOR RESTRICTIONS, end of year	<u>\$ 105,872,181</u>	<u>\$ 103,896,002</u>

Headwaters Health Foundation of Western Montana and Subsidiary

Consolidated Statements of Functional Expenses

Year Ended December 31, 2020					
	Supporting Services			Total Supporting Services	Total
	Program Services	Investment Management	Administration and General		
Grants awarded	\$ 3,603,752	\$ -	\$ -	\$ -	\$ 3,603,752
Salaries, payroll taxes, and benefits	863,846	128,564	211,356	339,920	1,203,766
Professional fees	257,090	26,594	108,361	134,955	392,045
Occupancy	70,915	-	26,706	26,706	97,621
Travel, meals, meetings	58,780	-	10,736	10,736	69,516
Computer and software	27,334	-	10,629	10,629	37,963
Depreciation	-	-	27,377	27,377	27,377
Insurance	-	-	22,198	22,198	22,198
Communications	21,113	-	-	-	21,113
Miscellaneous	5,259	-	15,289	15,289	20,548
Supplies	1,095	-	1,095	1,095	2,190
Recruitment, staff development	-	-	1,598	1,598	1,598
	<u>\$ 4,909,184</u>	<u>\$ 155,158</u>	<u>\$ 435,345</u>	<u>\$ 590,503</u>	<u>\$ 5,499,687</u>

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
Occupancy	15,602	-	89,729	89,729	105,331
Travel, meals, meetings	71,167	-	27,094	27,094	98,261
Computer and software	37,233	-	13,600	13,600	50,833
Depreciation	-	-	12,667	12,667	12,667
Insurance	-	-	38,057	38,057	38,057
Communications	86,881	-	-	-	86,881
Miscellaneous	454	-	9,924	9,924	10,378
Supplies	2,345	-	2,345	2,345	4,690
Recruitment, staff development	98,318	-	12,333	12,333	110,651
	<u>\$ 4,719,370</u>	<u>\$ 158,590</u>	<u>\$ 533,405</u>	<u>\$ 691,995</u>	<u>\$ 5,411,365</u>

Headwaters Health Foundation of Western Montana and Subsidiary

Consolidated Statements of Cash Flows

	Years Ended December 31,	
	2020	2019
CASH FLOWS USED IN OPERATING ACTIVITIES		
Change in net assets	\$ 1,976,179	\$ 9,088,530
Adjustments to reconcile change in net assets to net cash used in operating activities		
Realized and unrealized gains on investments	(6,374,330)	(13,971,507)
Depreciation expense	27,377	12,667
Change in deferred taxes	23,948	3,249
Changes in operating assets and liabilities		
Accounts receivable	20,947	21,669
Prepaid expenses	-	8,927
Grants payable	(50)	(341,150)
Accounts payable	(26,628)	26,189
Accrued expenses	(9,485)	26,181
Taxes receivable/payable, net	92,390	(82,651)
Net cash used in operating activities	(4,269,652)	(5,207,896)
CASH FLOWS PROVIDED BY INVESTING ACTIVITIES		
Purchases of investments	(13,557,011)	(16,884,400)
Proceeds from sale of investments	23,378,988	21,546,182
Purchase of property and equipment	(1,144,133)	(50,000)
Net cash provided by investing activities	8,677,844	4,611,782
CHANGE IN CASH AND CASH EQUIVALENTS	4,408,192	(596,114)
CASH AND CASH EQUIVALENTS, beginning of year	379,215	975,329
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 4,787,407</u>	<u>\$ 379,215</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for excise taxes	\$ -	\$ 65,000
Cash paid for grants	<u>\$ 3,603,802</u>	<u>\$ 3,803,508</u>

Headwaters Health Foundation of Western Montana and Subsidiary

Notes to Consolidated Financial Statements

Note 1 – Nature of Organization

Organization

Headwaters Health Foundation of Western Montana 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.

On January 23, 2020, Headwaters Health Foundation of Western Montana formed HWF Holding, LLC (the Subsidiary), a Montana Limited Liability Company, for the purposes of the purchase and ownership of real property that houses Headwaters Health Foundation of Western Montana’s headquarters. Headwaters Health Foundation of Western Montana is the single member of the Subsidiary.

Note 2 – Summary of Significant Accounting Policies

Principles of consolidation

Beginning on January 23, 2020, the consolidated financial statements include the accounts of Headwaters Health Foundation of Western Montana and the Subsidiary (collectively, the Foundation). Inter-organization balances and transactions have been eliminated in consolidation.

Basis of accounting

The consolidated 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 consolidated financial statements are presented on the basis of net assets without donor restrictions and net assets with donor restrictions in accordance with accounting principles generally accepted in the United States of America. 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 consolidated 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, 2020 or 2019.

Headwaters Health Foundation of Western Montana and Subsidiary

Notes to Consolidated Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

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 1.39% excise tax on net investment income.

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, 2020 or 2019. No interest and penalties were accrued for the years ended December 31, 2020 or 2019.

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 consolidated statements of financial position. Net investment return is reported on the consolidated 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 consolidated statements of activities as investment return. Donor-restricted contributions are reported as increases in the appropriate category of net assets depending on the nature of the restrictions.

Use of estimates

The preparation of consolidated 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 consolidated 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.

Headwaters Health Foundation of Western Montana and Subsidiary

Notes to Consolidated Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

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.

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 consolidated statements of financial position.

At December 31, 2020, approximately \$100 million or 94% of the Foundation's total assets represent investments, and of these, \$82 million or 82% of the Foundation's investments are in redeemable and nonredeemable alternative investments. 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.

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.

Functional allocation of expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the consolidated 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, 2020, the Foundation adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2018-13, *Fair Value Measurement* (Topic 820): *Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*. This guidance is intended to improve the effectiveness of disclosures in the notes to the consolidated financial statements by facilitating clear communication of the information required that is most important to users of the consolidated financial statements. FASB ASU No. 2018-13 modifies the disclosure requirements on fair value measurements founded within Accounting Standards Codification Topic 820, including streamlining disclosures related to transfers between Level 1 and Level 2 classifications, and simplifying disclosures for Level 3 assets and liabilities. The Foundation's fair value disclosures in Note 5 reflect the changes required by FASB ASU No. 2018-13.

Headwaters Health Foundation of Western Montana and Subsidiary

Notes to Consolidated Financial Statements

Note 2 – Summary of Significant Accounting Policies (continued)

Subsequent events

Subsequent events are events or transactions that occur after the consolidated statement of financial position date but before the consolidated financial statements are available to be issued. The Foundation recognizes in the consolidated financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the consolidated statement of financial position, including any estimates inherent in the process of preparing the consolidated financial statements. The Foundation's consolidated financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the consolidated statement of financial position but arose after the consolidated statement of financial position date and before the consolidated financial statements were available to be issued. The Foundation has evaluated subsequent events through July 29, 2021, which is the date the consolidated financial statements are available to be issued.

Note 3 – Liquidity and Availability

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

	2020	2019
Cash and cash equivalents	\$ 4,787,407	\$ 379,215
Accounts receivable	58,343	79,290
Level I investments	17,728,782	23,898,473
Redeemable alternative investments held at net asset value	67,834,966	67,551,944
	<u>\$ 90,409,498</u>	<u>\$ 91,908,922</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 and Subsidiary

Notes to Consolidated 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:

	2020	2019
Equity securities		
Marketable equity securities	\$ 8,654,372	\$ 10,891,335
Marketable bond funds	1,367,898	2,987,844
Marketable exchange traded funds	-	816,809
Marketable fixed income funds	7,706,512	9,202,485
Alternative investments	82,364,829	79,642,785
	<u>\$ 100,093,611</u>	<u>\$ 103,541,258</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.

Headwaters Health Foundation of Western Montana and Subsidiary

Notes to Consolidated Financial Statements

Note 5 – Fair Value Measurements (continued)

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

Investments – Investments are comprised of equity securities, bond funds, exchange traded funds, fixed income funds, and alternative investments at December 31, 2020 and 2019. 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. 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, 2020 and 2019.

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, 2020			
	Level I	Level II	Level III	Total
Investments				
Marketable equity securities	\$ 8,654,372	\$ -	\$ -	\$ 8,654,372
Marketable bond funds	1,367,898	-	-	1,367,898
Marketable fixed income funds	7,706,512	-	-	7,706,512
	17,728,782	-	-	17,728,782
Investments measured at NAV (practical expedient)	-	-	-	82,364,829
Total investments	<u>\$ 17,728,782</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 100,093,611</u>

Headwaters Health Foundation of Western Montana and Subsidiary

Notes to Consolidated Financial Statements

Note 5 – Fair Value Measurements (continued)

	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	\$ 23,898,473	\$ -	\$ -	\$ 103,541,258

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, 2020:

Investment Type	Fair Value at 12/31/20	Unfunded Commitments	Redemption Frequency	Redemption Notice Period	Other Restrictions
Real Estate (a)	\$ 2,478,067	\$ 787,186	Monthly and N/A *	15 days and N/A *	Minimum capital balance prior to withdrawal
Infrastructure (b)	2,654,637	-	Monthly	30 days	Minimum subscription of \$100,000
Public Equity (c)	44,405,599	-	Daily and Monthly	5, 10, and 20 days	N/A
Natural Resources (d)	1,299,885	245,000	Monthly and N/A *	10 days and N/A *	N/A
Hedge Fund (e)	18,760,770	-	Quarterly, Semi-Annually	65 days, 95 days	Invested for 36 months prior to withdrawal
Credit sensitive (f)	2,630,542	3,186,031	N/A *	N/A *	N/A *
Private Equity (g)	3,432,056	4,240,571	N/A *	N/A *	N/A *
Hedged Equity (h)	6,703,273	-	Quarterly	45 days	1 year lock-up
	<u>\$ 82,364,829</u>	<u>\$ 8,458,788</u>			

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

- 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.
- This investment focuses on managing portfolios of publicly-traded midstream energy securities.
- 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 and Subsidiary

Notes to Consolidated 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,	2021	\$ 2,294,139
	2022	1,806,154
	2023	1,253,576
	2024	872,380
	2025	608,884
	Thereafter	<u>1,623,655</u>
		<u><u>\$ 8,458,788</u></u>

Headwaters Health Foundation of Western Montana and Subsidiary

Notes to Consolidated Financial Statements

Note 6 – Property and equipment

Property and equipment consist of the following at December 31:

	2020	2019
Land	\$ 387,243	\$ -
Building	688,431	50,000
Furniture and equipment	86,434	63,334
Construction in progress	95,359	-
	<u>1,257,467</u>	<u>113,334</u>
Less: accumulated depreciation	<u>(47,887)</u>	<u>(20,510)</u>
	<u><u>\$ 1,209,580</u></u>	<u><u>\$ 92,824</u></u>

Depreciation expense was \$27,377 and \$12,667 for the years ended December 31, 2020 and 2019, respectively.

Note 7 – 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, 2020 and December 31, 2019 were \$0 and \$50, respectively. There were no conditional grants or grants over more than a one-year period as of year-end.

Note 8 – Related Party Transactions

The Foundation received 100% of its contributions in 2020 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 is expected to occur in January 2022. Amount to be distributed is dependent on any outstanding claims or legal fees.

Note 9 – 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 \$34,972 and \$28,043 to the plan during the years ended December 31, 2020 and 2019, respectively.

Headwaters Health Foundation of Western Montana and Subsidiary

Notes to Consolidated Financial Statements

Note 10 – 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 \$78,217 and \$83,861 for the years ended December 31, 2020 and 2019, respectively. Future lease commitments total \$71,452 for the year ending December 31, 2021.

Note 11 – Excise Tax

The Foundation has deferred tax liabilities in the amount of \$138,800 and \$114,852 that consist of the tax effect of estimated unrealized gains through December 31, 2020 and 2019, respectively. Current tax expense consists of a 1.39% excise tax on net investment income and federal, state, and local tax liabilities due to unrelated business income. Tax expense consists of the following as of December 31:

	2020	2019
Current tax expense	\$ 93,154	\$ 37,349
Deferred tax expense	23,948	3,249
Tax expense	<u>\$ 117,102</u>	<u>\$ 40,598</u>

Note 12 – Risks and Uncertainties

In March 2020, the COVID-19 outbreak in the United States was declared a national emergency. The COVID-19 outbreak has continued to cause disruption through mandated and voluntary closings of various businesses. 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.

