

MONTANA HEALTHCARE FOUNDATION

Financial Statements

For the Year Ended December 31, 2019

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Independent Auditor's Report

**To the Board of Trustees
Montana Healthcare Foundation
Bozeman, Montana**

We have audited the accompanying financial statements of Montana Healthcare Foundation (the Foundation), which comprise the statement of financial position as of December 31, 2019, and the related statements of activities and change in net assets, functional expenses, 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 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.



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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of December 31, 2019, and the change in its net assets and its cash flow for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Foundation's 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 10, 2019. In our opinion, the summarized comparative information presented herein as of and for the year then ended, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Clark Nuber P.S.

Certified Public Accountants
May 8, 2020

MONTANA HEALTHCARE FOUNDATION

Statement of Financial Position

December 31, 2019

(With Comparative Totals for 2018)

	<u>2019</u>	<u>2018</u>
Assets:		
Cash and cash equivalents	\$ 3,024,087	\$ 11,672,113
Investments	185,460,688	150,924,208
Contribution receivable		215,000
Fixed assets, net	52,064	83,799
Prepays and other assets	<u>182,358</u>	<u>187,220</u>
Total Assets	<u>\$ 188,719,197</u>	<u>\$ 163,082,340</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued liabilities	\$ 64,364	\$ 104,920
Grants payable	<u>2,048,424</u>	<u>1,421,205</u>
Total Liabilities	2,112,788	1,526,125
Net Assets:		
Without donor restriction-		
Undesignated	139,452,098	118,691,489
Board designated quasi-endowment	<u>46,027,117</u>	<u>40,824,087</u>
Total without donor restriction	185,479,215	159,515,576
With donor restriction	<u>1,127,194</u>	<u>2,040,639</u>
Total Net Assets	<u>186,606,409</u>	<u>161,556,215</u>
Total Liabilities and Net Assets	<u>\$ 188,719,197</u>	<u>\$ 163,082,340</u>

See accompanying notes.

MONTANA HEALTHCARE FOUNDATION

**Statement of Activities and Changes in Net Assets
For the Year Ended December 31, 2019
(With Comparative Totals for 2018)**

	Without Donor Restriction	With Donor Restriction	2019 Total	2018 Total
Revenues, Gains and Other Support:				
Grants and contributions	\$ 5,000,000	\$ -	\$ 5,000,000	\$ 15,409,217
Interest and dividends	2,138,155		2,138,155	1,906,545
Realized and unrealized gains (losses) on investments, net of fees	27,295,952		27,295,952	(12,542,537)
Other income	57,754		57,754	43,090
Releases	913,445	(913,445)		
Total Revenues, Gains and Other Support	35,405,306	(913,445)	34,491,861	4,816,315
Expenses:				
Program services-				
Grants and initiatives	7,187,766		7,187,766	5,736,444
Other program related expenses	1,657,719		1,657,719	1,287,116
Total program expenses	8,845,485		8,845,485	7,023,560
Management and general-				
Administrative	469,418		469,418	630,711
Other expenses	126,764		126,764	97,925
Total management and general	596,182		596,182	728,636
Total Expenses	9,441,667		9,441,667	7,752,196
Change in Net Assets	25,963,639	(913,445)	25,050,194	(2,935,881)
Net assets, beginning of year	159,515,576	2,040,639	161,556,215	164,492,096
Net Assets, End of Year	\$ 185,479,215	\$ 1,127,194	\$ 186,606,409	\$ 161,556,215

See accompanying notes.

MONTANA HEALTHCARE FOUNDATION

**Statements of Functional Expenses
For the Year Ended December 31, 2019
(With Comparative Totals for 2018)**

	Grants	Other Program	Program Total	Management and General	2019 Total	2018 Total
Initiative expenditure, technical assistance and support	\$ 4,350,466	\$ -	\$ 4,350,466	\$ -	\$ 4,350,466	\$ 3,186,919
Responsive grants	2,837,300		2,837,300		2,837,300	2,549,525
Salaries and related costs		1,075,120	1,075,120	318,513	1,393,633	1,216,501
Other operating costs		190,066	190,066	11,862	201,928	189,525
Professional development, convenings and consultations		106,366	106,366	16,847	123,213	135,574
Trustee compensation		84,000	84,000	84,000	168,000	168,000
Excise taxes				126,764	126,764	97,925
Occupancy		132,235	132,235		132,235	110,537
Professional fees		38,197	38,197	38,196	76,393	65,954
Depreciation		31,735	31,735		31,735	31,736
Total Expenses	\$ 7,187,766	\$ 1,657,719	\$ 8,845,485	\$ 596,182	\$ 9,441,667	\$ 7,752,196

See accompanying notes.

MONTANA HEALTHCARE FOUNDATION

**Statement of Cash Flows
For the Year Ended December 31, 2019
(With Comparative Totals for 2018)**

	<u>2019</u>	<u>2018</u>
Cash Flows From Operating Activities:		
Change in net assets	\$ 25,050,194	\$ (2,935,881)
Adjustments to reconcile change in net assets to net cash provided by operating activities-		
Depreciation	31,735	31,736
Realized and unrealized (gains) losses on investments	(27,638,199)	12,225,421
Changes in assets and liabilities:		
Contribution receivable	215,000	(215,000)
Prepaid expenses and other assets	4,862	(80,732)
Accounts payable and accrued liabilities	(40,556)	65,016
Grants payable	627,219	182,996
	<u>(1,749,745)</u>	<u>9,273,556</u>
Net Cash (Used) Provided by Operating Activities		
Cash Flows From Investing Activities:		
Purchase of investments	(31,752,532)	(25,718,664)
Proceeds from sale of investments	24,854,251	19,082,818
	<u>(6,898,281)</u>	<u>(6,635,846)</u>
Net Cash Used by Investing Activities		
Net Change in Cash and Cash Equivalents	(8,648,026)	2,637,710
Cash and cash equivalents, beginning of year	11,672,113	9,034,403
Cash and Cash Equivalents, End of Year	<u>\$ 3,024,087</u>	<u>\$ 11,672,113</u>
Supplementary Disclosure of Cash Flow Information:		
Cash paid during the year for excise taxes	\$ 122,559	\$ 92,311

See accompanying notes.

MONTANA HEALTHCARE FOUNDATION

Notes to Financial Statements For the Year Ended December 31, 2019

Note 1 - Nature of Activities and Significant Accounting Policies

Nature of Activities - Montana Healthcare Foundation (the Foundation) is dedicated to improving the health and well-being of all Montanans. The Foundation contributes to a healthier state by making strategic investments that support access to quality and affordable health services, conducting evidence-driven research and analysis, and addressing the upstream influences on health and illness. The Foundation is a 501(c)3 private foundation.

Some Montanans face particularly difficult barriers to health. Health disparities (the higher rates of illness and death that are consistently documented among certain subgroups) are all too common among certain racial and ethnic groups, the social and economic disadvantaged, and young children and older adults. Across all our work, we place an emphasis on reducing health disparities and building healthier Montana communities.

The Foundation was created as a result of the 2013 sale of Blue Cross Blue Shield of Montana. In accordance with state law, the assets from this sale were transferred to a charitable trust to be managed for public benefit. MHCF spends the income from trust investments (roughly 5% of the total value of the trust each year) so that it can serve as a permanent, stable, and reliable resource for improving health in the state. Spending rates are made according to the spending policy adopted by the Foundation's Board of Trustees.

A summary of the Foundation's significant accounting policies follows:

Basis of Presentation - Net assets and revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Foundation and changes therein are classified and reported as follows:

Net Assets Without Donor Restriction - Net assets that are not subject to or are no longer subject to donor-imposed restrictions. Changes in this category of net assets include restricted contributions whose donor-imposed restrictions were met during the year. The Foundation has designated approximately \$46.0 million and \$40.8 million of its net assets without donor restriction as a quasi-endowment, as of December 31, 2019 and 2018, respectively .

Net Assets With Donor Restriction - Net assets whose use is limited by donor-imposed time and or purpose restrictions. The Foundation had net assets with donor restrictions of approximately \$1.1 million and \$2.0 million, as of December 31, 2019 and 2018, respectively.

Revenues are reported as increases in net assets without donor restriction unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restriction. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restriction unless their use is restricted by explicit donor stipulation or by law. Expiration of donor restrictions on the net assets (i.e., the donor-stipulated purpose had been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

Contributions - Contributions are recognized as revenues when the Foundation is notified of the unconditional promise to give. There are no measurable performance barriers, and no right of return for any contributions received.

MONTANA HEALTHCARE FOUNDATION

**Notes to Financial Statements
For the Year Ended December 31, 2019**

Note 1 - Continued

Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities, at the date of the financial statements, as well as the reported amounts of revenues and expenses, including functional allocations, during the reporting period. Actual results could differ from those estimates.

Reclassifications - Certain reclassifications have been made to prior year amounts presented in financial statements to conform with current year presentation. There has been no impact to changes in net assets or total net assets as a result of these reclassifications.

Cash and Cash Equivalents - For purposes of the statement of cash flows, the Foundation considers all cash and other highly liquid investments with initial maturities of three months or less to be cash equivalents, other than those included in the investment portfolio.

Investments - Investments are stated at fair value, with both realized and unrealized gains and losses recorded in the statements of activities and changes in net assets as increases or decreases in net assets without donor restriction, unless their use is restricted by explicit donor restrictions or law. Fair value of investments with readily determinable market values is based on quoted market prices. The estimated fair value of certain alternative investments for which quoted market prices are not available, is based on valuations provided by the external investment managers and the management of the investees. The Foundation reviews and evaluates the values provided by the investment managers and agrees with the valuation methods and assumptions used in determining the fair value of the alternative investments. Those estimated fair values may differ significantly from the values that would have been used had a ready market for these investments existed.

Investments are made according to the Investment Policy Statement adopted by the Foundation's Board of Trustees. These guidelines provide for investments in equities, fixed income, emerging markets and other investments with performance measured against appropriate indices. Outside parties are contracted with by the Foundation for the purpose of providing investment management and consulting.

Investment securities, in general, are exposed to various risks, including interest rate, credit and overall market volatility. Due to the level of risk associated with certain long-term investments, it is reasonably probable that changes in the values of these investments will occur in the near term and that such changes could materially affect the amounts reported in the balance sheets.

Dividend income is recorded on the ex-dividend date. Interest income is recorded on an accrual basis when earned.

Fixed Assets - Fixed assets are recorded at cost if purchased or fair value if donated. The Foundation capitalizes all items over \$25,000 that provide a future benefit. Depreciation is provided on a straight-line basis over the estimated useful lives as follows:

Software	3 years
Equipment	3 - 5 years
Leasehold improvements	Lesser of 7 years or lease term
Furniture/fixtures	10 years

MONTANA HEALTHCARE FOUNDATION

Notes to Financial Statements For the Year Ended December 31, 2019

Note 1 - Continued

Concentrations - Financial instruments that potentially subject the Foundation to concentrations of credit and market risk consist primarily of cash and investments. Cash and investments held by financial institutions exceed federally insured limits. Management anticipates no material effect to the Foundation's financial position as a result of these concentrations.

For each of the years ended December 31, 2019 and 2018, 99% and 97% of the Foundation's contribution and grant funding came from one organization, respectively.

Grants - Grants made and unconditional promises to make future grants are recognized the earlier of when made or when the promise is conveyed. Grants payable over more than one year are recorded at their discounted present value using a risk adjusted rate of return. Changes in discounts are recognized over the period of the promise as adjustments to grant expenses.

Functional Allocation of Expenses - The cost of providing the various programs and other activities has been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefitted. Employee wages and related payroll expenses are based on allocation by each individual employee to the program or service that work was directly performed on. Trustee compensation is allocated equally 50% to program and 50% to general and administrative. Legal, accounting, and professional fees are allocated 50% to program based on invoices for program and research contract review and 50% to general and administrative. Occupancy and depreciation is allocated solely to program expense as general and administrative square footage is minimal.

Comparative Totals - The financial information includes certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended December 31, 2018, from which the summarized information was derived.

Note 2 - Excise Taxes and Required Charitable Grants

The Foundation has obtained tax-exempt status from federal income tax under Section 501(c)(3) of the Internal Revenue Code (IRC). However, the Foundation is a private foundation as defined in the IRC, and is therefore subject to an excise tax on its net investment income.

The Foundation is also required under the IRC to make minimum charitable distributions based on the fair value of its assets. Charitable distributions made in excess of the required minimum in any year may be used to reduce the minimum distributions required in future years, subject to a five-year carryover limitation. Failure to make the minimum charitable distributions could result in additional taxes and possible penalties.

MONTANA HEALTHCARE FOUNDATION

Notes to Financial Statements For the Year Ended December 31, 2019

Note 3 - Investments

Investments consisted of the following at December 31:

	<u>2019</u>	<u>2018</u>
Investments valued at fair value based on market quotes-		
Money markets	\$ 9,271,446	\$ 9,257,849
Bond mutual fund	16,721,924	22,637,852
Equity mutual funds	68,359,994	63,606,406
Corporate bonds		<u>1,691,423</u>
	<u>94,353,364</u>	<u>97,193,530</u>
Nonmarketable securities	<u>91,107,324</u>	<u>53,730,678</u>
Total Investments	<u>\$ 185,460,688</u>	<u>\$ 150,924,208</u>

Investment return consisted of the following for the years ended December 31:

	<u>2019</u>	<u>2018</u>
Interest and dividends	\$ 2,138,155	\$ 1,906,545
Realized and unrealized gains (losses) on investments	27,638,199	(12,225,421)
Investment management fees	<u>(342,247)</u>	<u>(317,116)</u>
Total Investment Return	<u>\$ 29,434,107</u>	<u>\$ (10,635,992)</u>

Note 4 - Fair Value Measurements

U.S. GAAP has established a framework that requires fair value to be determined based on the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants.

To increase consistency and comparability in fair value measurements, U.S. GAAP uses a fair value hierarchy which prioritizes the inputs to valuation approaches into three broad levels based on observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Foundation's market assumptions. These two types of inputs create the following fair value hierarchy:

Level 1 - Inputs are unadjusted and represent quoted prices in active markets for identical assets at the measurement date;

Level 2 - Inputs are based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in inactive markets, and model-derived valuations whose inputs are observable; or

Level 3 - Inputs are unobservable and reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date. Consideration is given to the risk inherent in the valuation technique and/or the risk inherent in the inputs to the model.

MONTANA HEALTHCARE FOUNDATION

**Notes to Financial Statements
For the Year Ended December 31, 2019**

Note 4 - Continued

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2019 and 2018.

Money Markets - Money market funds are valued at cost plus accrued interest, which approximates fair value.

Bond and Equity Mutual Fund - Valued at the closing price reported on the active market in which the securities are traded.

Corporate Bonds - M Bonds are valued using bid valuations from similar instruments in actively quoted markets.

Nonmarketable Securities - Valued at the NAV as reported by the general partner or investment manager unless specific evidence indicates that NAV should be adjusted. This may involve significant unobservable inputs. The valuation methods utilized by the investment managers are subject to regular review by the Foundation.

Management determines the Foundation's fair value measurements valuation policies and procedures, including those reported at NAV. The Foundation's Board of Trustees assesses and approves these policies and procedures.

The Foundation has implemented ASU 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or its Equivalent)*, which removes the requirement that investments for which fair value is measured using the NAV per share, or its equivalent, be categorized in the fair value hierarchy. The fair value amounts presented in the tables below are intended to permit reconciliation of the fair value hierarchy to the line items presented in the statement of financial position.

Fair values of assets measured on a recurring basis were as follows:

	Fair Value Measurements as of December 31, 2019			
	Level 1	Level 2	Level 3	Total
Money markets	\$ 9,271,446	\$ -	\$ -	\$ 9,271,446
Bond mutual fund	16,721,924			16,721,924
Equity mutual funds-				
U.S. large cap	13,342,452			13,342,452
U.S. small cap	35,945,159			35,945,159
International	19,072,383			19,072,383
Total Investments in the Fair Value Hierarchy	\$ 94,353,364	\$ -	\$ -	94,353,364
Investments measured at NAV				91,107,324
Total Investments at Fair Value				\$ 185,460,688

MONTANA HEALTHCARE FOUNDATION

**Notes to Financial Statements
For the Year Ended December 31, 2019**

Note 4 - Continued

	Fair Value Measurements as of December 31, 2018			
	Level 1	Level 2	Level 3	Total
Money markets	\$ 9,257,849	\$ -	\$ -	\$ 9,257,849
Bond mutual fund	22,637,852			22,637,852
Equity mutual funds-				
U.S. large cap	32,382,226			32,382,226
U.S. small cap	10,515,002			10,515,002
International	20,709,178			20,709,178
Corporate bonds		1,691,423		1,691,423
Total Investments in the Fair Value Hierarchy	\$ 95,502,107	\$ 1,691,423	\$ -	97,193,530
Investments measured at NAV				53,730,678
Total Investments at Fair Value				\$ 150,924,208

The table below summarizes significant terms of the agreements with certain investment companies for nonmarketable investments. There are no significant redemption restrictions or unfunded commitments on other types of investments.

Asset Class	Fair Value December 31, 2019	Unfunded Commitments	Redemption Frequency	Redemption Notice Period	Other Restrictions
Hedge funds*	\$ 19,987,738	\$ -	Monthly - 3 years	30 - 60 days	None
Offshore corporation	12,404,920		Monthly	30 days	None
Partnership and trust	47,901,809		Monthly	7 - 30 days	None
Private markets	10,812,857	24,042,958	None	None	None
	\$ 91,107,324	\$ 24,042,958			

* One of the funds included here is in the process of liquidation as of December 31, 2019.

MONTANA HEALTHCARE FOUNDATION

**Notes to Financial Statements
For the Year Ended December 31, 2019**

Note 5 - Fixed Assets

Fixed assets consist of the following at December 31:

	<u>2019</u>	<u>2018</u>
Software	\$ 50,820	\$ 50,820
Leasehold improvements	<u>64,715</u>	<u>64,715</u>
	115,535	115,535
Less accumulated depreciation	<u>(63,471)</u>	<u>(31,736)</u>
Fixed Assets, Net	<u><u>\$ 52,064</u></u>	<u><u>\$ 83,799</u></u>

Depreciation expense totaled \$31,735 and \$31,736 for the years ended December 31, 2019 and 2018, respectively.

Note 6 - Grants Payable

Grants authorized but unpaid at year end are reported as liabilities. Grants authorized are payable as follows:

For the Year Ending December 31,

2020	<u>\$ 2,048,424</u>
	<u><u>\$ 2,048,424</u></u>

There were no conditional grants authorized as of December 31, 2019 and 2018. There is no discount to present value as of December 31, 2019 and 2018, as all grants are payable in the next year.

Note 7 - Net Assets With Donor Restriction

At December 31, 2019 and 2018, net assets with donor restrictions consisted of two contributions restricted for use related to improving substance abuse prevention and treatment in Montana.

MONTANA HEALTHCARE FOUNDATION

Notes to Financial Statements For the Year Ended December 31, 2019

Note 8 - Commitments

Operating Lease - The Foundation entered into a lease for office space that began on December 1, 2018 and terminates on November 31, 2023, with an option to renew for an additional five years with 90 days written notice. Monthly payments began at \$7,869 per month and increase to \$8,719 over the term of the lease. Future minimum lease payments are as follows:

For the Year Ending December 31,

2020	\$	97,185
2021		99,741
2022		102,296
2023		<u>95,909</u>
	\$	<u><u>395,131</u></u>

Rental expense for the years ended December 31, 2019 and 2018, totaled \$132,235 and \$110,537, respectively, and included CAM charges incurred during the year.

Employment Agreement - Effective January 1, 2017, the Foundation entered into one employment agreement with a key member of management that expires on December 31, 2021. Effective January 1, 2019, the Foundation entered into three employment agreements with key members of management, all of which expire on December 31, 2020. All agreements would require payments to the employee for the remaining term of the contract if the Foundation were to terminate the agreement without good cause.

Note 9 - Retirement Plan

The Foundation has established a 401(k) Plan. All employees are eligible to enroll a month after beginning their employment. The Foundation matches up to 100% of employees' contributions up to 4% of participants' eligible compensation as of December 31, 2019. Matching expense totaled \$46,708 and \$41,759 for the years ended December 31, 2019 and 2018, respectively.

Note 10 - Related Party Transactions

The Foundation paid stipends totaling \$168,000 to Board Trustees during each of the years ended December 31, 2019 and 2018.

Note 11 - Quasi-Endowment

In 2016, the Foundation established a quasi-endowment to preserve the initial \$40,200,000 of assets transferred to the Foundation upon formation. The Foundation had \$46.0 million and \$40.8 million of its net assets without donor restriction as a quasi-endowment, as of December 31, 2019 and 2018, respectively.

MONTANA HEALTHCARE FOUNDATION

**Notes to Financial Statements
For the Year Ended December 31, 2019**

Note 11 - Continued

Changes to quasi-endowment net assets are as follows:

	Without Donor Restriction	With Donor Restriction	Total
Endowment Net Assets, December 31, 2018	\$ 40,824,087	\$ -	\$ 40,824,087
Endowment investment income-			
Investment fees	(84,737)		(84,737)
Interest and dividends	531,710		531,710
Realized and unrealized gains	6,983,011		6,983,011
Total endowment investment income	7,429,984		7,429,984
Appropriation of endowment for expenditure	(2,226,954)		(2,226,954)
Endowment Net Assets, December 31, 2019	\$ 46,027,117	\$ -	\$ 46,027,117

	Without Donor Restriction	With Donor Restriction	Total
Endowment net assets, December 31, 2017	\$ 45,707,601	\$ -	\$ 45,707,601
Endowment investment income-			
Investment fees	(78,140)		(78,140)
Interest and dividends	514,767		514,767
Realized and unrealized losses	(3,101,380)		(3,101,380)
Total endowment investment income	(2,664,753)		(2,664,753)
Appropriation of endowment for expenditure	(2,218,761)		(2,218,761)
Endowment Net Assets, December 31, 2018	\$ 40,824,087	\$ -	\$ 40,824,087

Return Objectives and Risk Parameters - The Foundation has adopted investment policies for endowment assets that attempts to earn a return that preserves the trust assets in perpetuity and maximizes the income available to fulfill the Foundation's charitable purpose. The endowment assets are diversified among several asset classes to achieve the Foundation's return goal while maintaining acceptable levels of risk.

Strategies Employed for Achieving Objectives - To satisfy its long-term return goal, the Foundation relies on a total return strategy in which investment returns are achieved through both income and net realized and unrealized capital gains. The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return goal.

MONTANA HEALTHCARE FOUNDATION

Notes to Financial Statements For the Year Ended December 31, 2019

Note 11 - Continued

Spending Policy - The Foundation's policy for its quasi-endowment is to spend 5% of the annual average of the endowment balance.

Note 12 - Liquidity and Availability of Financial Assets

Liquidity - The Foundation has a goal to maintain financial assets to meet its targeted return goal which assumes a moderate degree of illiquidity as a maximum of 25% of investments are made in funds with a 5-10 year holding period. The Foundation has a policy to structure its financial assets to be available as its grant, programmatic expenditures, liabilities, and other obligations come due. In addition, as part of its liquidity management, the Foundation invests cash in excess of daily requirements in various short-term investments, including money market accounts and short-term treasury instruments. The target allocation to cash and highly liquid cash equivalent investments is 10% which covers 200% of annual budgeted expenditures.

Availability - The following reflects the Foundation's financial assets as of the date of the statement of financial position, reduced by amounts not available for general use within one year because of donor-imposed restrictions or internal designations. Amount available include donor-restricted amounts that are available for expenditure in the following year.

The following table shows the total financial assets held by the Foundation and the amounts of those financial assets could readily be made available within one year of the date of the statement of financial position at December 31 to meet general expenditures:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 3,024,087	\$ 11,672,113
Contribution receivable		215,000
Investments	<u>185,460,688</u>	<u>150,924,208</u>
Total financial assets	188,484,775	162,811,321
Less -		
Nonredeemable investment funds	(10,812,857)	(4,887,582)
Quasi-endowment funds	(46,027,117)	(40,824,087)
Add back estimated endowment appropriation	2,200,000	2,226,954
Other donor restricted funds	<u>(1,127,194)</u>	<u>(2,040,639)</u>
Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year	<u><u>\$ 132,717,607</u></u>	<u><u>\$ 117,285,967</u></u>

Note 13 - Subsequent Events

The Foundation's management has evaluated subsequent events through May 8, 2020, the date on which the financial statements were available to be issued. Subsequent to year end, the United States and global markets experienced significant declines in value resulting from uncertainty caused by the coronavirus pandemic. The Foundation is closely monitoring its investment portfolio and its liquidity and is actively working to minimize the impact of these declines. The financial statements do not include adjustments to fair value that have resulted from these declines.