



REPORT OF INDEPENDENT AUDITORS  
AND CONSOLIDATED FINANCIAL STATEMENTS

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

December 31, 2021 and 2020



MOSSADAMS

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## **Report of Independent Auditors**

The Board of Directors  
Headwaters Health Foundation of Western Montana and Subsidiary

### **Report on the Audit of the Financial Statements**

#### ***Opinion***

We have audited the 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, 2021 and 2020, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Headwaters Health Foundation of Western Montana and Subsidiary as of December 31, 2021 and 2020, 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.

#### ***Basis for Opinion***

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

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

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

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

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

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Headwaters Health Foundation of Western Montana and Subsidiary's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Headwaters Health Foundation of Western Montana and Subsidiary's ability to continue as a going concern for a reasonable period of time.

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

*Moss Adams LLP*

Portland, Oregon  
July 27, 2022

# Headwaters Health Foundation of Western Montana and Subsidiary

## Consolidated Statements of Financial Position

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### ASSETS

	December 31,	
	2021	2020
Cash and cash equivalents	\$ 446,270	\$ 4,787,407
Investments	108,766,341	100,093,611
Accounts receivable	52,731	58,343
Property and equipment, net	2,473,685	1,209,580
Total assets	<u>\$ 111,739,027</u>	<u>\$ 106,148,941</u>

### LIABILITIES AND NET ASSETS

#### LIABILITIES

Accounts payable	\$ 14,455	\$ 12,805
Accrued expenses	90,874	99,869
Construction loan payable	1,187,076	-
Taxes payable	69,095	25,286
Deferred tax liability	277,498	138,800
Total liabilities	1,638,998	276,760

#### NET ASSETS

Without donor restrictions	110,100,029	105,872,181
Total net assets	110,100,029	105,872,181
Total liabilities and net assets	<u>\$ 111,739,027</u>	<u>\$ 106,148,941</u>

# Headwaters Health Foundation of Western Montana and Subsidiary

## Consolidated Statements of Activities

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	Years Ended December 31,	
	2021	2020
REVENUE, SUPPORT, AND GAINS		
Contributions	\$ -	\$ 500,000
In-kind revenue	-	23,100
Investment return, net	16,045,022	7,069,868
Total revenue, support, and gains	16,045,022	7,592,968
EXPENSES		
Program services	10,791,484	4,909,184
Support services	732,441	590,503
Total expenses	11,523,925	5,499,687
CHANGE IN NET ASSETS BEFORE TAX EXPENSE	4,521,097	2,093,281
TAX EXPENSE	293,249	117,102
CHANGE IN NET ASSETS	4,227,848	1,976,179
NET ASSETS WITHOUT DONOR RESTRICTIONS, beginning of year	105,872,181	103,896,002
NET ASSETS WITHOUT DONOR RESTRICTIONS, end of year	\$ 110,100,029	\$ 105,872,181

# Headwaters Health Foundation of Western Montana and Subsidiary

## Consolidated Statements of Functional Expenses

Year Ended December 31, 2021					
	Supporting Services			Total Supporting Services	Total
	Program Services	Investment Management	Administration and General		
Grants awarded	\$ 9,508,500	\$ -	\$ -	\$ -	\$ 9,508,500
Salaries, payroll taxes, and benefits	822,484	138,705	291,085	429,790	1,252,274
Professional fees	165,997	32,492	89,058	121,550	287,547
Travel, meals meetings	90,050	-	61,016	61,016	151,066
Occupancy	78,351	-	36,784	36,784	115,135
Communications	83,572	-	-	-	83,572
Computer and software	31,218	-	12,562	12,562	43,780
Depreciation	-	-	31,779	31,779	31,779
Miscellaneous	9,246	-	15,824	15,824	25,070
Insurance	-	-	17,494	17,494	17,494
Supplies	2,066	-	2,065	2,065	4,131
Recruitment, staff development	-	-	3,577	3,577	3,577
	<u>\$ 10,791,484</u>	<u>\$ 171,197</u>	<u>\$ 561,244</u>	<u>\$ 732,441</u>	<u>\$ 11,523,925</u>

  

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
Travel, meals meetings	58,780	-	10,736	10,736	69,516
Occupancy	70,915	-	26,706	26,706	97,621
Communications	21,113	-	-	-	21,113
Computer and software	27,334	-	10,629	10,629	37,963
Depreciation	-	-	27,377	27,377	27,377
Miscellaneous	5,259	-	15,289	15,289	20,548
Insurance	-	-	22,198	22,198	22,198
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>

# Headwaters Health Foundation of Western Montana and Subsidiary

## Consolidated Statements of Cash Flows

	Years Ended December 31,	
	2021	2020
<b>CASH FLOWS USED IN OPERATING ACTIVITIES</b>		
Change in net assets	\$ 4,227,848	\$ 1,976,179
Adjustments to reconcile change in net assets to net cash used in operating activities		
Realized and unrealized gains on investments	(13,995,432)	(6,374,330)
Depreciation expense	31,779	27,377
Change in deferred taxes	138,698	23,948
Changes in operating assets and liabilities		
Accounts receivable	5,612	20,947
Grants payable	-	(50)
Accounts payable	1,650	(26,628)
Accrued expenses	(8,995)	(9,485)
Taxes receivable/payable, net	43,809	92,390
Net cash used in operating activities	<u>(9,555,031)</u>	<u>(4,269,652)</u>
<b>CASH FLOWS PROVIDED BY INVESTING ACTIVITIES</b>		
Purchases of investments	(57,898,639)	(13,557,011)
Proceeds from sale of investments	63,221,341	23,378,988
Purchase of property and equipment	<u>(1,295,884)</u>	<u>(1,144,133)</u>
Net cash provided by investing activities	<u>4,026,818</u>	<u>8,677,844</u>
<b>CASH FLOWS PROVIDED BY FINANCING ACTIVITIES</b>		
Proceeds from construction loan	<u>1,187,076</u>	<u>-</u>
Net cash provided by financing activities	<u>1,187,076</u>	<u>-</u>
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>	<u>(4,341,137)</u>	<u>4,408,192</u>
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	<u>4,787,407</u>	<u>379,215</u>
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<u><u>\$ 446,270</u></u>	<u><u>\$ 4,787,407</u></u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash paid for grants	<u><u>\$ 9,508,500</u></u>	<u><u>\$ 3,603,802</u></u>



# Headwaters Health Foundation of Western Montana and Subsidiary

## Notes to Consolidated Financial Statements

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### 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, 2021 or 2020.

# Headwaters Health Foundation of Western Montana and Subsidiary

## Notes to Consolidated Financial Statements

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### **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, 2021 or 2020. No interest and penalties were accrued for the years ended December 31, 2021 or 2020.

#### **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. Conditional promises to give – that is, those with a measurable performance-related barrier and a right of return – are not recognized until the conditions on which they depend have been met.

#### **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

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### **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, 2021, approximately \$109 million or 97% of the Foundation's total assets represent investments, and of these, \$66 million or 61% of the Foundation's investments are in redeemable and nonredeemable alternative investments. 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.

#### **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 forty 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 supporting services.

#### **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 27, 2022, which is the date the consolidated financial statements are available to be issued.

# Headwaters Health Foundation of Western Montana and Subsidiary

## Notes to Consolidated Financial Statements

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### 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:

	2021	2020
Cash and cash equivalents	\$ 446,270	\$ 4,787,407
Accounts receivable	52,731	58,343
Level I investments	42,322,385	17,728,782
Redeemable alternative investments held at net asset value	45,796,892	67,834,966
	<u>\$ 88,618,278</u>	<u>\$ 90,409,498</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.

### 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:

	2021	2020
Equity securities		
Marketable equity securities	\$ 33,301,173	\$ 8,654,372
Marketable bond funds	2,849,838	1,367,898
Marketable fixed income funds	6,171,374	7,706,512
Alternative investments	66,443,956	82,364,829
	<u>\$ 108,766,341</u>	<u>\$ 100,093,611</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.

# Headwaters Health Foundation of Western Montana and Subsidiary

## Notes to Consolidated Financial Statements

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### 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 I 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. The Foundation does not have any investments valued with Level II inputs.

**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 III 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 consolidated financial statements:

*Investments* – Investments are comprised of equity securities, bond funds, fixed income funds, and alternative investments at December 31, 2021 and 2020. Equity securities, bond 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, 2021 and 2020.

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.

# Headwaters Health Foundation of Western Montana and Subsidiary

## Notes to Consolidated Financial Statements

### Note 5 – Fair Value Measurements (continued)

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, 2021				
	Level I	Level II	Level III	Total
Investments				
Marketable equity securities	\$ 33,301,173	\$ -	\$ -	\$ 33,301,173
Marketable bond funds	2,849,838	-	-	2,849,838
Marketable fixed income funds	6,171,374	-	-	6,171,374
	42,322,385	-	-	42,322,385
Investments measured at NAV (practical expedient)	-	-	-	66,443,956
Total investments	<u>\$ 42,322,385</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 108,766,341</u>
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)

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, 2021:

Investment Type	Fair Value at 12/31/21	Unfunded Commitments	Redemption Frequency	Redemption Notice Period	Other Restrictions
Real Estate (a)	\$ 3,272,089	\$ 417,431	Monthly and N/A *	15 days and N/A*	Minimum capital balance prior to withdrawal
Infrastructure (b)	3,725,993	-	Monthly	30 days	Minimum subscription of \$100,000
Public Equity (c)	21,605,578	-	Daily and Monthly	5, 10, and 20 days	N/A
Natural Resources (d)	2,348	-	Monthly and N/A *	10 days and N/A*	N/A
Hedge Fund (e)	20,049,071	-	Quarterly, Semi-Annually	65 days, 95 days	Invested for 36 months prior to withdrawal
Credit sensitive (f)	4,621,311	1,542,624	N/A *	N/A *	N/A *
Private Equity (g)	6,274,894	2,688,929	N/A *	N/A *	N/A *
Hedged Equity (h)	6,892,672	-	Quarterly	45 days	1 year lock-up
	<u>\$ 66,443,956</u>	<u>\$ 4,648,984</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.
- 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.

# Headwaters Health Foundation of Western Montana and Subsidiary

## Notes to Consolidated Financial Statements

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### Note 5 – Fair Value Measurements (continued)

- 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, 2022	\$ 1,381,857
2023	959,089
2024	667,443
2025	465,846
2026	333,541
Thereafter	841,208
	<u>\$ 4,648,984</u>

### Note 6 – Property and Equipment

Property and equipment consist of the following at December 31:

	2021	2020
Land	\$ 387,243	\$ 387,243
Building	688,431	688,431
Furniture and equipment	151,674	86,434
Construction in progress	1,326,003	95,359
	<u>2,553,351</u>	<u>1,257,467</u>
Less: accumulated depreciation	<u>(79,666)</u>	<u>(47,887)</u>
	<u>\$ 2,473,685</u>	<u>\$ 1,209,580</u>

Depreciation expense was \$31,779 and \$27,377 for the years ended December 31, 2021 and 2020, respectively. Construction in progress at December 31, 2021 and 2020 consists of costs to remodel and equip the Foundation's office building.

### Note 7 – 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 2023. Amount to be distributed is dependent on any outstanding claims or legal fees.



# Headwaters Health Foundation of Western Montana and Subsidiary

## Notes to Consolidated Financial Statements

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### 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 \$53,362 and \$34,972 to the plan during the years ended December 31, 2021 and 2020, respectively.

### Note 9 – Commitments

The Foundation held two operating leases for copier equipment and an office facility in Missoula, Montana. The leases expired at various dates through 2021. Total rent expense was \$72,281 and \$78,217 for the years ended December 31, 2021 and 2020, respectively. The Foundation terminated its office lease effective December 31, 2021 and is no longer committed under its copier lease, therefore there are no remaining future lease payments at December 31, 2021.

### Note 10 – Excise Tax

The Foundation has deferred tax liabilities in the amount of \$277,498 and \$138,800 that consist of the tax effect of estimated unrealized gains through December 31, 2021 and 2020, 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:

	2021	2020
Current tax expense	\$ 154,551	\$ 93,154
Deferred tax expense	138,698	23,948
Tax expense	<u>\$ 293,249</u>	<u>\$ 117,102</u>

### Note 11 – Construction Loan

Headwaters Health Foundation of Western Montana is in the process of remodeling its building and main site of operations. The total cost of the project is estimated to be \$1.8 million with a projected completion date in mid-2022, and the building is held as collateral. In April 2021, the Foundation entered into a one-year construction loan agreement to finance some of the costs related to this remodel. The loan agreement allows for up to \$1.8 million in principal with an interest rate of 3.5%, and a maturity date in April 2022, which was extended subsequent to year-end to defer all principal balance payments to October 2022. The construction loan payable as of December 31, 2021 was \$1,187,076.

