



Report of Independent Auditors
and Consolidated Financial Statements

**Headwaters Health Foundation of Western Montana and
Subsidiary**

December 31, 2022 and 2021



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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, 2022 and 2021, 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 the Foundation as of December 31, 2022 and 2021, 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 the Foundation 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 the Foundation'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 the Foundation'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 the Foundation'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.



Portland, Oregon

July 31, 2023

Consolidated Financial Statements

Headwaters Health Foundation of Western Montana and Subsidiary
Consolidated Statements of Financial Position
December 31, 2022 and 2021

	2022	2021
ASSETS		
Cash and cash equivalents	\$ 593,969	\$ 446,270
Investments	112,038,915	108,766,341
Accounts receivable	80,553	52,731
Property and equipment, net	3,024,780	2,473,685
Total assets	\$ 115,738,217	\$ 111,739,027
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 64,815	\$ 14,455
Accrued expenses	93,822	90,874
Long-term debt	1,794,731	1,187,076
Taxes payable	2,023	69,095
Deferred tax liability	226,539	277,498
Total liabilities	2,181,930	1,638,998
NET ASSETS		
Without donor restrictions	113,556,287	110,100,029
Total net assets	113,556,287	110,100,029
Total liabilities and net assets	\$ 115,738,217	\$ 111,739,027

See accompanying notes.

Headwaters Health Foundation of Western Montana and Subsidiary
Consolidated Statements of Activities
Years Ended December 31, 2022 and 2021

	2022	2021
REVENUE, SUPPORT, GAINS, AND LOSSES		
Contributions	\$ 17,455,855	\$ -
Investment (loss) return, net	(7,853,872)	16,045,022
Total revenue, support, gains and losses	9,601,983	16,045,022
EXPENSES		
Program services	5,216,465	10,791,484
Support services	756,326	732,441
Total expenses	5,972,791	11,523,925
CHANGE IN NET ASSETS BEFORE TAX EXPENSE	3,629,192	4,521,097
TAX EXPENSE	172,934	293,249
CHANGE IN NET ASSETS	3,456,258	4,227,848
NET ASSETS WITHOUT DONOR RESTRICTIONS, beginning of year	110,100,029	105,872,181
NET ASSETS WITHOUT DONOR RESTRICTIONS, end of year	\$ 113,556,287	\$ 110,100,029

See accompanying notes.

Headwaters Health Foundation of Western Montana and Subsidiary
Consolidated Statements of Functional Expenses
Years Ended December 31, 2022 and 2021

	Year Ended December 31, 2022				
	Supporting Services			Total Supporting Services	Total
	Program Services	Investment Management	Administration and General		
Grants awarded	\$ 3,328,075	\$ -	\$ -	\$ -	\$ 3,328,075
Salaries, payroll taxes, and benefits	1,034,197	88,525	290,641	379,166	1,413,363
Professional fees	428,605	42,979	52,720	95,699	524,304
Travel, meals and meetings	179,351	-	72,319	72,319	251,670
Occupancy	107,214	-	75,145	75,145	182,359
Communications	95,391	-	1,042	1,042	96,433
Depreciation	-	-	64,250	64,250	64,250
Computer and software	32,684	-	12,511	12,511	45,195
Insurance	-	-	23,012	23,012	23,012
Miscellaneous	2,454	-	19,726	19,726	22,180
Supplies	8,494	-	8,494	8,494	16,988
Recruitment, staff development	-	-	4,962	4,962	4,962
	<u>\$ 5,216,465</u>	<u>\$ 131,504</u>	<u>\$ 624,822</u>	<u>\$ 756,326</u>	<u>\$ 5,972,791</u>

	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 and meetings	90,050	-	61,016	61,016	151,066
Occupancy	78,351	-	36,784	36,784	115,135
Communications	83,572	-	-	-	83,572
Depreciation	-	-	31,779	31,779	31,779
Computer and software	31,218	-	12,562	12,562	43,780
Insurance	-	-	17,494	17,494	17,494
Miscellaneous	9,246	-	15,824	15,824	25,070
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>

See accompanying notes.

Headwaters Health Foundation of Western Montana and Subsidiary
Consolidated Statements of Cash Flows
Years Ended December 31, 2022 and 2021

	2022	2021
CASH FLOWS USED IN OPERATING ACTIVITIES		
Change in net assets	\$ 3,456,258	\$ 4,227,848
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Realized and unrealized losses (gains) on investments	10,620,051	(13,995,432)
Depreciation expense	64,250	31,779
Change in deferred taxes	(50,959)	138,698
Changes in operating assets and liabilities		
Accounts receivable	(27,822)	5,612
Accounts payable	50,360	1,650
Accrued expenses	2,948	(8,995)
Taxes payable, net	(67,072)	43,809
	<u>14,048,014</u>	<u>(9,555,031)</u>
CASH FLOWS PROVIDED BY INVESTING ACTIVITIES		
Purchases of investments	(25,812,077)	(57,898,639)
Proceeds from sale of investments	11,919,452	63,221,341
Purchase of property and equipment	(615,345)	(1,295,884)
	<u>(14,507,970)</u>	<u>4,026,818</u>
CASH FLOWS PROVIDED BY FINANCING ACTIVITIES		
Proceeds from long-term borrowings	1,800,000	1,187,076
Payment of long-term borrowings	(1,192,345)	-
	<u>607,655</u>	<u>1,187,076</u>
CHANGE IN CASH AND CASH EQUIVALENTS	147,699	(4,341,137)
CASH AND CASH EQUIVALENTS, beginning of year	<u>446,270</u>	<u>4,787,407</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 593,969</u>	<u>\$ 446,270</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for grants	<u>\$ 3,328,075</u>	<u>\$ 9,508,500</u>
Cash paid for taxes	<u>\$ 200,000</u>	<u>\$ -</u>

See accompanying notes.

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. Headwaters Health Foundation of Western Montana 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 – 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, 2022 and 2021.

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.

Headwaters Health Foundation of Western Montana and Subsidiary

Notes to Consolidated Financial Statements

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, 2022 and 2021. No interest and penalties were accrued for the years ended December 31, 2022 and 2021.

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.

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.

Headwaters Health Foundation of Western Montana and Subsidiary Notes to Consolidated Financial Statements

At December 31, 2022, approximately \$112 million or 97% of the Foundation's total assets represent investments, and of these, \$66 million or 59% of the Foundation's investments are in redeemable and nonredeemable alternative investments. 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.

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.

Recently issued accounting pronouncements – In February 2016, the Financial Accounting Standards Board (FASB) issued Leases (Topic 842) ("Accounting Standards Update (ASU) 2016-02"), whereby a lessee will be required to recognize for all leases at the commencement date a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Under the new guidance, lessor accounting is largely unchanged. The Foundation elected a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the period of adoption. The modified retrospective approach would not require any transition accounting for leases that expired before the period of adoption.

On January 1, 2022, the Foundation adopted ASU 2016-02 and subsequent updates, collectively referred to as Topic 842, using the modified retrospective transition method which allowed it to continue to apply legacy guidance for periods prior to 2022. In addition, the Foundation adopted the package of practical expedients in transition, which permits them to not reassess their prior conclusions pertaining to lease identification, lease classification and initial direct costs on leases that commenced prior to the adoption of the new standard. The Foundation also elected the ongoing practical expedient to not recognize operating lease right-of-use assets and operating lease liabilities related to short-term leases. Upon management's assessment, the impact of applying Topic 842 was deemed to be immaterial and no right-of-use asset or lease liabilities were recorded at January 1, 2022, or during the year ended December 31, 2022.

In September 2020, the FASB issued ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The standard requires nonprofits to expand their financial statement presentation and disclosure of contributed nonfinancial assets, including in-kind contributions. The standard includes disclosure of information on an entity's policies on contributed nonfinancial assets about monetization and utilization during the reporting period, information on donor-imposed restrictions, and valuation techniques. The new standard, as amended, is to be applied retrospectively, to annual reporting periods beginning after June 15, 2021, and interim periods within annual reporting periods beginning after June 15, 2022. The standard did not have a material impact on the consolidated financial statements.

Headwaters Health Foundation of Western Montana and Subsidiary Notes to Consolidated Financial Statements

Subsequent events – Subsequent events are events or transactions that occur after the consolidated statements 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 statements of financial position but arose after the consolidated statements of financial position date and before the consolidated financial statements were available to be issued. The Foundation has evaluated subsequent events through July 31, 2023, which is the date the consolidated financial statements were 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:

	2022	2021
Cash and cash equivalents	\$ 593,969	\$ 446,270
Accounts receivable	80,553	52,731
Level I investments	45,717,544	42,322,385
Redeemable alternative investments held at net asset value	45,564,458	45,796,892
	\$ 91,956,524	\$ 88,618,278

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:

	2022	2021
Equity securities		
Marketable equity securities	\$ 33,609,579	\$ 33,301,173
Marketable bond funds	1,602,200	2,849,838
Marketable fixed income funds	10,505,765	6,171,374
Alternative investments	66,321,371	66,443,956
	\$ 112,038,915	\$ 108,766,341

Headwaters Health Foundation of Western Montana and Subsidiary Notes to Consolidated Financial Statements

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 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, 2022 and 2021. 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, 2022 and 2021.

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

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, 2022			
	Level I	Level II	Level III	Total
Investments				
Marketable equity securities	\$ 33,609,579	\$ -	\$ -	\$ 33,609,579
Marketable bond funds	1,602,200	-	-	1,602,200
Marketable fixed income funds	10,505,765	-	-	10,505,765
	45,717,544	-	-	45,717,544
Investments measured at NAV (practical expedient)	-	-	-	66,321,371
Total investments	\$ 45,717,544	\$ -	\$ -	\$ 112,038,915

	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	\$ 42,322,385	\$ -	\$ -	\$ 108,766,341

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, 2022:

Investment Type	Fair Value at 12/31/22	Unfunded Commitments	Redemption Frequency	Redemption Notice Period	Other Restrictions
Real Estate (a)	\$ 3,629,158	\$ 447,958	Monthly and N/A *	15 days and N/A*	Minimum capital balance prior to withdrawal
Infrastructure (b)	4,804,911	-	Monthly	30 days	Minimum subscription of \$100,000
Public Equity (c)	23,303,515	-	Daily and Monthly	5, 10, and 20 days	N/A
Natural Resources (d)	-	-	Monthly and N/A *	10 days and N/A*	N/A
Hedge Fund (e)	17,050,685	-	Quarterly, Semi-Annually	65 days, 95 days	Invested for 36 months prior to withdrawal
Credit sensitive (f)	5,160,693	2,474,082	N/A *	N/A *	N/A *
Private Equity (g)	7,097,038	5,514,959	N/A *	N/A *	N/A *
Hedged Equity (h)	5,275,371	-	Quarterly	45 days	1 year lock-up
	\$ 66,321,371	\$ 8,436,999			

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

Headwaters Health Foundation of Western Montana and Subsidiary Notes to Consolidated Financial Statements

- 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.
- 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,	2023	\$ 2,362,880
	2024	1,860,274
	2025	1,291,138
	2026	898,520
	2027	627,128
	Thereafter	1,397,059
		\$ 8,436,999

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:

	<u>2022</u>	<u>2021</u>
Land	\$ 387,243	\$ 387,243
Building	2,632,969	688,431
Furniture and equipment	148,484	151,674
Construction in progress	<u>-</u>	<u>1,326,003</u>
	3,168,696	2,553,351
Less: accumulated depreciation	<u>(143,916)</u>	<u>(79,666)</u>
	<u>\$ 3,024,780</u>	<u>\$ 2,473,685</u>

Depreciation expense was \$64,250 and \$31,779 for the years ended December 31, 2022 and 2021, respectively. Construction in progress at December 31, 2021 consists of costs to remodel and equip the Foundation's office building.HHF

Note 7 – Related Party Transactions

The Foundation received \$3,500,000 of its contributions in 2022 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.

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 \$57,100 and \$53,362 to the plan during the years ended December 31, 2022 and 2021, respectively.

Headwaters Health Foundation of Western Montana and Subsidiary

Notes to Consolidated Financial Statements

Note 9 – Excise Tax

The Foundation has deferred tax liabilities in the amount of \$226,539 and \$277,498 that consist of the tax effect of estimated unrealized gains through December 31, 2022 and 2021, 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:

	2022	2021
Current tax expense	\$ 223,893	\$ 154,551
Deferred tax (benefit) expense	(50,959)	138,698
Tax expense	\$ 172,934	\$ 293,249

Note 10 – Long-term Debt

During 2022, the Foundation converted its construction loan into a term loan with an interest rate of 3.5% through June of 2032 and 6.75% from July 2032 through May 2037. Payments for the term loan began in December of 2022 and the loan has a maturity date of May 2037.

Future maturities of long-term debt are as follows as of December 31:

2023	\$ 63,519
2024	65,778
2025	68,117
2026	70,540
2027	73,049
Thereafter	1,453,728
Total	\$ 1,794,731

Note 11 – Subsequent Events

In March of 2023, the Foundation entered into a line of credit agreement with a credit limit of \$100,000, a varying interest rate between 3.5% and 8.00% and a maturity date in March of 2024.