



Report of Independent Auditors  
and Consolidated Financial Statements

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

December 31, 2023 and 2022

## **Table of Contents**

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	<b>Page</b>
<b>Report of Independent Auditors</b>	1
<b>Consolidated Financial Statements</b>	
Consolidated Statements of Financial Position	4
Consolidated Statements of Activities	5
Consolidated Statements of Functional Expenses	6
Consolidated Statements of Cash Flows	7
Notes to Consolidated Financial Statements	8

## **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, 2023 and 2022, 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, 2023 and 2022, 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 25, 2024

## **Consolidated Financial Statements**

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**Headwaters Health Foundation of Western Montana and Subsidiary**  
**Consolidated Statements of Financial Position**  
**December 31, 2023 and 2022**

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	2023	2022
<b>ASSETS</b>		
Cash and cash equivalents	\$ 310,325	\$ 593,969
Investments	120,309,737	112,038,915
Accrued interest receivable	58,844	80,553
Taxes receivable	56,586	-
Prepaid expenses	38,889	-
Property and equipment, net	2,944,756	3,024,780
Total assets	\$ 123,719,137	\$ 115,738,217
<b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable	\$ 31,634	\$ 64,815
Accrued expenses	107,079	93,822
Long-term debt	1,731,164	1,794,731
Taxes payable	-	2,023
Deferred tax liability	321,044	226,539
Total liabilities	2,190,921	2,181,930
<b>NET ASSETS</b>		
Without donor restrictions	121,528,216	113,556,287
Total net assets	121,528,216	113,556,287
Total liabilities and net assets	\$ 123,719,137	\$ 115,738,217

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See accompanying notes.

**Headwaters Health Foundation of Western Montana and Subsidiary**  
**Consolidated Statements of Activities**  
**Years Ended December 31, 2023 and 2022**

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	2023	2022
REVENUE, SUPPORT, GAINS, AND LOSSES		
Contributions	\$ 924,000	\$ 17,455,855
Investment return (loss), net	14,411,766	(7,853,872)
Total revenue, support, gains, and losses	15,335,766	9,601,983
EXPENSES		
Program services	6,153,130	5,216,465
Support services	1,023,261	756,326
Total expenses	7,176,391	5,972,791
CHANGE IN NET ASSETS BEFORE TAX EXPENSE	8,159,375	3,629,192
TAX EXPENSE	187,446	172,934
CHANGE IN NET ASSETS	7,971,929	3,456,258
NET ASSETS WITHOUT DONOR RESTRICTIONS, beginning of year	113,556,287	110,100,029
NET ASSETS WITHOUT DONOR RESTRICTIONS, end of year	\$ 121,528,216	\$ 113,556,287

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See accompanying notes.

**Headwaters Health Foundation of Western Montana and Subsidiary**  
**Consolidated Statements of Functional Expenses**  
**Years Ended December 31, 2023 and 2022**

	Year Ended December 31, 2023				
	Supporting Services				Total
	Program Services	Investment Management	Administration and General	Total Supporting Services	
Grants awarded	\$ 4,105,000	\$ -	\$ -	\$ -	\$ 4,105,000
Salaries, payroll taxes, and benefits	1,162,100	100,518	326,111	426,629	1,588,729
Travel, meals, and meetings	368,000	-	215,616	215,616	583,616
Professional fees	218,902	54,142	74,523	128,665	347,567
Occupancy	183,039	-	58,746	58,746	241,785
Depreciation	-	-	88,724	88,724	88,724
Communications	83,031	-	-	-	83,031
Miscellaneous	2,722	-	65,506	65,506	68,228
Computer and software	25,835	-	10,090	10,090	35,925
Insurance	-	-	21,661	21,661	21,661
Supplies	4,501	-	4,501	4,501	9,002
Recruitment, staff development	-	-	3,123	3,123	3,123
	<u>\$ 6,153,130</u>	<u>\$ 154,660</u>	<u>\$ 868,601</u>	<u>\$ 1,023,261</u>	<u>\$ 7,176,391</u>

	Year Ended December 31, 2022				
	Supporting Services				Total
	Program Services	Investment Management	Administration and General	Total Supporting Services	
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
Travel, meals, and meetings	179,351	-	72,319	72,319	251,670
Professional fees	428,605	42,979	52,720	95,699	524,304
Occupancy	107,214	-	75,145	75,145	182,359
Depreciation	-	-	64,250	64,250	64,250
Communications	95,391	-	1,042	1,042	96,433
Miscellaneous	2,454	-	19,726	19,726	22,180
Computer and software	32,684	-	12,511	12,511	45,195
Insurance	-	-	23,012	23,012	23,012
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>

See accompanying notes.



**Headwaters Health Foundation of Western Montana and Subsidiary**  
**Consolidated Statements of Cash Flows**  
**Years Ended December 31, 2023 and 2022**

	2023	2022
<b>CASH FLOWS USED IN OPERATING ACTIVITIES</b>		
Change in net assets	\$ 7,971,929	\$ 3,456,258
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Realized and unrealized (gains) losses on investments	(12,691,750)	10,620,051
Depreciation expense	88,724	64,250
Change in deferred taxes	94,505	(50,959)
Changes in operating assets and liabilities		
Accrued interest receivable	21,709	(27,822)
Prepaid expenses	(38,889)	-
Accounts payable	(33,181)	50,360
Accrued expenses	13,257	2,948
Taxes receivable/payable, net	(58,609)	(67,072)
	<u>(4,632,305)</u>	<u>14,048,014</u>
<b>CASH FLOWS PROVIDED BY INVESTING ACTIVITIES</b>		
Purchases of investments	(14,718,551)	(25,812,077)
Proceeds from sale of investments	19,139,479	11,919,452
Purchase of property and equipment	(8,700)	(615,345)
	<u>4,412,228</u>	<u>(14,507,970)</u>
<b>CASH FLOWS PROVIDED BY FINANCING ACTIVITIES</b>		
Proceeds from long-term borrowings	-	1,800,000
Payment of long-term borrowings	(63,567)	(1,192,345)
	<u>(63,567)</u>	<u>607,655</u>
<b>CHANGE IN CASH AND CASH EQUIVALENTS</b>	(283,644)	147,699
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	<u>593,969</u>	<u>446,270</u>
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<u>\$ 310,325</u>	<u>\$ 593,969</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash paid for grants	<u>\$ 4,105,000</u>	<u>\$ 3,328,075</u>
Cash paid for taxes	<u>\$ 150,000</u>	<u>\$ 200,000</u>

See accompanying notes.

# 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. 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, 2023 and 2022.

**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. As a single-member LLC, the Subsidiary is disregarded as a separate entity for federal tax purposes.

## Headwaters Health Foundation of Western Montana and Subsidiary

### Notes to Consolidated Financial Statements

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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, 2023 and 2022. No interest and penalties were accrued for the years ended December 31, 2023 and 2022.

**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

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At December 31, 2023, approximately \$120 million or 97% of the Foundation's total assets represent investments, and of these, \$72 million or 60% of the Foundation's investments are in redeemable and nonredeemable alternative investments. 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.

**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** – The Foundation adopted Accounting Standards Update (ASU) 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss (CECL) methodology. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including trade receivables and program-related investments. The Foundation adopted the standard on January 1, 2023, utilizing the modified retrospective transition approach. This standard did not have a material impact on the 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 25, 2024, which is the date the consolidated financial statements were 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:

	2023	2022
Cash and cash equivalents	\$ 310,325	\$ 593,969
Accrued interest receivable	58,844	80,553
Level I investments	48,154,859	45,717,544
Redeemable alternative investments held at net asset value	50,436,765	45,564,458
	\$ 98,960,793	\$ 91,956,524

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:

	2023	2022
Equity securities		
Marketable equity securities	\$ 40,521,612	\$ 33,609,579
Marketable bond funds	685,650	1,602,200
Marketable fixed income funds	6,947,597	10,505,765
Alternative investments	72,154,878	66,321,371
	\$ 120,309,737	\$ 112,038,915

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.

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

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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, 2023 and 2022. 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, 2023 and 2022.

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

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

	December 31, 2023			Total
	Level I	Level II	Level III	
Investments				
Marketable equity securities	\$ 40,521,612	\$ -	\$ -	\$ 40,521,612
Marketable bond funds	685,650	-	-	685,650
Marketable fixed income funds	6,947,597	-	-	6,947,597
	48,154,859	-	-	48,154,859
Investments measured at NAV (practical expedient)	-	-	-	72,154,878
Total investments	\$ 48,154,859	\$ -	\$ -	\$ 120,309,737

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

	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

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, 2023:

Investment Type	Fair Value at December 31, 2023	Unfunded Commitments	Redemption Frequency	Redemption Notice Period	Other Restrictions
Real Estate (a)	\$ 4,003,824	\$ 418,333	Monthly and N/A *	15 days and N/A*	Minimum capital balance prior to withdrawal Minimum initial investment of \$500,000, minimum subscription of \$100,000
Infrastructure (b)	5,634,614	-	Monthly	30 days	
Public Equity (c)	24,605,084	-	Daily and Monthly	5 days	N/A
Natural Resources (d)	-	-	Monthly and N/A *	10 days and N/A*	N/A
Hedge Fund (e)	18,304,276	-	Quarterly, Semi-Annually	65 days, 95 days	Invested for 12 months prior to withdrawal, fees apply for early withdrawal
Credit sensitive (f)	6,310,241	3,378,055	N/A *	N/A *	N/A *
Private Equity (g)	7,529,421	4,379,094	N/A *	N/A *	N/A *
Hedged Equity (h)	5,767,418	-	Quarterly	45 days	1 year lock-up
	\$ 72,154,878	\$ 8,175,482			

\* 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.

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

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- 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,		\$ 2,289,135
	2024	1,798,606
	2025	1,226,322
	2026	817,548
	2027	572,284
	2028	1,471,587
	Thereafter	<u>1,471,587</u>
		<u>\$ 8,175,482</u>

### Note 6 – Property and Equipment

Property and equipment consist of the following at December 31:

	2023	2022
Land	\$ 387,243	\$ 387,243
Building	2,632,969	2,632,969
Furniture and equipment	<u>157,184</u>	<u>148,484</u>
	3,177,396	3,168,696
Less: accumulated depreciation	<u>(232,640)</u>	<u>(143,916)</u>
	<u>\$ 2,944,756</u>	<u>\$ 3,024,780</u>

Depreciation expense was \$88,724 and \$64,250 for the years ended December 31, 2023 and 2022, respectively.



# Headwaters Health Foundation of Western Montana and Subsidiary

## Notes to Consolidated Financial Statements

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### Note 7 – Related Party Transactions

The Foundation received \$924,000 in contributions during 2023 from Community Medical Center, Inc., an interim organization created to hold the proceeds from the sale of the Missoula Community Hospital. There is approximately \$5.7 million remaining to distribute to the Foundation, which is expected to occur in 2025. Amount to be distributed is dependent on any outstanding claims, expenses or legal fees. As the amount is an estimate based on a variety of external factors, the Foundation has elected not to record a receivable and recognizes income in the year that it is received.

### 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 \$69,301 and \$57,100 to the plan during the years ended December 31, 2023 and 2022, respectively.

### Note 9 – Excise Tax

The Foundation has deferred tax liabilities in the amount of \$321,044 and \$226,539 that consist of the tax effect of estimated unrealized gains through December 31, 2023 and 2022, 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:

	<u>2023</u>	<u>2022</u>
Current tax expense	\$ 92,941	\$ 223,893
Deferred tax expense (benefit)	<u>94,505</u>	<u>(50,959)</u>
Tax expense	<u>\$ 187,446</u>	<u>\$ 172,934</u>

### 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. The loan is collateralized by the deed to the building constructed with this construction loan.

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

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

2024	\$	65,778
2025		68,117
2026		70,540
2027		73,049
2028		75,647
Thereafter		<u>1,378,033</u>
Total	\$	<u><u>1,731,164</u></u>

### **Note 11 – Line of Credit**

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 8.0% and a maturity date in March of 2024. As of December 31, 2023, there was no balance outstanding on the line of credit. Subsequent to year end, the Foundation extended the line of credit, with a maturity date in March of 2029, credit limit of \$100,000 and a varying interest rate between 3.5% and 8.5%.

