

**MONTANA HEALTHCARE FOUNDATION
AND SUBSIDIARY**

Consolidated Financial Statements

For the Year Ended December 31, 2022

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Independent Auditor's Report

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

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the consolidated financial statements of Montana Healthcare Foundation and Subsidiary (collectively, the Foundation) which comprise the consolidated statement of financial position as of December 31, 2022 and the related consolidated statements of activities and changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the 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 the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit 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 audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Report on Summarized Comparative Information

We have previously audited the Foundation's 2021 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated May 11, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2021 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.



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In preparing the 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 for one year after the date that the 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 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 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 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 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 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.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The consolidating information presented on pages 19 and 20 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Clark Nuber P.S.

Certified Public Accountants
May 11, 2023

MONTANA HEALTHCARE FOUNDATION AND SUBSIDIARY

**Consolidated Statement of Financial Position
December 31, 2022
(With Comparative Totals for 2021)**

	<u>2022</u>	<u>2021</u>
Assets:		
Cash and cash equivalents	\$ 376,361	\$ 310,840
Investments	230,946,448	254,501,988
Program related investment	500,000	
Property and equipment, net	7,390,385	10,164
Prepays and other assets	101,780	113,913
	<u> </u>	<u> </u>
Total Assets	<u>\$ 239,314,974</u>	<u>\$ 254,936,905</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued liabilities	\$ 96,418	\$ 132,231
Grants payable	3,940,282	2,754,931
	<u> </u>	<u> </u>
Total Liabilities	4,036,700	2,887,162
Net Assets:		
Without donor restriction		
Undesignated	188,213,950	197,188,587
Board designated quasi-endowment	47,064,324	54,831,156
	<u> </u>	<u> </u>
Total without donor restriction	235,278,274	252,019,743
With donor restriction		30,000
	<u> </u>	<u> </u>
Total Net Assets	<u>235,278,274</u>	<u>252,049,743</u>
Total Liabilities and Net Assets	<u>\$ 239,314,974</u>	<u>\$ 254,936,905</u>

See accompanying notes.

MONTANA HEALTHCARE FOUNDATION AND SUBSIDIARY

**Consolidated Statement of Activities and Changes in Net Assets
For the Year Ended December 31, 2022
(With Comparative Totals for 2021)**

	Without Donor Restriction	With Donor Restriction	2022 Total	2021 Total
Revenues, Gains and Other Support:				
Grants and contributions	\$ 21,078,669	\$ -	\$ 21,078,669	\$ 15,300,300
Interest and dividends	2,288,662		2,288,662	1,825,359
Realized and unrealized gains (losses) on investments, net of fees	(28,449,089)		(28,449,089)	35,510,171
Other income	140,810		140,810	275
Releases	30,000	(30,000)		
Total Revenues, Gains and Other Support	(4,910,948)	(30,000)	(4,940,948)	52,636,105
Expenses:				
Program services-				
Grants and initiatives	8,273,967		8,273,967	7,283,790
Other program related expenses	2,723,336		2,723,336	2,293,906
Total program expenses	10,997,303		10,997,303	9,577,696
Management and general-				
Administrative	763,218		763,218	568,093
Excise taxes	70,000		70,000	135,000
Total management and general	833,218		833,218	703,093
Total Expenses	11,830,521		11,830,521	10,280,789
Total Change in Net Assets	(16,741,469)	(30,000)	(16,771,469)	42,355,316
Net assets, beginning of year	252,019,743	30,000	252,049,743	209,694,427
Net Assets, End of Year	\$ 235,278,274	\$ -	\$ 235,278,274	\$ 252,049,743

See accompanying notes.

MONTANA HEALTHCARE FOUNDATION AND SUBSIDIARY

**Consolidated Statement of Functional Expenses
For the Year Ended December 31, 2022
(With Comparative Totals for 2021)**

	<u>Grants and Initiatives</u>	<u>Other Program</u>	<u>Program Total</u>	<u>Management and General</u>	<u>2022 Total</u>	<u>2021 Total</u>
Initiative grants, technical assistance and support	\$ 8,273,967	\$ -	\$ 8,273,967	\$ -	\$ 8,273,967	\$ 7,283,790
Salaries and related costs		1,984,687	1,984,687	390,767	2,375,454	1,971,767
Other operating costs		286,917	286,917	76,314	363,231	361,559
Professional development, convenings and consultations		137,194	137,194		137,194	63,147
Trustee compensation		120,000	120,000	120,000	240,000	240,000
Excise taxes				70,000	70,000	135,000
Occupancy		132,583	132,583	14,731	147,314	142,324
Professional fees		51,791	51,791	51,791	103,582	73,038
Depreciation		10,164	10,164	109,615	119,779	10,164
Total Expenses	<u>\$ 8,273,967</u>	<u>\$ 2,723,336</u>	<u>\$ 10,997,303</u>	<u>\$ 833,218</u>	<u>\$ 11,830,521</u>	<u>\$ 10,280,789</u>

See accompanying notes.

MONTANA HEALTHCARE FOUNDATION AND SUBSIDIARY

**Consolidated Statement of Cash Flows
For the Year Ended December 31, 2022
(With Comparative Totals for 2021)**

	<u>2022</u>	<u>2021</u>
Cash Flows From Operating Activities:		
Change in net assets	\$ (16,771,469)	\$ 42,355,316
Adjustments to reconcile change in net assets to net cash provided by operating activities-		
Depreciation	119,779	10,164
Realized and unrealized losses (gains) on investments	28,134,395	(35,804,985)
Changes in assets and liabilities:		
Prepaid expenses and other assets	12,133	(46,767)
Accounts payable and accrued liabilities	(35,813)	37,779
Grants payable	1,185,351	698,336
	<u>12,644,376</u>	<u>7,249,843</u>
Net Cash Provided by Operating Activities	12,644,376	7,249,843
Cash Flows From Investing Activities:		
Purchase of investments	(35,466,943)	(16,824,372)
Proceeds from sale of investments	30,388,088	9,580,354
Purchase of property and equipment	(7,500,000)	
	<u>(12,578,855)</u>	<u>(7,244,018)</u>
Net Cash Used by Investing Activities	(12,578,855)	(7,244,018)
Net Change in Cash and Cash Equivalents	65,521	5,825
Cash and cash equivalents, beginning of year	310,840	305,015
	<u>310,840</u>	<u>305,015</u>
Cash and Cash Equivalents, End of Year	\$ 376,361	\$ 310,840
Supplementary Disclosure of Cash Flow Information:		
Cash paid during the year for excise taxes	\$ 70,000	\$ 135,000

See accompanying notes.

MONTANA HEALTHCARE FOUNDATION AND SUBSIDIARY

Notes to Consolidated Financial Statements For the Year Ended December 31, 2022

Note 1 - Nature of Activities and Significant Accounting Policies

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

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

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

In July 2022, MHCF formed Main St. Holdings, LLC (the LLC), a single member LLC, for the purpose of holding and operating real estate assets. During 2022, the LLC purchased a 50% interest in 777 East Main Street in Bozeman, Montana.

Principles of Consolidation - The accompanying financial statements include the accounts of Montana Healthcare Foundation and its wholly owned subsidiary, Main St. Holdings, LLC. Intra-entity transactions and balances have been eliminated in consolidation. The consolidated entity is referred to as the Foundation in the notes to the consolidated financial statements.

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

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

Net Assets Without Donor Restriction - Net assets that are not subject to or are no longer subject to donor-imposed restrictions. Changes in this category of net assets include restricted contributions whose donor-imposed restrictions were met during the year. The Foundation has designated approximately \$47.1 million and \$54.8 million of its net assets without donor restriction as a quasi-endowment, as of December 31, 2022 and 2021, respectively.

Net Assets With Donor Restriction - Net assets whose use is limited by donor-imposed time and or purpose restrictions.

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

MONTANA HEALTHCARE FOUNDATION AND SUBSIDIARY

Notes to Consolidated Financial Statements For the Year Ended December 31, 2022

Note 1 - Continued

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

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

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

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

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

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

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

Program-Related Investment - In 2022, the Foundation developed a program-related investment (PRI) strategy that allows the Foundation to use, as part of its charitable distributions, below-market loans, certificates of deposits, linked deposits, loan guarantees, and other related financing mechanisms for a primary purpose that aligns with the Foundation's exempt purpose.

MONTANA HEALTHCARE FOUNDATION AND SUBSIDIARY

**Notes to Consolidated Financial Statements
For the Year Ended December 31, 2022**

Note 1 - Continued

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

Software	3 years
Equipment	3 - 5 years
Leasehold improvements	Lesser of 7 years or lease term
Furniture/fixtures	10 years
Building	39 years

Concentrations - Financial instruments that potentially subject the Foundation to concentrations of credit and market risk consist primarily of cash and investments. Cash and investments held by financial institutions exceed federally insured limits. Management anticipates no material effect to the Foundation’s financial position as a result of these concentrations. For each of the years ended December 31, 2022 and 2021, 99% and 98% of the Foundation’s contribution and grant funding came from two donors and one organization, respectively.

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

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

Comparative Totals - The financial information includes certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the Foundation’s financial statements for the year ended December 31, 2021, from which the summarized information was derived.

Subsequent Events - The Foundation’s management has evaluated subsequent events through May 11, 2023, the date on which the financial statements were available to be issued.

MONTANA HEALTHCARE FOUNDATION AND SUBSIDIARY

Notes to Consolidated Financial Statements For the Year Ended December 31, 2022

Note 2 - Excise Taxes and Required Charitable Grants

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

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

The LLC is disregarded for tax purposes.

Note 3 - Investments

Investments consist of the following at December 31:

	<u>2022</u>	<u>2021</u>
Investments valued at fair value based on market quotes-		
Money markets	\$ 13,105,143	\$ 1,470,681
Bond mutual funds	18,492,340	23,205,488
Equity mutual funds	<u>78,542,752</u>	<u>109,894,622</u>
	110,140,235	134,570,791
Nonmarketable securities	<u>120,806,213</u>	<u>119,931,197</u>
Total Investments	<u>\$ 230,946,448</u>	<u>\$ 254,501,988</u>

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

	<u>2022</u>	<u>2021</u>
Interest and dividends	\$ 2,288,662	\$ 1,825,359
Realized and unrealized gains (losses) on investments	(28,134,395)	35,804,985
Investment management fees	<u>(314,694)</u>	<u>(294,814)</u>
Total Investment Return	<u>\$ (26,160,427)</u>	<u>\$ 37,335,530</u>

MONTANA HEALTHCARE FOUNDATION AND SUBSIDIARY

Notes to Consolidated Financial Statements For the Year Ended December 31, 2022

Note 4 - Fair Value Measurements

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

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

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

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

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

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2022 and 2021.

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

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

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

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

In accordance with U.S. GAAP, certain investments that were measured at fair value using the NAV per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in the tables below are intended to permit reconciliation of the fair value hierarchy to the line items presented in the statement of financial position.

MONTANA HEALTHCARE FOUNDATION AND SUBSIDIARY

**Notes to Consolidated Financial Statements
For the Year Ended December 31, 2022**

Note 4 - Continued

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

	Fair Value Measurements as of December 31, 2022			
	Level 1	Level 2	Level 3	Total
Money markets	\$ 13,105,143	\$ -	\$ -	\$ 13,105,143
Bond mutual funds	18,492,340			18,492,340
Equity mutual funds-				
U.S. small cap	10,150,810			10,150,810
U.S. large cap	50,697,056			50,697,056
International	17,694,886			17,694,886
Total Investments in the Fair Value Hierarchy	\$ 110,140,235	\$ -	\$ -	110,140,235
Investments measured at NAV				120,806,213
Total Investments at Fair Value				\$ 230,946,448
	Fair Value Measurements as of December 31, 2021			
	Level 1	Level 2	Level 3	Total
Money markets	\$ 1,470,681	\$ -	\$ -	\$ 1,470,681
Bond mutual funds	23,205,488			23,205,488
Equity mutual funds-				
U.S. small cap	12,781,708			12,781,708
U.S. large cap	74,180,288			74,180,288
International	22,932,626			22,932,626
Total Investments in the Fair Value Hierarchy	\$ 134,570,791	\$ -	\$ -	134,570,791
Investments measured at NAV				119,931,197
Total Investments at Fair Value				\$ 254,501,988

MONTANA HEALTHCARE FOUNDATION AND SUBSIDIARY

**Notes to Consolidated Financial Statements
For the Year Ended December 31, 2022**

Note 4 - Continued

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

Asset Class	Net Asset Value December 31, 2022	Unfunded Commitments	Redemption Frequency	Redemption Notice Period	Other Restrictions
Hedge funds	\$ 29,513,063	\$ -	Monthly - 3 years	30 - 60 days	None
Offshore corporation	12,064,596		Monthly	30 days	None
Partnership and trust	24,853,227		Monthly	7 - 30 days	None
Private markets	54,375,327	35,130,358	None	None	None
	\$ 120,806,213	\$ 35,130,358			

Note 5 - Program Related Investments

The Foundation has a note receivable with a nonprofit for borrowings up to \$800,000. At December 31, 2022, the outstanding loan receivable balance was \$500,000. The uncollateralized loan bears interest at 1% and requires annual principal payments of \$160,000 beginning in 2025.

Note 6 - Property and Equipment

Property and equipment consist of the following at December 31:

	2022	2021
Land	\$ 3,225,000	\$ -
Building	4,275,000	
Software	50,820	50,820
Leasehold improvements	64,715	64,715
	7,615,535	115,535
Less accumulated depreciation	(225,150)	(105,371)
Property and Equipment, Net	\$ 7,390,385	\$ 10,164

Depreciation expense totaled \$119,779 and \$10,164 for the years ended December 31, 2022 and 2021, respectively.

MONTANA HEALTHCARE FOUNDATION AND SUBSIDIARY

**Notes to Consolidated Financial Statements
For the Year Ended December 31, 2022**

Note 7 - Grants Payable

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

For the Year Ending December 31,

2023	\$ 2,431,953
2024	<u>1,508,329</u>
	<u><u>\$ 3,940,282</u></u>

There were conditional grant commitments of \$1,000,000 and \$800,000 as of December 31, 2022 and 2021, respectively. Of the conditional grant commitments outstanding at year end \$400,000 and \$800,000, respectively, were due to a related party (Note 11). There is no discount to present value as of December 31, 2022 and 2021.

Note 8 - Net Assets With Donor Restriction

At December 31, 2022, there were no net assets with donor restrictions. At December 31, 2021, net assets with donor restrictions of \$30,000 consisted of one contribution restricted for use related to food security.

Note 9 - Commitments

Operating Lease - The Foundation entered into a lease for office space that began on December 1, 2018 and terminates on November 30, 2023, with an option to renew for an additional five years with 90 days written notice. Monthly payments began at \$7,869 per month and increase to \$8,719 over the term of the lease.

Rental expense for the years ended December 31, 2022 and 2021, totaled \$147,315 and \$142,324, respectively, and included CAM charges incurred during the year. Total future payments on the lease agreement are \$95,909 due during the year ending December 31, 2023.

Employment Agreement - The Foundation has entered into four employment agreements with key members of management with contracts that expire between December 31, 2022 and 2026. All agreements would require payments to the employee for the remaining term of the contract if the Foundation were to terminate the agreement without good cause.

Note 10 - Retirement Plan

The Foundation has established a 401(k) Plan. All employees are eligible to enroll a month after beginning their employment. The Foundation matches up to 100% of employees' contributions up to 6% of participants' eligible compensation as of December 31, 2022. Matching expense totaled \$86,511 and \$115,503 for the years ended December 31, 2022 and 2021, respectively.

MONTANA HEALTHCARE FOUNDATION AND SUBSIDIARY

Notes to Consolidated Financial Statements For the Year Ended December 31, 2022

Note 11 - Related Party Transactions

The Foundation paid stipends totaling \$240,000 to Board Trustees during both years ended December 31, 2022 and 2021.

During 2020, the Foundation issued its largest grant of \$1,850,000 to a newly formed nonprofit, the Montana Public Health Institute (the Institute). This grant is conditional and payable over five years. The CEO and a trustee of the Foundation serve on the board of the Institute. The Foundation made payments to the Institute of \$400,000 and \$200,000 during the years ended December 31, 2022 and 2021, respectively. The Foundation had outstanding grants payable to the Institute of \$400,000 and \$800,000 at December 31, 2022 and 2021, respectively.

Note 12 - Quasi-Endowment

In 2016, the Foundation established a quasi-endowment to segregate the management of the initial \$40,200,000 of assets transferred to the Foundation upon its initial formation in 2013, as described in Note 1. The Foundation had \$47.1 million and \$54.8 million of its net assets without donor restriction as a quasi-endowment, as of December 31, 2022 and 2021, respectively.

Changes to quasi-endowment net assets are as follows:

	Without Donor Restriction	With Donor Restriction	Total
Endowment Net Assets, December 31, 2021	\$ 54,831,156	\$ -	\$ 54,831,156
Endowment investment income (loss)-			
Investment fees	(72,447)		(72,447)
Interest and dividends	1,937,412		1,937,412
Realized and unrealized losses	(7,019,092)		(7,019,092)
Total endowment investment income (loss)	(5,154,127)		(5,154,127)
Appropriation of endowment for expenditure	(2,612,705)		(2,612,705)
Endowment Net Assets, December 31, 2022	<u>\$ 47,064,324</u>	<u>\$ -</u>	<u>\$ 47,064,324</u>

MONTANA HEALTHCARE FOUNDATION AND SUBSIDIARY

Notes to Consolidated Financial Statements For the Year Ended December 31, 2022

Note 12 - Continued

	Without Donor Restriction	With Donor Restriction	Total
Endowment net assets, December 31, 2020	\$ 48,886,551	\$ -	\$ 48,886,551
Endowment investment income-			
Investment fees	(72,447)		(72,447)
Interest and dividends	1,937,412		1,937,412
Realized and unrealized gains	6,739,068		6,739,068
Total endowment investment income	8,604,033		8,604,033
Appropriation of endowment for expenditure	(2,659,428)		(2,659,428)
Endowment Net Assets, December 31, 2021	\$ 54,831,156	\$ -	\$ 54,831,156

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

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

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

Note 13 - Liquidity and Availability of Financial Assets

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

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

MONTANA HEALTHCARE FOUNDATION AND SUBSIDIARY

**Notes to Consolidated Financial Statements
For the Year Ended December 31, 2022**

Note 13 - Continued

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

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 376,361	\$ 310,840
Program related investment	500,000	
Investments	<u>230,946,448</u>	<u>254,501,988</u>
Total financial assets	231,822,809	254,812,828
Less-		
Nonredeemable investment funds	(54,375,327)	(44,933,269)
Quasi-endowment funds	(47,064,324)	(54,831,156)
Program related investment	(500,000)	
Add back estimated amount to be appropriated for the following year	2,612,705	2,659,428
Other donor restricted funds		<u>(30,000)</u>
Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year	<u><u>\$ 132,495,863</u></u>	<u><u>\$ 157,677,831</u></u>

SUPPLEMENTARY INFORMATION

MONTANA HEALTHCARE FOUNDATION AND SUBSIDIARY

**Consolidating Statement of Financial Position
December 31, 2022**

	Montana Healthcare Foundation	Main St. Holdings, LLC	Eliminations	Total
Assets:				
Cash and cash equivalents	\$ 332,888	\$ 43,473	\$ -	\$ 376,361
Investments	230,946,448			230,946,448
Program related investments	500,000			500,000
Investment in LLC	7,500,000		(7,500,000)	
Property and equipment, net		7,390,385		7,390,385
Prepays and other assets	101,780			101,780
Total Assets	<u>\$ 239,381,116</u>	<u>\$ 7,433,858</u>	<u>\$ (7,500,000)</u>	<u>\$ 239,314,974</u>
Liabilities and Net Assets				
Liabilities:				
Accounts payable and accrued liabilities	\$ 96,368	\$ 50	\$ -	\$ 96,418
Grants payable	3,940,282			3,940,282
Total Liabilities	4,036,650	50		4,036,700
Net Assets:				
Without donor restriction-				
Undesignated	188,280,142	7,433,808	(7,500,000)	188,213,950
Board designated quasi-endowment	47,064,324			47,064,324
Total Net Assets Without Donor Restrictions	<u>235,344,466</u>	<u>7,433,808</u>	<u>(7,500,000)</u>	<u>235,278,274</u>
Total Liabilities and Net Assets	<u>\$ 239,381,116</u>	<u>\$ 7,433,858</u>	<u>\$ (7,500,000)</u>	<u>\$ 239,314,974</u>

See independent auditor's report.

MONTANA HEALTHCARE FOUNDATION AND SUBSIDIARY

**Consolidating Statement of Activities and Changes in Net Assets
For the Year Ended December 31, 2022**

	Montana Healthcare Foundation	Main St. Holdings, LLC	Eliminations	Total
Changes in Net Assets Without Donor Restrictions				
Revenues, Gains and Other Support:				
Grants and contributions	\$ 21,078,669	\$ -	\$ -	\$ 21,078,669
Interest and dividends	2,288,662			2,288,662
Realized and unrealized losses on investments, net of fees	(28,449,089)			(28,449,089)
Other income	31,024	109,786		140,810
Release of net asset restrictions	30,000			30,000
Total Revenues, Gains and Other Support	(5,020,734)	109,786		(4,910,948)
Expenses:				
Program services-				
Grants and initiatives	8,273,967			8,273,967
Other program related expenses	2,723,336			2,723,336
Total program expenses	10,997,303			10,997,303
Management and general-				
Administrative	587,240	175,978		763,218
Excise taxes	70,000			70,000
Total management and general	657,240	175,978		833,218
Total Expenses	11,654,543	175,978		11,830,521
Change in Net Assets Without Donor Restrictions	(16,675,277)	(66,192)		(16,741,469)
Changes in Net Assets With Donor Restrictions				
Revenues, Gains and Other Support:				
Release of net asset restrictions	(30,000)			(30,000)
Total Changes in Net Assets With Donor Restrictions	(30,000)			(30,000)
Total Changes in Net Assets Before Capital Contribution	(16,705,277)	(66,192)		(16,771,469)
Net assets, beginning of year	252,049,743			252,049,743
Capital contribution to LLC		7,500,000	(7,500,000)	
Net Assets, End of Year	\$ 235,344,466	\$ 7,433,808	\$ (7,500,000)	\$ 235,278,274

See independent auditor's report.