

The accompanying financial statements and report are intended for the original recipient. They must be presented in their entirety and may not be modified in any manner.





FINANCIAL REPORT

December 31, 2016



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INDEPENDENT AUDITOR'S REPORT

To the Board Directors
Heart of the Valley, Inc.
Bozeman, Montana

We have audited the accompanying financial statements of Heart of the Valley, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2016, and the related 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.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Heart of the Valley, Inc. as of December 31, 2016, and the changes in its net assets, functional expenses, and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Organization's 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated July 27, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Anderson Zur Muehlen & Co., P.C.

Bozeman, Montana
July 26, 2017

FINANCIAL STATEMENTS

HEART OF THE VALLEY, INC.
STATEMENT OF FINANCIAL POSITION
December 31, 2016
(With Comparative Totals as of December 31, 2015)

	<u>2016</u>	<u>2015</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 468,307	\$ 260,797
Accounts receivable	25,353	24,920
Prepaid expenses	<u>8,115</u>	<u>7,566</u>
Total current assets	<u>501,775</u>	<u>293,283</u>
PROPERTY AND EQUIPMENT		
Building and improvements	4,424,026	4,424,026
Equipment and vehicles	164,032	158,163
Land and improvements	600,278	600,278
Office furniture and equipment	<u>146,599</u>	<u>139,648</u>
	5,334,935	5,322,115
Less accumulated depreciation	<u>(1,289,170)</u>	<u>(1,123,078)</u>
	<u>4,045,765</u>	<u>4,199,037</u>
OTHER ASSETS		
Endowment investments	<u>3,514,195</u>	<u>2,404,073</u>
Total assets	<u>\$ 8,061,735</u>	<u>\$ 6,896,393</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 20,220	\$ 20,904
Accrued liabilities	<u>44,468</u>	<u>30,069</u>
Total current liabilities	<u>64,688</u>	<u>50,973</u>
NET ASSETS		
Unrestricted	5,031,118	5,023,572
Temporarily restricted	424,720	216,189
Permanently restricted	<u>2,541,209</u>	<u>1,605,659</u>
Total net assets	<u>7,997,047</u>	<u>6,845,420</u>
Total liabilities and net assets	<u>\$ 8,061,735</u>	<u>\$ 6,896,393</u>

The Notes to the Financial Statements are an integral part of this statement.

HEART OF THE VALLEY, INC.
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
Year Ended December 31, 2016
(With Comparative Totals for the Year Ended December 31, 2015)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2016 Totals	2015 Totals
REVENUES					
Shelter services	\$ 405,184	\$ -	\$ -	\$ 405,184	\$ 364,338
Investment income (loss)	10,286	234,264	-	244,550	(75,309)
Retail sales income	10,161	-	-	10,161	7,119
Other income	515	-	-	515	731
Total revenues	<u>426,146</u>	<u>234,264</u>	<u>-</u>	<u>660,410</u>	<u>296,879</u>
SUPPORT					
Donations	676,386	72,000	935,550	1,683,936	1,507,011
Fundraising events	204,466	-	-	204,466	292,549
Grants	75,698	-	-	75,698	81,852
In-kind support	95,509	-	-	95,509	32,065
Satisfaction of temporary restrictions	<u>97,733</u>	<u>(97,733)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total support	<u>1,149,792</u>	<u>(25,733)</u>	<u>935,550</u>	<u>2,059,609</u>	<u>1,913,477</u>
Total revenues and support	<u>1,575,938</u>	<u>208,531</u>	<u>935,550</u>	<u>2,720,019</u>	<u>2,210,356</u>
PROGRAM EXPENSES	1,200,607	-	-	1,200,607	1,165,847
FUNDRAISING EXPENSES	248,464	-	-	248,464	220,931
GENERAL AND ADMINISTRATIVE EXPENSES	<u>119,321</u>	<u>-</u>	<u>-</u>	<u>119,321</u>	<u>116,130</u>
Total expenses	<u>1,568,392</u>	<u>-</u>	<u>-</u>	<u>1,568,392</u>	<u>1,502,908</u>
Change in net assets	7,546	208,531	935,550	1,151,627	707,448
Net assets, beginning of year	<u>5,023,572</u>	<u>216,189</u>	<u>1,605,659</u>	<u>6,845,420</u>	<u>6,137,972</u>
Net assets, end of year	<u>\$ 5,031,118</u>	<u>\$ 424,720</u>	<u>\$ 2,541,209</u>	<u>\$ 7,997,047</u>	<u>\$ 6,845,420</u>

The Notes to the Financial Statements are an integral part of this statement.

HEART OF THE VALLEY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2016
(With Comparative Totals for the Year Ended December 31, 2015)

	Program	Fundraising	General and Administrative	2016 Totals	2015 Totals
Advertising	\$ 1,726	\$ 102	\$ 203	\$ 2,031	\$ 878
Animal care	165,690	-	-	165,690	165,990
Depreciation	141,178	8,305	16,609	166,092	154,378
Dues and subscriptions	2,210	130	260	2,600	2,478
Equipment lease and maintenance	8,998	7,199	1,800	17,997	15,941
Fundraising	346	72,632	-	72,978	48,787
Information technology	6,055	356	712	7,123	4,489
Insurance	23,443	1,784	2,472	27,699	35,386
Occupancy expense	76,192	4,352	8,949	89,493	74,202
Office expense	22,433	18,358	6,069	46,860	41,164
Other	2,842	-	53	2,895	4,401
Payroll taxes	55,125	9,951	1,631	66,707	65,801
Professional fees	900	900	54,698	56,498	61,394
Salaries, wages, and benefits	671,499	122,261	25,629	819,389	792,127
Shelter services	11,513	-	-	11,513	7,958
Staff training and development	3,471	1,889	56	5,416	20,633
Travel	1,762	207	104	2,073	2,280
Volunteer and employee recognition	5,224	38	76	5,338	4,621
	<u>\$ 1,200,607</u>	<u>\$ 248,464</u>	<u>\$ 119,321</u>	<u>\$ 1,568,392</u>	<u>\$ 1,502,908</u>

The Notes to the Financial Statements are an integral part of this statement.

HEART OF THE VALLEY, INC.
STATEMENT OF CASH FLOWS
Year Ended December 31, 2016
(With Comparative Totals for the Year Ended December 31, 2015)

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,151,627	\$ 707,448
Adjustments to reconcile changes in net assets to net cash flows from operating activities		
Depreciation	166,092	154,378
Cash contributions restricted to endowment	(935,550)	(1,099,326)
Reinvested investment earnings, net of fees	82,609	(11,024)
Net unrealized (gain)/loss on investments	-	96,514
Changes in operating assets and liabilities		
Accounts receivable	(433)	(2,543)
Prepaid expenses	(549)	(845)
Accounts payable and accrued liabilities	<u>13,715</u>	<u>(20,159)</u>
Net cash flows from operating activities	<u>477,511</u>	<u>(175,557)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(874,052)	(1,292,211)
Purchases of property and equipment	<u>(12,820)</u>	<u>(60,673)</u>
Net cash flows from investing activities	<u>(886,872)</u>	<u>(1,352,884)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash contributions restricted to endowment	<u>935,550</u>	<u>1,099,326</u>
Net cash flows from financing activities	<u>935,550</u>	<u>1,099,326</u>
Net change in cash and cash equivalents	526,189	(429,115)
Cash and cash equivalents, beginning of year	<u>260,797</u>	<u>689,912</u>
Cash and cash equivalents, end of year	<u>\$ 786,986</u>	<u>\$ 260,797</u>

The Notes to the Financial Statements are an integral part of this statement.

HEART OF THE VALLEY, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2016
(With Comparative Totals for the Year Ended December 31, 2015)

NOTE 1. ORGANIZATION AND NATURE OF ACTIVITIES

Organization and Nature of Activities

The Heart of the Valley, Inc. (the Organization) is a nonprofit organization that operates an animal shelter in Bozeman, Montana. The Organization's mission is to be a leader in enhancing the human-animal bond by providing pet owner support and homeless animal care for the citizens of Gallatin County and the surrounding region. Funding for the Organization's operations is obtained from public support and service revenues.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America (GAAP), as codified by the Financial Accounting Standards Board.

The financial statements include 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 GAAP. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2015, from which the summarized information was derived.

Basis of Accounting

The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Organization and/or the passage of time.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use income earned on the restricted assets for general or specific purposes.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets in the period in which the restrictions are satisfied.

HEART OF THE VALLEY, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
December 31, 2016
(With Comparative Totals for the Year Ended December 31, 2015)

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions

Contributions, including unconditional promises to give, are recognized as revenues in the period pledged. Unrestricted promises to give that are scheduled to be received after one year are shown as increases in temporarily restricted net assets and are reclassified to unrestricted net assets when the cash is received and any purpose restrictions are met. Donor restricted contributions whose restrictions are satisfied in the same reporting period are reported as unrestricted support. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value at date of receipt.

It is the policy of the Organization to report gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets, with explicit restrictions specifying how the assets are to be used, and gifts of cash or other assets that must be used to acquire long-lived assets are recorded as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated assets are placed in service.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents reported on the statement of financial position and the statement of cash flows include cash on hand and amounts held by financial institutions in checking and savings accounts and investments in certificates of deposit with original maturities of generally twelve months or less.

The Organization maintains its cash deposits at various financial institutions whose deposits are insured by the Federal Deposit Insurance Corporation (FDIC) for deposits up to \$250,000. From time to time, certain bank accounts that are subject to limited FDIC coverage may exceed their insured limits. As of December 31, 2016 and 2015, the Organization's deposits exceeded the insured limits by \$160,708 and \$-0-, respectively.

HEART OF THE VALLEY, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
December 31, 2016
(With Comparative Totals for the Year Ended December 31, 2015)

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts Receivable

Accounts receivable consist of uncollected shelter service revenues due under normal trade terms requiring payment within 30 days from the invoice date. Customer account balances with invoices dated over 30 days old are considered delinquent. These balances are stated at face value. The Organization does not maintain an allowance for doubtful accounts, as management considers all accounts to be fully collectible.

Pledges Receivable

Pledges receivable are recorded and revenue is recognized at the time unconditional promises to give are made. These balances are stated at their present value. Management considers all pledges to be fully collectible.

Property and Equipment

Asset acquisitions and expenditures for betterments, with a cost of \$1,000 or greater and an expected life of at least two years, are recorded at cost, if purchased, and, if contributed, at estimated fair market value at the date of receipt. Depreciation is provided over the estimated useful life of each depreciable asset and is computed using the straight-line method. The estimated useful lives of property and equipment are as follows:

Building and improvements	10 – 40 years
Equipment and vehicles	7 – 20 years
Land improvements	20 – 40 years
Office furniture and equipment	3 – 10 years

Total depreciation expense was \$166,092 and \$154,378 for the years ended December 31, 2016 and 2015, respectively.

Investments

Investments are reported at fair value. Fair value is 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. See Note 3 for discussion of fair value measurements.

Purchases and sales of securities are recorded on a trade-date basis. Dividends and interest are recorded when received. Net appreciation includes gains and losses on investments bought and sold as well as held during the year.

Compensated Absences

Employees must be full-time and pass a six-month probationary period to accrue vacation benefits. All full-time employees accrue a minimum of two weeks of vacation per year. In addition, extra leave days are accrued based on the years of employment up to a maximum of four weeks per year. Accrued compensated absences as of December 31, 2016 and 2015 amounted to \$14,885 and \$11,937, respectively.

HEART OF THE VALLEY, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
December 31, 2016
(With Comparative Totals for the Year Ended December 31, 2015)

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Advertising Costs

The Organization expenses advertising costs as incurred. Advertising expense was \$2,031 and \$878 for the years ended December 31, 2016 and 2015, respectively.

In-Kind Support

The Organization records various types of in-kind support including contributed facilities, professional services, and materials. Contributed professional services are recognized if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Contributions of tangible assets are recognized at fair market value when received. The amounts reflected in the accompanying financial statements as in-kind support are offset by corresponding amounts reflected in expenses or assets.

Additionally, the Organization receives a significant amount of contributed services, which does not meet the recognition criteria described above. Accordingly, the value of these contributed services has not been determined and is not reflected in the accompanying financial statements.

Income Taxes

The Organization is exempt from federal and state income taxes under Internal Revenue Code §501(c)(3) and has been ruled not to be a private foundation because it is a publicly supported organization.

Statement of Functional Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the program and supporting services benefited.

Subsequent Events

Management has evaluated subsequent events through July 26, 2017, the date which the financial statements were available to be issued.

NOTE 3. FAIR VALUE MEASUREMENT OF INVESTMENTS

The Organization maintains investments with various financial institutions under the management of third-parties in accordance with its investment policy.

In accordance with GAAP, the Organization uses a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

HEART OF THE VALLEY, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
December 31, 2016
(With Comparative Totals for the Year Ended December 31, 2015)

NOTE 3. FAIR VALUE MEASUREMENT OF INVESTMENTS (CONTINUED)

Basis of Fair Value Measurement

The three levels of the fair value input measurements under these standards are as follows:

- Level 1** – Quoted prices for identical assets or liabilities in active markets;
- Level 2** – Observable inputs for similar assets or liabilities in active markets, identical or similar assets in inactive markets, inputs other than quoted prices that are directly observable, and inputs derived from observable market data by correlation or other means;
- Level 3** – Unobservable inputs for a reporting entity’s own assumptions with respect to the assumptions market participants would use, other entity-specific inputs that are not derived from market data, and unobservable inputs that are developed based on the best information available in the circumstances.

A financial instrument’s level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

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, 2016 and 2015.

Mutual funds: Valued at the daily closing price as reported by the fund. Mutual funds held by the Plan are open-end funds registered with the SEC. These funds are required to publish their daily NAV and to transact at that price. The mutual funds held by the Plan are deemed to be actively traded.

Money market funds: Valued using pricing models maximizing the use of observable inputs for similar securities

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table presents by level, within the fair value hierarchy, the Organization’s investment assets at fair value, as of December 31, 2016 and 2015. As required by GAAP, investment assets are classified in their entirety based upon the lowest level of input that is significant to the fair value measurement. The Organization’s policy for determining the timing of significant transfers between Levels 1, 2, and 3 is at the end of the reporting period.

HEART OF THE VALLEY, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
December 31, 2016
(With Comparative Totals for the Year Ended December 31, 2015)

NOTE 3. FAIR VALUE MEASUREMENT OF INVESTMENTS (CONTINUED)

	2016		
	Cost	Gross Unrealized Gains (Losses)	Fair Value (Level 1)
Marketable debt and equity securities			
Exchange traded funds			
Commodities broad basket	\$ 162,541	\$ 29,756	\$ 192,298
Large blend	896,415	114,031	1,010,445
Foreign large blend	929,101	(50,030)	879,071
World bond	175,318	(73)	175,246
Mid-cap blend	299,734	13,541	313,276
Real estate blend	182,164	17,631	199,795
Multi-sector bond	173,529	1,244	174,773
Diversified emerging markets	227,397	(13,318)	214,079
Corporate bonds	174,179	1,202	175,381
Small blend	<u>151,518</u>	<u>22,500</u>	<u>174,018</u>
Total exchange traded funds	<u>3,371,896</u>	<u>136,485</u>	<u>3,508,382</u>
Money market funds	<u>5,813</u>	<u>-</u>	<u>5,813</u>
Totals	<u>\$ 3,377,709</u>	<u>\$ 136,485</u>	<u>\$ 3,514,195</u>
	2015		
	Cost	Gross Unrealized Gains (Losses)	Fair Value (Level 1)
Marketable debt and equity securities			
Exchange traded funds			
Large blend	\$ 645,327	\$ 27,247	\$ 673,523
Foreign large blend	657,364	(54,348)	603,016
World bond	229,874	(20,077)	209,797
Mid-cap blend	187,541	1,993	189,534
Mid-cap growth	129,320	(6,350)	122,970
Real estate blend	108,322	12,549	120,871
Multi-sector bond	123,511	(4,283)	119,228
Diversified emerging markets	132,846	(14,878)	117,968
Bank loan funds	127,611	(9,731)	117,880
Small blend	<u>124,069</u>	<u>(6,251)</u>	<u>117,818</u>
Total exchange traded funds	<u>2,465,785</u>	<u>(74,129)</u>	<u>2,392,605</u>
Money market funds	<u>11,468</u>	<u>-</u>	<u>11,468</u>
Totals	<u>\$ 2,477,253</u>	<u>\$ (74,129)</u>	<u>\$ 2,404,073</u>

HEART OF THE VALLEY, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
December 31, 2016
(With Comparative Totals for the Year Ended December 31, 2015)

NOTE 4. INVESTMENT INCOME

Components of investment and interest income for the years ended December 31, 2016 and 2015, consist of the following:

	<u>2016</u>	<u>2015</u>
Interest income	\$ 75,738	\$ 61,175
Unrealized gains (losses), net	203,585	(96,514)
Realized losses, net	<u>(34,773)</u>	<u>(39,970)</u>
Totals	<u>\$ 244,550</u>	<u>\$ (75,309)</u>

NOTE 5. RESTRICTED NET ASSETS

In accordance with GAAP, the Organization has classified the following net assets as of December 31, 2016 and 2015, as temporarily or permanently restricted:

	<u>2016</u>	<u>2015</u>
Temporarily restricted net assets:		
Accumulated earnings on endowment funds	\$ 336,750	\$ 162,201
Other	<u>87,970</u>	<u>53,988</u>
	<u>\$ 424,720</u>	<u>\$ 216,189</u>
Permanently restricted net assets:		
Principal balance of endowment assets	<u>\$ 2,541,209</u>	<u>\$ 1,605,659</u>

Earnings generated on the investment of endowment assets are temporarily restricted until these amounts are appropriated for expenditure.

NOTE 6. DESIGNATED NET ASSETS

During 2016 and 2015, the Organization's Board of Directors resolved to designate an additional \$23 and \$236,213 of unrestricted net assets, respectively. As of December 31, 2016 and 2015, \$636,236 and \$636,213 remains designated for general operations, respectively. These designated assets are presented in the accompanying statement of financial position as endowment investments.

HEART OF THE VALLEY, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
December 31, 2016
(With Comparative Totals for the Year Ended December 31, 2015)

NOTE 7. ENDOWMENT

In 2008, the Board of Directors determined that the establishment of a \$5,000,000 endowment is necessary to fund continued operation and maintenance of the shelter. In accordance with GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Directors has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA), as enacted in the state of Montana, as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) any accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund;
- (2) The purposes of the Organization and the donor-restricted endowment fund;
- (3) General economic conditions;
- (4) The possible effect of inflation and deflation;
- (5) The expected total return from income and the appreciation of investments;
- (6) Other resources of the Organization; and
- (7) The investment policies of the Organization.

HEART OF THE VALLEY, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
December 31, 2016
(With Comparative Totals for the Year Ended December 31, 2015)

NOTE 7. ENDOWMENT (CONTINUED)

Changes in endowment net asset composition for the years ended December 31, 2016 and 2015, respectively, are as follows:

	2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment net assets, beginning of year	\$ 636,213	\$ 162,201	\$ 1,605,659	\$ 2,404,073
Investment return:				
Investment income, net	-	30,679	-	30,679
Unrealized gains	-	203,585	-	203,585
Contributions	23	-	935,550	935,573
Appropriation of endowment assets for expenditure	-	(59,715)	-	(59,715)
	<u>\$ 636,236</u>	<u>\$ 336,750</u>	<u>\$ 2,541,209</u>	<u>\$ 3,514,195</u>
	2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 400,000	\$ 291,019	\$ 506,333	\$ 1,197,352
Investment return:				
Investment income, net	-	5,383	-	5,383
Unrealized losses	-	(96,514)	-	(96,514)
Contributions	236,213	-	1,099,326	1,335,539
Appropriation of endowment assets for expenditure	-	(37,687)	-	(37,687)
	<u>\$ 636,213</u>	<u>\$ 162,201</u>	<u>\$ 1,605,659</u>	<u>\$ 2,404,073</u>

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Organization to retain as a fund of perpetual duration. There were no such deficiencies as of December 31, 2016 and 2015.

Return Objectives and Risk Parameters

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to operations while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity or for a donor-specified period(s). The Organization expects its endowment funds, over time, to provide a reasonable level of current income to support the spending policy authorized by the Board of Directors and to grow equity assets. Actual returns in any given year may vary from this amount.

HEART OF THE VALLEY, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
December 31, 2016
(With Comparative Totals for the Year Ended December 31, 2015)

NOTE 7. ENDOWMENT (CONTINUED)

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation including cash equivalents, fixed income, and equity securities to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Organization has a spending policy of appropriating for distribution 4% of the average three years, December 31st ending endowment balances. Distributions from the endowment shall be limited to investment earnings as defined in the investment policy guidelines. The distribution will take place on March 1 of the calendar year and the distribution will be as follows:

- Zero if earnings are \$-0-
- The earnings balance, if earnings are less than the eligible amount but greater than \$-0-
- The eligible amount if earnings are greater than the eligible amount

In establishing this policy, the Organization considered the long-term expected return on its endowment. Accordingly, over the long-term, the Organization expects the current spending policy to allow its endowment to grow. This is consistent with the Organization's objective to preserve the fair value of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

NOTE 8. IN-KIND SUPPORT

The Organization received donated materials and professional services in 2016 and 2015 amounting to \$95,509 and \$32,065, respectively. Contributed services assisted the Organization with the operation of the shelter, fostering of animals, and office duties. Accordingly, donated materials and professional services are reflected in the financial statements as both revenues and expenses or revenues and fixed assets. The Organization also received benefit of approximately 14,073 and 9,010 hours of volunteer services in 2016 and 2015. In accordance with GAAP, the nature of these volunteer services does not meet the requirements of possessing specialized skills. Consequently, these donated services are not reflected in the financial statements.

HEART OF THE VALLEY, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
December 31, 2016
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NOTE 9. RETIREMENT PLAN

The Organization has adopted a SIMPLE IRA retirement plan (the Plan). Any employee (full-time or part-time) who has received at least \$5,000 in compensation during any two calendar years and is reasonably expected to receive at least \$5,000 in compensation in the next calendar year is eligible to participate in the Plan beginning on the first day of the next calendar year. The Organization offers a match amounting to 100% of each participant's voluntary contribution up to 3% of the participant's annual wages. Plan expenses and matching contributions for the years ended December 31, 2016 and 2015, amounted to \$6,564 and \$11,134, respectively.

NOTE 10. RELATED PARTY TRANSACTIONS

The Organization receives donations from multiple board members and the Executive Director. Related party contributions for the years ended December 31, 2016 and 2015, were \$73,220 and \$36,172, respectively.

NOTE 11. CONCENTRATIONS

The Organization has a concentration of risk related to sources of support. During the year ended December 31, 2016, the Organization received 47% of its revenue from two donors. One of these donations, totaling 34% of revenue, was an endowment contribution and not received for general operations.

During the year ended December 31, 2015, the Organization received 44% of its revenue from one donor. This donation was an endowment contribution and not received for general operations.



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