



FINANCIAL REPORT

December 31, 2019



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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of Heart of the Valley, Inc. (a nonprofit organization) (the Organization), which comprise the statement of financial position as of December 31, 2019, 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, 2019, 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.

Emphasis-of-Matter

As discussed in Note 1 to the financial statements, Heart of the Valley, Inc. has adopted Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (Topic 606). Our opinions are not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited the Organization's 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated July 24, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Anderson Zurmuehlen & Co., P.C.

Bozeman, Montana
July 15, 2020

FINANCIAL STATEMENTS

HEART OF THE VALLEY, INC.
STATEMENT OF FINANCIAL POSITION
December 31, 2019
(With Comparative Totals as of December 31, 2018)

	<u>2019</u>	<u>2018</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 247,724	\$ 162,140
Accounts receivable	68,849	33,441
Contributions receivable	26,600	25,000
Prepaid expenses	26,608	4,891
Inventory	<u>3,153</u>	<u>3,275</u>
Total current assets	<u>372,934</u>	<u>228,747</u>
PROPERTY AND EQUIPMENT		
Building and improvements	4,439,766	4,432,861
Equipment and vehicles	227,059	215,023
Land and improvements	716,456	716,456
Office furniture and equipment	<u>165,669</u>	<u>156,788</u>
	5,548,950	5,521,128
Less accumulated depreciation	<u>(1,774,612)</u>	<u>(1,614,839)</u>
	<u>3,774,338</u>	<u>3,906,289</u>
OTHER ASSETS		
Endowment investments	<u>4,618,497</u>	<u>3,844,206</u>
Total assets	<u>\$ 8,765,769</u>	<u>\$ 7,979,242</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 33,799	\$ 12,340
Accrued liabilities	<u>63,284</u>	<u>58,161</u>
Total current liabilities	<u>97,083</u>	<u>70,501</u>
NET ASSETS		
Without donor restrictions - undesignated	3,947,804	3,973,132
Without donor restrictions - designated	992,246	913,136
With donor restrictions	<u>3,728,636</u>	<u>3,022,473</u>
Total net assets	<u>8,668,686</u>	<u>7,908,741</u>
Total liabilities and net assets	<u>\$ 8,765,769</u>	<u>\$ 7,979,242</u>

HEART OF THE VALLEY, INC.
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
Year Ended December 31, 2019
(With Comparative Totals for the Year Ended December 31, 2018)

	Without donor restrictions	With donor restrictions	2019 Totals	2018 Totals
REVENUES				
Shelter services	\$ 494,132	\$ -	\$ 494,132	\$ 465,655
Investment income (loss)	2,960	836,469	839,429	(358,047)
Retail sales income, net	7,876	-	7,876	7,395
Other income	620	-	620	346
Total revenues	<u>505,588</u>	<u>836,469</u>	<u>1,342,057</u>	<u>115,349</u>
SUPPORT				
Donations	434,749	141,092	575,841	507,141
Fundraising events	303,140	-	303,140	328,467
Grants	141,618	-	141,618	104,370
In-kind support	64,074	-	64,074	57,017
Total support	<u>943,581</u>	<u>141,092</u>	<u>1,084,673</u>	<u>996,995</u>
NET ASSETS RELEASED FROM RESTRICTIONS				
Donor restricted endowment funds appropriated and released for current operations	154,110	(154,110)	-	-
Satisfaction of program restrictions	117,288	(117,288)	-	-
Total net assets released from restrictions	<u>271,398</u>	<u>(271,398)</u>	-	-
Total revenues, support, and satisfaction of restrictions	<u>1,720,567</u>	<u>706,163</u>	<u>2,426,730</u>	<u>1,112,344</u>
OPERATING EXPENSES				
Program services:				
Animal welfare	1,280,889	-	1,280,889	1,241,208
Supporting services:				
Fundraising expenses	270,601	-	270,601	301,653
General and administrative expenses	115,295	-	115,295	110,445
Total operating expenses	<u>1,666,785</u>	<u>-</u>	<u>1,666,785</u>	<u>1,653,306</u>
Change in net assets	53,782	706,163	759,945	(540,963)
Net assets, beginning of year	<u>4,886,268</u>	<u>3,022,473</u>	<u>7,908,741</u>	<u>8,449,702</u>
Net assets, end of year	<u>\$ 4,940,050</u>	<u>\$ 3,728,636</u>	<u>\$ 8,668,686</u>	<u>\$ 7,908,741</u>

HEART OF THE VALLEY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2019
(With Comparative Totals for the Year Ended December 31, 2018)

	Program	Supporting Services		2019 Totals	2018 Totals
	Animal Welfare	Fundraising	General and Administrative		
Advertising	\$ -	\$ 1,193	\$ -	\$ 1,193	\$ 670
Animal care	201,477	-	-	201,477	189,982
Depreciation	148,589	6,391	4,793	159,773	160,305
Dues and subscriptions	1,809	261	109	2,179	2,409
Equipment lease and maintenance	10,843	1,568	653	13,064	15,265
Fundraising	-	39,229	-	39,229	42,214
Information technology	3,706	193	129	4,028	4,893
Insurance	24,706	2,015	1,015	27,735	33,853
Occupancy expense	86,374	3,715	2,786	92,876	78,824
Office expense	22,217	18,709	5,587	46,513	47,135
Other	6,351	100	1,720	8,171	8,560
Payroll taxes	51,459	12,441	3,995	67,895	70,326
Professional fees	5,574	10,351	40,072	55,997	53,010
Salaries, wages, and benefits	692,582	167,448	53,767	913,797	904,771
Shelter services	8,117	-	-	8,117	9,389
Staff training and development	11,717	6,814	568	19,098	24,017
Travel	1,981	85	64	2,130	2,972
Volunteer and employee recognition	3,389	88	37	3,513	4,711
	<u>\$ 1,280,889</u>	<u>\$ 270,601</u>	<u>\$ 115,295</u>	<u>\$ 1,666,785</u>	<u>\$ 1,653,306</u>

HEART OF THE VALLEY, INC.
STATEMENT OF CASH FLOWS
Year Ended December 31, 2019
(With Comparative Totals for the Year Ended December 31, 2018)

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 759,945	\$ (540,963)
Adjustments to reconcile changes in net assets to net cash flows from operating activities:		
Depreciation	159,773	160,305
Cash contributions restricted to endowment	(35,422)	(11,400)
Reinvested interest and dividends, net of investment fees	(86,344)	(107,958)
Net realized (gain)/loss on sales of investments	(28,680)	(506)
Net unrealized (gain)/loss on investments	(724,405)	466,511
Changes in operating assets and liabilities:		
Accounts receivable	(35,408)	(309)
Contributions receivable	(1,600)	(25,000)
Prepaid expenses	(21,717)	1,110
Inventory	122	(3,275)
Accounts payable and accrued liabilities	<u>26,582</u>	<u>(11,285)</u>
Net cash flows from operating activities	<u>12,846</u>	<u>(72,770)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(780,469)	(501,934)
Proceeds from sales of investments	845,607	500,618
Purchases of property and equipment	<u>(27,822)</u>	<u>(124,738)</u>
Net cash flows from investing activities	<u>37,316</u>	<u>(126,054)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash contributions restricted to endowment	<u>35,422</u>	<u>11,400</u>
Net cash flows from financing activities	<u>35,422</u>	<u>11,400</u>
Net change in cash and cash equivalents	85,584	(187,424)
Cash and cash equivalents, beginning of year	<u>162,140</u>	<u>349,563</u>
Cash and cash equivalents, end of year	<u>\$ 247,723</u>	<u>\$ 162,140</u>

HEART OF THE VALLEY, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2019
(With Comparative Totals for the Year Ended December 31, 2018)

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, 2018, from which the summarized information was derived.

New Accounting Pronouncements

Effective January 1, 2019, the Organization adopted Financial Accounting Standards Board (FASB) Accounting Standard Update (ASU) 2014-09, *Revenue from Contracts with Customers* (Topic 606). This update creates a single framework for recognizing revenue from contracts with customers that fall within its scope. Implementation of the standard had no effect on the Organization's existing revenue policies, nor required any adjustment of activity reported in a prior period.

Effective January 1, 2019, the Organization adopted Accounting Standards Update (ASU) 2018-08, *Not-for-Profit Entities* (Topic 958) – *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The update provides guidance on (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. Implementation of the standard had no effect on the Organization's existing revenue recognition policies, nor required any adjustment of activity reported in a prior period.

Reclassification

Certain prior year amount have been reclassified for consistency with the current year presentation. These reclassifications resulted in no changes to previously reported net assets or change in net assets.

HEART OF THE VALLEY, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
December 31, 2019
(With Comparative Totals for the Year Ended December 31, 2018)

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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:

Net assets without donor restrictions – Net assets that are not subject to donor-imposed stipulations and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization’s management and board of directors.

Net assets with donor restrictions – Net assets subject to donor-imposed stipulations. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation. Expirations of net assets with donor restrictions (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.

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 net assets with donor restrictions and are reclassified to net assets without donor restrictions 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 net assets without donor restrictions. 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.

HEART OF THE VALLEY, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
December 31, 2019
(With Comparative Totals for the Year Ended December 31, 2018)

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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, 2019 and 2018, the Organization's did not exceed their insured limits.

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.

Revenue Recognition

The Organization's significant revenue sources are: (1) shelter services, (2) fundraising events, and (3) contributions and grants. For exchange transactions, revenue is recognized upon transfer of control of promised products or services to customers in an amount that reflects the consideration expected to be received in exchange for those products or services.

The Organization's contracts do not contain significant refund-type provisions.

Shelter Services

The Organization provides adoption and animal control services. Adoption revenue is recognized when payment is received from the customer. Animal control services revenue is recognized over time on a monthly basis per the contracts in place.

Fundraising Events

Fundraising event revenues are recognized when payment is received by the donor.

HEART OF THE VALLEY, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
December 31, 2019
(With Comparative Totals for the Year Ended December 31, 2018)

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (Continued)

Contributions and Grants

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 net assets with donor restrictions and are reclassified to net assets without donor restrictions 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 net assets without donor restrictions. 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.

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 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.

Contributions Receivable

Contributions receivable are recorded and revenue is recognized at the time unconditional promises to give are made. These balances are stated at present value. The Organization does not maintain an allowance for doubtful accounts, as management considers all pledges to be fully collectible.

Inventory

Inventory is stated at the lower of cost or net realizable value, and consists of promotional items held for resale.

HEART OF THE VALLEY, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
December 31, 2019
(With Comparative Totals for the Year Ended December 31, 2018)

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 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 \$159,773 and \$160,305 for the years ended December 31, 2019 and 2018, 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 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, 2019 and 2018 amounted to \$14,838 and \$12,485, respectively.

Advertising Costs

The Organization expenses advertising costs as incurred. Advertising expense was \$1,193 and \$670 for the years ended December 31, 2019 and 2018, respectively.

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.

HEART OF THE VALLEY, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
December 31, 2019
(With Comparative Totals for the Year Ended December 31, 2018)

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. The statement of functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the program and supporting services benefited using an appropriate basis consistently applied. These include office expenses, information technology, depreciation, and occupancy expenses. Occupancy and depreciation expense are allocated based on square footage. All other costs are allocated based on the estimates of time and efforts of full-time equivalent employees.

Subsequent Events

Management has evaluated subsequent events through July 15, 2020, 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).

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; and
- 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.

HEART OF THE VALLEY, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
December 31, 2019
(With Comparative Totals for the Year Ended December 31, 2018)

NOTE 3. FAIR VALUE MEASUREMENT OF INVESTMENTS (CONTINUED)

Basis of Fair Value Measurement (Continued)

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, 2019 and 2018.

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, 2019 and 2018. 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.

	2019		
	Cost	Gross Unrealized Gains (Losses)	Fair Value (Level 1)
Equity securities			
Commodities broad basket	\$ 191,194	\$ 37,338	\$ 228,532
Mutual funds			
Large blend	1,399,092	330,777	1,729,869
Foreign large growth	870,330	(8,155)	862,175
Real estate	204,278	18,407	222,685
Intermediate core-plus bond	238,645	(1,088)	237,557
Foreign small/mid growth	407,330	20,278	427,608
Multi-sector bond	236,905	1,542	238,447
World bond	239,053	(1,165)	237,888
Diversified emerging markets	383,515	41,203	424,718
Total exchange traded funds	4,170,342	439,137	4,609,479
Money market funds	9,018	-	9,018
Totals	<u>\$ 4,179,360</u>	<u>\$ 439,137</u>	<u>\$ 4,618,497</u>

HEART OF THE VALLEY, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
December 31, 2019
(With Comparative Totals for the Year Ended December 31, 2018)

NOTE 3. FAIR VALUE MEASUREMENT OF INVESTMENTS (CONTINUED)

Basis of Fair Value Measurement (Continued)

	2018		
	Cost	Gross Unrealized Gains (Losses)	Fair Value (Level 1)
Mutual funds			
Commodities broad basket	\$ 170,960	\$ 13,758	\$ 184,718
Large blend	1,510,781	(48,870)	1,461,911
Foreign large growth	840,289	(167,916)	672,373
Real estate	226,125	(16,773)	209,352
Foreign small/mid growth	362,194	(52,511)	309,683
Multi-sector bond	215,327	(2,656)	212,671
World bond	222,898	(1,860)	221,038
Ultrashort bond	214,625	(1,066)	213,559
Diversified emerging markets	<u>331,526</u>	<u>(4,795)</u>	<u>326,731</u>
Total exchange traded funds	4,094,725	(282,689)	3,812,036
Money market funds	<u>32,170</u>	-	<u>32,170</u>
Totals	<u>\$ 4,126,895</u>	<u>\$ (282,689)</u>	<u>\$ 3,844,206</u>

NOTE 4. INVESTMENT INCOME

Components of investment and interest income for the years ended December 31, 2019 and 2018, consist of the following:

	<u>2019</u>	<u>2018</u>
Interest and dividend income	\$ 107,484	\$ 121,935
Unrealized gains (losses), net	724,405	(466,511)
Realized gains, net	28,680	506
Investment management fees	<u>(21,140)</u>	<u>(13,977)</u>
Totals	<u>\$ 839,429</u>	<u>\$ (358,047)</u>

NOTE 5. CONTRIBUTIONS RECEIVABLE

As of December 31, 2019 and 2018, contributions receivable amounted to \$26,600 and \$25,000, respectively. The balance as of December 31, 2019, is scheduled to be received in less than one year, therefore contributions receivable have not been discounted to present value.

HEART OF THE VALLEY, INC.
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 December 31, 2019
 (With Comparative Totals for the Year Ended December 31, 2018)

NOTE 6. NET ASSETS

Net Assets without Donor Restrictions

Net assets without donor restrictions as of December 31, 2019 and 2018 consist of both designated and undesignated balances as follows:

	<u>2019</u>	<u>2018</u>
Undesignated	\$ 3,947,804	\$ 3,973,132
Board designated endowment funds	<u>992,246</u>	<u>913,136</u>
Total net assets without donor restrictions	<u>\$ 4,940,050</u>	<u>\$ 4,886,268</u>

Net Assets with Donor Restrictions

Net assets with donor restrictions as of December 31, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Subject to expenditure for specified purpose:		
Animal welfare	\$ 79,785	\$ 91,403
Perpetual in nature:		
Donor restricted endowment funds	2,287,020	2,557,608
Subject to Organization's spending policy and appropriation:		
Endowment earnings held until appropriated and released to support general operations	<u>1,361,831</u>	<u>373,462</u>
Total net assets with donor restrictions	<u>\$ 3,728,636</u>	<u>\$ 3,022,473</u>

NOTE 7. ENDOWMENT

In 2008, the Board of Directors determined that the establishment of a \$5,000,000 endowment was 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 donor restricted endowment funds held in perpetuity as (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.

HEART OF THE VALLEY, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
December 31, 2019
(With Comparative Totals for the Year Ended December 31, 2018)

NOTE 7. ENDOWMENT (CONTINUED)

Interpretation of Relevant Law (Continued)

The remaining portion of the donor-restricted endowment fund that is not held in perpetuity is classified as net assets with donor restrictions 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.

Endowment net asset composition by fund type for the years ended December 31, 2019 and 2018, respectively, are as follows:

	2019		
	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
	Board designated endowment funds	\$ 992,246	\$ -
Donor-restricted endowment funds			
Original donor-restricted gift required to be maintained in perpetuity by donor	-	2,287,020	2,287,020
Accumulated investment earnings	-	<u>1,361,831</u>	<u>1,361,831</u>
	<u>\$ 992,246</u>	<u>\$ 3,648,851</u>	<u>\$ 4,641,097</u>

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
December 31, 2019
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NOTE 7. ENDOWMENT (CONTINUED)

Interpretation of Relevant Law (Continued)

	2018		
	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
Board designated endowment funds	\$ 913,136	\$ -	\$ 913,136
Donor-restricted endowment funds			
Original donor-restricted gift required to be maintained in perpetuity by donor	-	2,557,608	2,557,608
Accumulated investment earnings	-	373,462	373,462
	<u>\$ 913,136</u>	<u>\$ 2,931,070</u>	<u>\$ 3,844,206</u>

Changes in endowment net asset composition for the years ended December 31, 2019 and 2018, respectively, are as follows:

	2019		
	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 913,136	\$ 2,931,070	\$ 3,844,206
Investment return, net	-	836,469	836,469
Contributions	-	35,422	35,422
Appropriation of endowment assets for expenditure	79,110	(154,110)	(75,000)
	<u>\$ 992,246</u>	<u>\$ 3,648,851</u>	<u>\$ 4,641,097</u>

	2018		
	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 779,736	\$ 3,421,201	\$ 4,200,937
Investment return, net	-	(368,131)	(368,131)
Contributions	133,400	11,400	144,800
Appropriation of endowment assets for expenditure	-	(133,400)	(133,400)
	<u>\$ 913,136</u>	<u>\$ 2,931,070</u>	<u>\$ 3,844,206</u>

HEART OF THE VALLEY, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
December 31, 2019
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NOTE 7. ENDOWMENT (CONTINUED)

Interpretation of Relevant Law (Continued)

For both of the years ended December 31, 2019 and 2018, the amount of the appropriation of endowment assets for expenditure was reinvested in the board designated endowment fund for long term investment.

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, 2019 and 2018.

Return Objectives and Risk Parameters

The Organization has adopted investment and spending policies for endowment assets intended 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.

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.

HEART OF THE VALLEY, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
December 31, 2019
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NOTE 8. LIQUIDITY AND AVAILABILITY

The Organization receives significant contributions with donor restrictions to be used in accordance with the associated purpose restrictions. The Organization considers contributions restricted for programs which are ongoing, major, and central to its annual operations to be available to meet cash needs for general expenditures. For the year ended December 31, 2019, restricted contributions of \$79,785 were included in financial assets available to meet cash needs for general expenditures within one year.

In addition, the Organization receives support without donor restrictions and endowment investment income available for appropriation. The Organization also generates significant revenues from program activities, such as adoptions and animal control. These amounts are without restrictions, and available to meet cash needs for general expenditures.

Financial assets available for general expenditure include only those without donor or other restrictions limiting their use within one year of the balance sheet date.

Financial assets available for general expenditures within one year at December 31, 2019 are as follows:

Financial assets at year end:	
Cash and cash equivalents	\$ 247,724
Accounts receivable	68,849
Contributions receivable	26,600
Endowment investments	<u>4,618,497</u>
Total financial assets	<u>4,961,670</u>
Less amounts not available to use within one year:	
Endowment investments held in perpetuity	(2,287,020)
Unappropriated endowment earnings	(1,192,696)
Board designated endowment funds held for long-term investment	<u>(992,246)</u>
Total financial assets not available to use within one year	<u>(4,471,962)</u>
Total financial assets available to meet general expenditures within one year	<u>\$ 489,708</u>

As part of the Organization’s liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

The Organization’s annual operating budget anticipates receiving funds throughout the year from the following sources in order to operate on a “break-even” basis: Program service fees defray the cost of routine operations, annual fundraising events to support program activities, and grant sources sought.

HEART OF THE VALLEY, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
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NOTE 8. LIQUIDITY AND AVAILABILITY (CONTINUED)

Investments hold donor restricted endowment funds and board-designated endowment funds. These investments are intended to be held for long-term purposes. Per the Organization's endowment policy, the Organization has the option to withdraw up to 4% of the average year-end endowment balance from the prior three calendar years in order to meet general expenditures. As of December 31, 2019, the Board has approved \$169,135 of earnings from the endowment to be appropriated and released for current operations in 2020. Therefore, this amount was included in financial assets available to meet cash needs for general expenditures within one year.

The board designated endowment funds are intended to be held for long-term investment, and therefore were not included in financial assets available to meet cash needs for general expenditures within one year. However, should these funds be needed due to unforeseen circumstances, they can be undesignated and used for general operations by approval of the Board of Directors.

NOTE 9. IN-KIND SUPPORT

The Organization received donated materials and professional services in 2019 and 2018 amounting to \$64,074 and \$99,402, 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 20,187 and 21,904 hours of volunteer services in 2019 and 2018, respectively. 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.

NOTE 10. 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, 2019 and 2018, amounted to \$17,692 and \$15,877, respectively.

HEART OF THE VALLEY, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
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NOTE 11. RELATED PARTY TRANSACTIONS

The Organization receives donations from multiple board members and the Executive Director, as well as donations from organizations where a board member has significant influence. Related party contributions for the years ended December 31, 2019 and 2018, were \$135,314 and \$97,795, respectively.

NOTE 12. CONCENTRATIONS

The Organization has a concentration of risk related to sources of support. During the year ended December 31, 2019, there were no concentrations of risk related to sources of support. During the year ended December, 31 2018, the Organization received 10% of its revenue from one donor. This donation was restricted for land improvements and was not received for general operations.

NOTE 13. SUBSEQUENT EVENT

In early March 2020, the global economy was disrupted by the COVID-19 pandemic, including the industry in which the Organization operates. Management is carefully monitoring the situation but is unable to determine the impact the pandemic will have on future operations as of the date of this report.

The Organization has received loan proceeds in the amount of \$190,000 under the Paycheck Protection Program (PPP). The PPP, established as part of the Coronavirus Aid, Relief and Economic Security Act (CARES Act), provides for loans to qualifying organizations for amounts up to 2.5 times the average monthly payroll expenses. The loans and accrued interest are forgivable after twenty-four weeks as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent, and utilities, and maintains its current payroll levels. The amount of loan forgiveness will be reduced if the borrower terminates employees or reduces salaries during the twenty-four week period.

The unforgiven portion of the PPP loan is payable over five years at an interest rate of 1%, with a deferral of payments for the first six months. The Company intends to use the proceeds for purposes consistent with the PPP. While the Company currently believes that its use of the loan proceeds will meet the conditions for forgiveness of the loan, final guidance is not yet available and it is possible the Company may be ineligible for forgiveness of the loan, in whole or in part.

The Organization also received a \$10,000 advance under the Economic Injury Disaster Loan (EIDL) program and \$10,000 under the Montana State CAREs Act.

HEART OF THE VALLEY, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
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NOTE 13. SUBSEQUENT EVENT (CONTINUED)

Additionally, the pandemic has resulted in the global financial system experiencing substantial volatility. These economic events have had a significant adverse impact on investment portfolios. As a result, the Organization's investments have likely incurred a significant decline in fair value since December 31, 2019. Because of the uncertainty of future market conditions management is uncertain whether the decline in fair value is permanent or temporary.



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