



**FINANCIAL REPORT**

**December 31, 2021**



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## INDEPENDENT AUDITOR'S REPORT

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

### **Opinion**

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, 2021, 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.

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, 2021, 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.

### **Basis for Opinion**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 Heart of the Valley, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **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.

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 Heart of the Valley, Inc.'s ability to continue as a going concern.

### **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 generally accepted auditing standards 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, including omissions, 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 generally accepted auditing standards, 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 Heart of the Valley, Inc.'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 Heart of the Valley, Inc.'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 Summarized Comparative Information**

We have previously audited the Organization's 2020 financial statements, and we expressed an unmodified audit opinion on those financial statements in our report dated July 21, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2020, 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 27, 2022

FINANCIAL STATEMENTS

HEART OF THE VALLEY, INC.  
STATEMENT OF FINANCIAL POSITION  
December 31, 2021  
(With Comparative Totals as of December 31, 2020)

	<u>2021</u>	<u>2020</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 773,486	\$ 985,443
Accounts receivable	32,206	35,320
Prepaid expenses	11,078	9,700
Inventory	<u>18,628</u>	<u>3,362</u>
Total current assets	<u>835,398</u>	<u>1,033,825</u>
<b>PROPERTY AND EQUIPMENT</b>		
Building and improvements	4,472,279	4,443,072
Equipment and vehicles	246,731	237,897
Land and improvements	716,456	716,456
Office furniture and equipment	<u>167,564</u>	<u>165,669</u>
	5,603,030	5,563,094
Less - accumulated depreciation	<u>(2,105,705)</u>	<u>(1,945,034)</u>
Total property and equipment	<u>3,497,325</u>	<u>3,618,060</u>
<b>OTHER ASSETS</b>		
Long-term investments	<u>6,664,307</u>	<u>5,465,369</u>
Total assets	<u>\$ 10,997,030</u>	<u>\$ 10,117,254</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 13,573	\$ 9,341
Accrued liabilities	<u>90,452</u>	<u>68,691</u>
Total current liabilities	<u>104,025</u>	<u>78,032</u>
<b>NON-CURRENT LIABILITIES</b>		
Long-term note payable	<u>-</u>	<u>149,900</u>
Total liabilities	<u>104,025</u>	<u>227,932</u>
<b>NET ASSETS</b>		
Without donor restrictions - undesignated	4,117,630	4,076,903
Without donor restrictions - designated	1,919,708	1,411,381
With donor restrictions	<u>4,855,667</u>	<u>4,401,038</u>
Total net assets	<u>10,893,005</u>	<u>9,889,322</u>
Total liabilities and net assets	<u>\$ 10,997,030</u>	<u>\$ 10,117,254</u>

The Notes to 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, 2021  
(With Comparative Totals for the Year Ended December 31, 2020)

	Without donor restrictions	With donor restrictions	2021 Totals	2020 Totals
<b>REVENUES</b>				
Shelter services	\$ 501,838	\$ -	\$ 501,838	\$ 433,988
Investment income, net	167,547	593,596	761,143	825,323
Retail sales income, net	16,232	-	16,232	12,122
Total revenues	<u>685,617</u>	<u>593,596</u>	<u>1,279,213</u>	<u>1,271,433</u>
<b>SUPPORT</b>				
Donations	706,145	112,533	818,678	846,322
Fundraising events	272,849	-	272,849	253,123
Grants	131,719	-	131,719	263,599
Forgiveness of Paycheck Protection Program loans	192,031	-	192,031	190,600
In-kind support	63,388	-	63,388	49,324
Total support	<u>1,366,132</u>	<u>112,533</u>	<u>1,478,665</u>	<u>1,602,968</u>
<b>NET ASSETS RELEASED FROM RESTRICTIONS</b>				
Donor restricted endowment funds appropriated and released for current operations	145,134	(145,134)	-	-
Satisfaction of program restrictions	106,366	(106,366)	-	-
Total net assets released from restrictions	<u>251,500</u>	<u>(251,500)</u>	<u>-</u>	<u>-</u>
Total revenues, support, and satisfaction of restrictions	<u>2,303,249</u>	<u>454,629</u>	<u>2,757,878</u>	<u>2,874,401</u>
<b>OPERATING EXPENSES</b>				
Program services:				
Animal welfare	1,390,061	-	1,390,061	1,280,278
Supporting services:				
Fundraising expenses	229,800	-	229,800	230,144
General and administrative expenses	134,334	-	134,334	143,343
Total operating expenses	<u>1,754,195</u>	<u>-</u>	<u>1,754,195</u>	<u>1,653,765</u>
Change in net assets	549,054	454,629	1,003,683	1,220,636
Net assets, beginning of year	<u>5,488,284</u>	<u>4,401,038</u>	<u>9,889,322</u>	<u>8,668,686</u>
Net assets, end of year	<u>\$ 6,037,338</u>	<u>\$ 4,855,667</u>	<u>\$10,893,005</u>	<u>\$ 9,889,322</u>

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

**HEART OF THE VALLEY, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
Year Ended December 31, 2021  
(With Comparative Totals for the Year Ended December 31, 2020)

	Program	Supporting Services		2021 Totals	2020 Totals
	Animal Welfare	Fundraising	General and Administrative		
Advertising	\$ -	\$ 1,621	\$ -	\$ 1,621	\$ 1,038
Animal care	181,988	-	-	181,988	162,403
Depreciation	149,424	6,427	4,820	160,671	170,422
Dues and subscriptions	2,861	414	172	3,447	2,737
Equipment lease and maintenance	11,437	1,654	689	13,780	13,510
Fundraising	-	17,058	-	17,058	27,505
Information technology	6,158	417	240	6,815	4,269
Insurance	24,193	1,962	1,120	27,275	29,879
Occupancy expense	104,108	4,478	3,358	111,944	89,629
Office expense	20,384	15,213	4,550	40,147	48,617
Other	8,182	-	3,491	11,673	12,142
Payroll taxes	58,256	10,787	4,928	73,971	67,842
Professional fees	4,800	16,069	43,009	63,878	54,689
Salaries, wages, and benefits	796,820	147,544	67,407	1,011,771	948,156
Shelter services	7,485	-	-	7,485	7,634
Staff training and development	6,863	5,797	369	13,029	7,007
Travel	2,197	94	71	2,362	2,327
Volunteer and employee recognition	4,905	265	110	5,280	3,959
	<u>\$1,390,061</u>	<u>\$ 229,800</u>	<u>\$ 134,334</u>	<u>\$1,754,195</u>	<u>\$1,653,765</u>

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



HEART OF THE VALLEY, INC.  
STATEMENT OF CASH FLOWS  
Year Ended December 31, 2021  
(With Comparative Totals for the Year Ended December 31, 2020)

	<u>2021</u>	<u>2020</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 1,003,683	\$ 1,220,636
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	160,671	170,422
Cash contributions restricted to endowment	(7,005)	(3,770)
Donated securities	-	(14,716)
Reinvested interest and dividends, net of investment fees	(311,544)	(68,335)
Net realized gain on sales of investments	(14,702)	(24,859)
Net unrealized gain on investments	(434,897)	(732,129)
Changes in operating assets and liabilities:		
Accounts receivable	3,114	33,529
Contributions receivable	-	26,600
Prepaid expenses	(1,378)	16,908
Inventory	(15,266)	(209)
Accounts payable and accrued liabilities	<u>25,993</u>	<u>(19,051)</u>
Net cash flows from operating activities	<u>408,669</u>	<u>605,026</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of investments	(4,506,261)	(883,706)
Proceeds from sales of investments	4,068,466	876,873
Purchases of property and equipment	<u>(39,936)</u>	<u>(14,144)</u>
Net cash flows from investing activities	<u>(477,731)</u>	<u>(20,977)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Cash contributions restricted to endowment	7,005	3,770
Proceeds from external borrowings	-	149,900
Repayment on note payable	<u>(149,900)</u>	<u>-</u>
Net cash flows from financing activities	<u>(142,895)</u>	<u>153,670</u>
Net change in cash and cash equivalents	(211,957)	737,719
Cash and cash equivalents, beginning of year	<u>985,443</u>	<u>247,724</u>
Cash and cash equivalents, end of year	<u>\$ 773,486</u>	<u>\$ 985,443</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOWS</b>		
Non-cash financing activities:		
Forgiveness of Paycheck Protection Program loans	<u>\$ 192,031</u>	<u>\$ 190,600</u>

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

HEART OF THE VALLEY, INC.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2021  
(With Comparative Totals for the Year Ended December 31, 2020)

**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 (FASB).

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, 2020, 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:

*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, whereby 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.

HEART OF THE VALLEY, INC.  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
December 31, 2021  
(With Comparative Totals for the Year Ended December 31, 2020)

**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, 2021 and 2020, the Organization's deposits exceeded the insured limits by \$254,465 and \$457,534 respectively.

**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, 2021  
(With Comparative Totals for the Year Ended December 31, 2020)

**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 Organization's policy 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 do 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.

**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, 2021  
(With Comparative Totals for the Year Ended December 31, 2020)

**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 \$160,671 and \$170,422 for the years ended December 31, 2021 and 2020, 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, 2021 and 2020, amounted to \$19,786 and \$21,420, respectively.

**Advertising Costs**

The Organization expenses advertising costs as incurred. Advertising expense was \$1,621 and \$1,038 for the years ended December 31, 2021 and 2020, 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, 2021  
(With Comparative Totals for the Year Ended December 31, 2020)

**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 used by the benefiting program or activity. 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 27, 2022, 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, 2021  
(With Comparative Totals for the Year Ended December 31, 2020)

**NOTE 3. FAIR VALUE MEASUREMENT OF INVESTMENTS (CONTINUED)**

**Basis of Fair Value Measurement (Continued)**

The 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, 2021 and 2020, and there were no transfers between levels.

*Equity securities:* Valued at the closing price reported in the active market in which the individual securities are traded.

*Mutual funds:* Valued at the daily closing price as reported by the fund. Mutual funds held by the Organization are open-end funds registered with the U.S. Securities Exchange Commission (SEC). These funds are required to publish their daily Net Asset Value (NAV) and to transact at that price. The mutual funds held by the Organization 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, 2021. 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.

	2021		
	Cost	Gross Unrealized (Losses)	Fair Value (Level 1)
Equity securities			
Commodities broad basket	\$ 435,616	\$ 84,155	\$ 519,771
Mutual funds			
Large blend	980,920	711,321	1,692,241
Foreign large blend	1,306,477	(114,173)	1,192,304
Real estate	446,729	73,611	520,340
Intermediate core-plus bond	944,367	(8,595)	935,772
Foreign small/mid growth	255,442	78,794	334,236
World bond	374,343	(3,675)	370,668
High yield bond	275,702	7,397	283,099
Bank loan	282,291	169	282,460
Pacific/Asia ex-Japan stock	642,087	(108,671)	533,416
Total investments	<u>\$ 5,943,974</u>	<u>\$ 720,333</u>	<u>\$ 6,664,307</u>

HEART OF THE VALLEY, INC.  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
December 31, 2021  
(With Comparative Totals for the Year Ended December 31, 2020)

**NOTE 3. FAIR VALUE MEASUREMENT OF INVESTMENTS (CONTINUED)**

**Basis of Fair Value Measurement (Continued)**

The following table presents by level, within the fair value hierarchy, the Organization's investment assets at fair value, as of December 31, 2020. 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.

	2020		
	Cost	Gross Unrealized Gains	Fair Value (Level 1)
Equity securities			
Commodities broad basket	\$ 267,997	\$ 54,218	\$ 322,215
Mutual funds			
Large blend	1,285,382	589,929	1,875,311
Foreign large growth	856,229	200,775	1,057,004
Real estate	288,995	3,316	292,311
Intermediate core-plus bond	368,866	13,457	382,323
Foreign small/mid growth	417,244	187,515	604,759
World bond	180,083	5,230	185,313
High yield bond	227,705	10,554	238,259
Diversified emerging markets	396,648	106,271	502,919
Total exchange traded funds	4,289,149	1,171,265	5,460,414
Money market funds	4,955	-	4,955
Totals	<u>\$ 4,294,104</u>	<u>\$ 1,171,265</u>	<u>\$ 5,465,369</u>

**NOTE 4. INVESTMENT INCOME**

Components of investment income for the years ended December 31, 2021 and 2020, consist of the following:

	<u>2021</u>	<u>2020</u>
Interest and dividend income	\$ 338,214	\$ 90,416
Unrealized gains, net	434,897	732,129
Realized gains, net	14,702	24,859
Investment management fees	(26,670)	(22,081)
Totals	<u>\$ 761,143</u>	<u>\$ 825,323</u>



HEART OF THE VALLEY, INC.  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
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**NOTE 5. NET ASSETS**

*Net Assets without Donor Restrictions*

Net assets without donor restrictions as of December 31, 2021 and 2020 consist of both designated and undesignated balances as follows:

	<u>2021</u>	<u>2020</u>
Undesignated	\$ 4,117,630	\$ 4,076,903
Board designated endowment funds	<u>1,919,708</u>	<u>1,411,381</u>
Total net assets without donor restrictions	<u>\$ 6,037,338</u>	<u>\$ 5,488,284</u>

*Net Assets with Donor Restrictions*

Net assets with donor restrictions as of December 31, 2021 and 2020 are as follows:

	<u>2021</u>	<u>2020</u>
Subject to expenditure for specified purpose:		
Animal welfare	\$ 95,667	\$ 96,505
Perpetual in nature:		
Donor restricted endowment funds	2,126,960	2,119,955
Subject to the Organization's spending policy and appropriation:		
Endowment earnings held until appropriated and released to support general operations	<u>2,633,040</u>	<u>2,184,578</u>
Total net assets with donor restrictions	<u>\$ 4,855,667</u>	<u>\$ 4,401,038</u>

**NOTE 6. 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)  
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**NOTE 6. 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, 2021 and 2020, respectively, are as follows:

	2021		
	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
	Board designated endowment funds	\$ 1,919,708	\$ -
Donor-restricted endowment funds			
Original donor-restricted gift required to be maintained in perpetuity by donor	-	2,126,960	2,126,960
Accumulated investment earnings	-	2,633,040	2,633,040
	<u>\$ 1,919,708</u>	<u>\$ 4,760,000</u>	<u>\$ 6,679,708</u>
	2020		
	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
Board designated endowment funds	\$ 1,411,381	\$ -	\$ 1,411,381
Donor-restricted endowment funds			
Original donor-restricted gift required to be maintained in perpetuity by donor	-	2,119,955	2,119,955
Accumulated investment earnings	-	2,184,578	2,184,578
	<u>\$ 1,411,381</u>	<u>\$ 4,304,533</u>	<u>\$ 5,715,914</u>

HEART OF THE VALLEY, INC.  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
December 31, 2021  
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**NOTE 6. ENDOWMENT (CONTINUED)**

*Interpretation of Relevant Law (Continued)*

Changes in endowment net asset composition for the years ended December 31, 2021 and 2020, respectively, are as follows:

	2021		
	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 1,411,381	\$ 4,304,533	\$ 5,715,914
Investment return, net	164,766	593,596	758,362
Contributions	198,427	7,005	205,432
Appropriation of endowment assets for expenditure	<u>145,134</u>	<u>(145,134)</u>	<u>-</u>
	<u>\$ 1,919,708</u>	<u>\$ 4,760,000</u>	<u>\$ 6,679,708</u>
	2020		
	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 992,246	\$ 3,648,851	\$ 4,641,097
Investment return, net	-	822,747	822,747
Contributions	250,000	2,070	252,070
Appropriation of endowment assets for expenditure	<u>169,135</u>	<u>(169,135)</u>	<u>-</u>
	<u>\$ 1,411,381</u>	<u>\$ 4,304,533</u>	<u>\$ 5,715,914</u>

For both of the years ended December 31, 2021 and 2020, the amount of the appropriation of endowment assets for expenditure was reinvested in the board designated endowment fund for long-term investment.

The following is a reconciliation of endowment net assets to endowment holdings reported as long-term investments on the statements of financial position as of December 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Endowment net assets, end of year	\$ 6,679,708	\$ 5,715,914
Cash and cash equivalents	<u>(15,401)</u>	<u>(250,545)</u>
Long-term investments	<u>\$ 6,664,307</u>	<u>\$ 5,465,369</u>

HEART OF THE VALLEY, INC.  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
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**NOTE 6. ENDOWMENT (CONTINUED)**

*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, 2021 and 2020.

*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 31<sup>st</sup> 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-, or
- 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)  
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**NOTE 7. 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. As of December 31, 2021 and 2020, restricted contributions of \$95,667 and \$96,505, respectively, 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.

The following reflects the Organization's financial assets as of December 31, 2021 and 2020, net of amounts not available for general use within one year of the statement of financial position date:

	<u>2021</u>	<u>2020</u>
Financial assets at year end:		
Cash and cash equivalents	\$ 773,486	\$ 985,443
Accounts receivable	32,206	35,320
Long-term investments	<u>6,664,307</u>	<u>5,465,369</u>
Total financial assets	<u>7,469,999</u>	<u>6,486,132</u>
Less amounts not available to use within one year:		
Endowment investments held in perpetuity	(2,126,960)	(2,119,955)
Unappropriated endowment earnings	(2,456,860)	(1,995,220)
Board designated endowment funds held for long-term investment	<u>(1,919,708)</u>	<u>(1,411,381)</u>
Total financial assets not available to use within one year	<u>(6,503,528)</u>	<u>(5,526,556)</u>
Total financial assets available to meet general expenditures within one year	<u>\$ 966,471</u>	<u>\$ 959,576</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 7. 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, 2021, the Board has approved \$176,180 of earnings from the endowment to be appropriated and released for current operations in 2022. Therefore, these amounts were 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 8. IN-KIND SUPPORT**

The Organization received donated materials and professional services in 2021 and 2020 amounting to \$63,388 and \$49,324, 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 22,038 and 17,802 hours of volunteer services in 2021 and 2020, 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 9. RETIREMENT PLAN**

The Organization has adopted a SIMPLE IRA retirement plan (the Plan). All employees receiving at least \$5,000 in compensation during any one prior calendar year and who are reasonably expected to receive at least \$5,000 in compensation during the current calendar year are 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, 2021 and 2020, amounted to \$22,037 and \$19,432, respectively.

HEART OF THE VALLEY, INC.  
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**NOTE 10. LONG-TERM NOTE PAYABLE**

On August 4, 2020, the Organization received an Economic Injury Disaster Loan (EIDL) loan from the Small Business Administration of \$150,000 bearing interest at 2.75% per annum. The loan is payable in monthly installments beginning on August 4, 2022 of \$641, including interest through August 4, 2051. The loan is collateralized by all tangible and intangible property, including but not limited to: (a) inventory, (b) equipment, (c) instruments, including promissory noted (d) chattel paper, including tangible chattel paper and electronic chattel paper, (e) documents, (f) letter of credit rights, (g) accounts, including health-care insurance receivables and credit card receivables, (h) deposit accounts, (i) commercial tort claims, (j) general intangibles, including payment intangibles and software and (k) as-extracted collateral as such terms may from time to time be defined in the Uniform Commercial Code. On December 9, 2021, the Organization paid off the outstanding balance and accrued interest of the EIDL loan. The balance of the loan at December 31, 2021 and 2020 was \$-0- and \$149,900, respectively.

**NOTE 11. FORGIVENESS OF PAYCHECK PROTECTION PROGRAM LOANS**

On February 8, 2021, the Organization received loan proceeds in the amount of \$190,647 under the second draw of the PPP. The PPP loan and accrued interest would be forgiven after the covered period, up to twenty-four weeks, if the borrower used the PPP loan proceeds for eligible purposes, including payroll, benefits, rent, utilities, covered operations expenditures, covered property damage, covered supplier costs, covered worker protection expenditures and maintains its payroll levels. The amount of the PPP loan forgiveness would be reduced if the borrower terminated employees or reduced salaries during the covered period, up to twenty-four weeks. Any amounts not forgiven under the PPP loan are payable over 2 years at an interest rate of 1%, with a deferral of payments for the first 10 months.

On November 1, 2021, notification of forgiveness was received from the lender, including accrued interest of \$1,384. As a result, the Organization has accounted for the PPP loan in accordance with FASB ASC 958-605 as a conditional contribution and recognized \$192,031 as forgiveness of Paycheck Protection Program loans in the accompanying statements of activities for the year ended December 31, 2021.

On April 13, 2020, the Organization received loan proceeds in the amount of \$190,600 under the Paycheck Protection Program (PPP) of the U.S. Small Business Administration. The PPP loan and accrued interest would be forgiven after the covered period, up to twenty-four weeks, if the borrower used the PPP loan proceeds for eligible purposes, including payroll, benefits, rent, utilities, covered operations expenditures, covered property damage, covered supplier costs, covered worker protection expenditures and maintains its payroll levels. The amount of the PPP loan forgiveness would be reduced if the borrower terminated employees or reduced salaries during the covered period, up to twenty-four weeks. Any amounts not forgiven under the PPP loan are payable over 2 years at an interest rate of 1%, with a deferral of payments for the first 10 months.

HEART OF THE VALLEY, INC.  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
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**NOTE 11. FORGIVENESS OF PAYCHECK PROTECTION PROGRAM LOANS  
(CONTINUED)**

On December 3, 2020, notification of forgiveness was received from the lender. As a result, the Organization has accounted for the PPP loan in accordance with FASB ASC 958-605 as a conditional contribution and recognized \$190,600 as forgiveness of Paycheck Protection Program loans as forgiveness of Paycheck Protection Program loans in the accompanying statements of activities for the year ended December 31, 2020.

**NOTE 12. RELATED PARTY TRANSACTIONS**

The Organization received donations from multiple board members and the Executive Director. Related party contributions for the years ended December 31, 2021 and 2020, were \$71,566 and \$85,859, respectively. Additionally, the Organization received donated services and auction items from board members and an organization in which a board member had significant influence. Total related party in-kind support for the years ended December 31, 2021 and 2020, were \$35,805 and \$2,919, respectively.

**NOTE 13. SUBSEQUENT EVENTS AND ECONOMIC UNCERTAINTIES**

As a result of economic uncertainty and volatility in financial markets, various investment securities held by the Organization have incurred significant declines in fair value since December 31, 2021. The markets continue to evolve rapidly, and management is not able at this time to estimate the full impact on the Organization's financial statements.





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