



**FINANCIAL REPORT**

**December 31, 2020**



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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, 2020, 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, 2020, and the changes in its net assets, functional expenses, and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

**Report on Summarized Comparative Information**

We have previously audited the Organization's 2019 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated July 15, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Anderson Zur Muehlen & Co., P.C.*

Bozeman, Montana

July 21, 2021

FINANCIAL STATEMENTS

HEART OF THE VALLEY, INC.  
STATEMENT OF FINANCIAL POSITION  
December 31, 2020  
(With Comparative Totals as of December 31, 2019)

	<u>2020</u>	<u>2019</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 985,443	\$ 247,724
Accounts receivable	35,320	68,849
Contributions receivable	-	26,600
Prepaid expenses	9,700	26,608
Inventory	<u>3,362</u>	<u>3,153</u>
Total current assets	<u>1,033,825</u>	<u>372,934</u>
<b>PROPERTY AND EQUIPMENT</b>		
Building and improvements	4,443,072	4,439,766
Equipment and vehicles	237,897	227,059
Land and improvements	716,456	716,456
Office furniture and equipment	<u>165,669</u>	<u>165,669</u>
	5,563,094	5,548,950
Less accumulated depreciation	<u>(1,945,034)</u>	<u>(1,774,612)</u>
	<u>3,618,060</u>	<u>3,774,338</u>
<b>OTHER ASSETS</b>		
Endowment investments	<u>5,465,369</u>	<u>4,618,497</u>
Total assets	<u>\$ 10,117,254</u>	<u>\$ 8,765,769</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 9,341	\$ 33,799
Accrued liabilities	<u>68,691</u>	<u>63,284</u>
Total current liabilities	<u>78,032</u>	<u>97,083</u>
<b>LONG-TERM DEBT</b>		
	<u>149,900</u>	<u>-</u>
Total liabilities	<u>227,932</u>	<u>97,083</u>
<b>NET ASSETS</b>		
Without donor restrictions - undesignated	4,076,903	3,947,804
Without donor restrictions - designated	1,411,381	992,246
With donor restrictions	<u>4,401,038</u>	<u>3,728,636</u>
Total net assets	<u>9,889,322</u>	<u>8,668,686</u>
Total liabilities and net assets	<u>\$ 10,117,254</u>	<u>\$ 8,765,769</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, 2020  
(With Comparative Totals for the Year Ended December 31, 2019)

	Without donor restrictions	With donor restrictions	2020 Totals	2019 Totals
<b>REVENUES</b>				
Shelter services	\$ 433,988	\$ -	\$ 433,988	\$ 494,132
Investment income	2,576	822,747	825,323	839,429
Retail sales income, net	<u>12,122</u>	<u>-</u>	<u>12,122</u>	<u>8,496</u>
Total revenues	<u>448,686</u>	<u>822,747</u>	<u>1,271,433</u>	<u>1,342,057</u>
<b>SUPPORT</b>				
Donations	736,991	109,331	846,322	575,841
Fundraising events	253,123	-	253,123	303,140
Grants	454,199	-	454,199	141,618
In-kind support	<u>49,324</u>	<u>-</u>	<u>49,324</u>	<u>64,074</u>
Total support	<u>1,493,637</u>	<u>109,331</u>	<u>1,602,968</u>	<u>1,084,673</u>
<b>NET ASSETS RELEASED FROM RESTRICTIONS</b>				
Donor restricted endowment funds appropriated and released for current operations	169,135	(169,135)	-	-
Satisfaction of program restrictions	<u>90,541</u>	<u>(90,541)</u>	<u>-</u>	<u>-</u>
Total net assets released from restrictions	<u>259,676</u>	<u>(259,676)</u>	<u>-</u>	<u>-</u>
Total revenues, support, and satisfaction of restrictions	<u>2,201,999</u>	<u>672,402</u>	<u>2,874,401</u>	<u>2,426,730</u>
<b>OPERATING EXPENSES</b>				
Program services:				
Animal welfare	1,280,278	-	1,280,278	1,280,889
Supporting services:				
Fundraising expenses	230,144	-	230,144	270,601
General and administrative expenses	<u>143,343</u>	<u>-</u>	<u>143,343</u>	<u>115,295</u>
Total operating expenses	<u>1,653,765</u>	<u>-</u>	<u>1,653,765</u>	<u>1,666,785</u>
Change in net assets	548,234	672,402	1,220,636	759,945
Net assets, beginning of year	<u>4,940,050</u>	<u>3,728,636</u>	<u>8,668,686</u>	<u>7,908,741</u>
Net assets, end of year	<u>\$ 5,488,284</u>	<u>\$ 4,401,038</u>	<u>\$ 9,889,322</u>	<u>\$ 8,668,686</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, 2020  
(With Comparative Totals for the Year Ended December 31, 2019)

	Program		Supporting Services		2020 Totals	2019 Totals
	Animal Welfare	Fundraising	General and Administrative			
Advertising	\$ -	\$ 1,038	\$ -		\$ 1,038	\$ 1,193
Animal care	162,403	-	-		162,403	201,477
Depreciation	158,492	6,817	5,113		170,422	159,773
Dues and subscriptions	2,272	328	137		2,737	2,179
Equipment lease and maintenance	11,213	1,621	676		13,510	13,064
Fundraising	-	27,505	-		27,505	39,229
Information technology	3,970	171	128		4,269	4,028
Insurance	26,529	2,069	1,281		29,879	27,735
Occupancy expense	83,355	3,585	2,689		89,629	92,876
Office expense	23,966	18,985	5,666		48,617	46,513
Other	4,043	-	8,099		12,142	8,171
Payroll taxes	52,195	10,283	5,364		67,842	67,895
Professional fees	3,645	12,200	38,844		54,689	55,997
Salaries, wages, and benefits	729,469	143,720	74,967		948,156	913,797
Shelter services	7,634	-	-		7,634	8,117
Staff training and development	5,234	1,542	231		7,007	19,098
Travel	2,164	93	70		2,327	2,130
Volunteer and employee recognition	3,694	187	78		3,959	3,513
	<u>\$ 1,280,278</u>	<u>\$ 230,144</u>	<u>\$ 143,343</u>		<u>\$ 1,653,765</u>	<u>\$ 1,666,785</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, 2020  
(With Comparative Totals for the Year Ended December 31, 2019)

	<u>2020</u>	<u>2019</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 1,220,636	\$ 759,945
Adjustments to reconcile changes in net assets to net cash flows from operating activities:		
Depreciation	170,422	159,773
Cash contributions restricted to endowment	(3,770)	(35,422)
Donated securities	(14,716)	-
Reinvested interest and dividends, net of investment fees	(68,335)	(86,344)
Net realized gain on sales of investments	(24,859)	(28,680)
Net unrealized gain on investments	(732,129)	(724,405)
Changes in operating assets and liabilities:		
Accounts receivable	33,529	(35,408)
Contributions receivable	26,600	(1,600)
Prepaid expenses	16,908	(21,717)
Inventory	(209)	122
Accounts payable and accrued liabilities	<u>(19,051)</u>	<u>26,582</u>
Net cash flows from operating activities	<u>605,026</u>	<u>12,846</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of investments	(883,706)	(780,469)
Proceeds from sales of investments	876,873	845,607
Purchases of property and equipment	<u>(14,144)</u>	<u>(27,822)</u>
Net cash flows from investing activities	<u>(20,977)</u>	<u>37,316</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Cash contributions restricted to endowment	3,770	35,422
Proceeds from external borrowings	<u>149,900</u>	<u>-</u>
Net cash flows from financing activities	<u>153,670</u>	<u>35,422</u>
Net change in cash and cash equivalents	737,719	85,584
Cash and cash equivalents, beginning of year	<u>247,724</u>	<u>162,140</u>
Cash and cash equivalents, end of year	<u>\$ 985,443</u>	<u>\$ 247,724</u>

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

HEART OF THE VALLEY, INC.  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2020  
(With Comparative Totals for the Year Ended December 31, 2019)

**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, 2019, 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, 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.

HEART OF THE VALLEY, INC.  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
December 31, 2020  
(With Comparative Totals for the Year Ended December 31, 2019)

**NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Basis of Accounting (Continued)**

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.

**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, 2020 and 2019, the Organization's deposits exceeded the insured limits by \$457,534 and \$-0-, 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.

HEART OF THE VALLEY, INC.  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
December 31, 2020  
(With Comparative Totals for the Year Ended December 31, 2019)

**NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Revenue Recognition (Continued)**

*Fundraising Events*

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

*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.

HEART OF THE VALLEY, INC.  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
December 31, 2020  
(With Comparative Totals for the Year Ended December 31, 2019)

**NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Inventory**

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

**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 \$170,422 and \$159,773 for the years ended December 31, 2020 and 2019, 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, 2020 and 2019 amounted to \$21,420 and \$14,838, respectively.

**Advertising Costs**

The Organization expenses advertising costs as incurred. Advertising expense was \$1,038 and \$1,193 for the years ended December 31, 2020 and 2019, respectively.

HEART OF THE VALLEY, INC.  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
December 31, 2020  
(With Comparative Totals for the Year Ended December 31, 2019)

**NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Income Taxes**

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

**Statement of Functional Expenses**

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. 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 21, 2021, 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.

HEART OF THE VALLEY, INC.  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
December 31, 2020  
(With Comparative Totals for the Year Ended December 31, 2019)

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

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

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.

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, 2020 and 2019, 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.

HEART OF THE VALLEY, INC.  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
December 31, 2020  
(With Comparative Totals for the Year Ended December 31, 2019)

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

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

The following tables presents by level, within the fair value hierarchy, the Organization's investment assets at fair value, as of December 31, 2020 and 2019. 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>
	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, 2020  
(With Comparative Totals for the Year Ended December 31, 2019)

**NOTE 4. INVESTMENT INCOME**

Components of investment and interest income for the years ended December 31, 2020 and 2019, consist of the following:

	<u>2020</u>	<u>2019</u>
Interest and dividend income	\$ 90,416	\$ 107,484
Unrealized gains, net	732,129	724,405
Realized gains, net	24,859	28,680
Investment management fees	<u>(22,081)</u>	<u>(21,140)</u>
Totals	<u>\$ 825,323</u>	<u>\$ 839,429</u>

**NOTE 5. NET ASSETS**

*Net Assets without Donor Restrictions*

Net assets without donor restrictions as of December 31, 2020 and 2019 consist of both designated and undesignated balances as follows:

	<u>2020</u>	<u>2019</u>
Undesignated	\$ 4,076,903	\$ 3,947,804
Board designated endowment funds	<u>1,411,381</u>	<u>992,246</u>
Total net assets without donor restrictions	<u>\$ 5,488,284</u>	<u>\$ 4,940,050</u>

*Net Assets with Donor Restrictions*

Net assets with donor restrictions as of December 31, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Subject to expenditure for specified purpose:		
Animal welfare	\$ 96,505	\$ 79,785
Perpetual in nature:		
Donor restricted endowment funds	2,119,955	2,287,020
Subject to the Organization's spending policy and appropriation:		
Endowment earnings held until appropriated and released to support general operations	<u>2,184,578</u>	<u>1,361,831</u>
Total net assets with donor restrictions	<u>\$ 4,401,038</u>	<u>\$ 3,728,636</u>

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

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.

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**NOTE 6. ENDOWMENT (CONTINUED)**

*Interpretation of Relevant Law (Continued)*

Endowment net asset composition by fund type for the years ended December 31, 2020 and 2019, respectively, are as follows:

	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>
	2019		
	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
Board designated endowment funds	\$ 992,246	\$ -	\$ 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	-	1,361,831	1,361,831
	<u>\$ 992,246</u>	<u>\$ 3,648,851</u>	<u>\$ 4,641,097</u>

HEART OF THE VALLEY, INC.  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
December 31, 2020  
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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, 2020 and 2019, respectively, are as follows:

	2020		
	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
	Endowment net assets, beginning of year	\$ 992,246	\$ 3,648,851
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>
	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	<u>79,110</u>	<u>(154,110)</u>	<u>(75,000)</u>
	<u>\$ 992,246</u>	<u>\$ 3,648,851</u>	<u>\$ 4,641,097</u>

For both of the years ended December 31, 2020 and 2019, 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 on the statements of financial position as of December 31, 2020 and 2019:

	2020	2019
Endowment net assets, end of year	\$ 5,715,914	\$ 4,641,097
Cash and cash equivalents	(250,545)	-
Credit card receivable	<u>-</u>	<u>(22,600)</u>
Endowment holdings	<u>\$ 5,465,369</u>	<u>\$ 4,618,497</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, 2020 and 2019.

*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-
- 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.

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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, 2020 and 2019, restricted contributions of \$96,505 and \$79,785, 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, 2020 and 2019, net of amounts not available for general use within one year of the statement of financial position date:

	<u>2020</u>	<u>2019</u>
Financial assets at year end:		
Cash and cash equivalents	\$ 985,443	\$ 247,724
Accounts receivable	35,320	68,849
Endowment investments	<u>5,465,369</u>	<u>4,618,497</u>
Total financial assets	<u>6,486,132</u>	<u>4,961,670</u>
Less amounts not available to use within one year:		
Endowment investments held in perpetuity	(2,119,955)	(2,287,020)
Unappropriated endowment earnings	(1,995,220)	(1,192,696)
Board designated endowment funds held for long-term investment	<u>(1,411,381)</u>	<u>(992,246)</u>
Total financial assets not available to use within one year	<u>(5,526,556)</u>	<u>(4,471,962)</u>
Total financial assets available to meet general expenditures within one year	<u>\$ 959,576</u>	<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 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, 2020, the Board has approved \$189,358 of earnings from the endowment to be appropriated and released for current operations in 2021. 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 2020 and 2019 amounting to \$49,324 and \$64,074, 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 17,802 and 20,187 hours of volunteer services in 2020 and 2019, 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, 2020 and 2019, amounted to \$19,432 and \$17,692, respectively.

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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 \$149,900 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 notes (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. The balance of the loan at December 31, 2020 was \$149,900.

Future maturities of the long-term note payable are scheduled as follows:

<u>Future maturities</u>	
2021	\$ -
2022	1,840
2023	3,664
2024	3,766
2025	3,870
Thereafter	<u>136,760</u>
	<u>\$ 149,900</u>

**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, 2020 and 2019, were \$85,859 and \$135,134, respectively.

**NOTE 12. SUBSEQUENT EVENTS**

On February 8, 2021, the Organization received loan proceeds in the amount of \$190,647 under the second draw of the Paycheck Protection Program (PPP). The second draw of the PPP was funded through the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act (Economic Aid Act), which provides loans to qualifying organizations for amounts up to 2.5 times of the monthly payroll expenses for the qualifying business up to \$2 million.



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**NOTE 12. SUBSEQUENT EVENTS (CONTINUED)**

The loans and accrued interest are forgivable after the covered period as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent, utilities, covered operations expenditures, covered property damage, covered supplier costs and covered worker protection expenditures, and maintains its payroll levels. The amount of loan forgiveness will be reduced if the borrower terminates employees or reduces salaries during the covered period.

The unforgiven portion of the second draw PPP loan is payable over five years at an interest rate of 1% per annum, with a deferral of payments for ten months after the covered period ends. The Organization intends to use the proceeds for purposes consistent with the PPP. While the Organization believes that its use of the loan proceeds will meet the conditions for forgiveness of the loan, it is possible the Organization may be ineligible for forgiveness of the loan, in whole or in part.



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