

HEART OF THE VALLEY, INC.

AUDITED FINANCIAL STATEMENTS

December 31, 2022 and 2021



AMATICS
CPA GROUP

**HEART OF THE VALLEY, INC.
CONTENTS**

AUDITED FINANCIAL STATEMENTS	<u>Page</u>
Independent auditor's report	3 - 4
Statements of financial position	5
Statements of activities	6 - 7
Statements of functional expenses	8 - 9
Statements of cash flows	10
Notes to financial statements	11 - 25



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), which comprise the statement of financial position as of December 31, 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the 2022 financial statements referred to above present fairly, in all material respects, the financial position of Heart of the Valley, Inc., as of December 31, 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Prior Period Financial Statements

The financial statements of Heart of the Valley, Inc. as of December 31, 2021 were audited by other auditors whose report dated July 27, 2022, expressed an unmodified opinion on those statements.

Responsibilities of Management 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, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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 within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with 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.



Auditor's Responsibilities for the Audit of the Financial Statements (Continued)

Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with 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.



Bozeman, Montana
July 19, 2023

**HEART OF THE VALLEY, INC.
STATEMENTS OF FINANCIAL POSITION**

ASSETS

	December 31	
	2022	2021
CURRENT ASSETS		
Cash and cash equivalents	\$ 594,300	\$ 773,486
Accounts receivable	38,828	32,206
Contributions receivable	9,180	-
Prepaid expenses	7,738	11,078
Inventory	16,815	18,628
Total current assets	666,861	835,398
PROPERTY AND EQUIPMENT		
Buildings and improvements	4,480,199	4,472,079
Equipment and vehicles	270,740	246,933
Land and improvements	716,454	716,454
Office furniture and equipment	167,564	167,564
	5,634,957	5,603,030
Less: accumulated depreciation	(2,270,705)	(2,105,705)
Property and equipment, net	3,364,252	3,497,325
OTHER ASSETS		
Long-term investments	6,585,685	6,664,307
Total assets	\$ 10,616,798	\$ 10,997,030

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable	\$ 14,968	\$ 13,573
Accrued liabilities	140,845	90,452
Total current liabilities	155,813	104,025
NET ASSETS		
Without donor restrictions - undesignated	3,764,272	4,117,630
Without donor restrictions - designated	2,743,468	1,919,708
With donor restrictions	3,953,245	4,855,667
Total net assets	10,460,985	10,893,005
Total liabilities and net assets	\$ 10,616,798	\$ 10,997,030

See notes to financial statements.

HEART OF THE VALLEY, INC.
STATEMENT OF ACTIVITIES
Year ended December 31, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE			
Shelter services	\$ 545,278	\$ -	\$ 545,278
Investment income, net	(264,057)	(734,318)	(998,375)
Retail sales income, net	19,463	-	19,463
	300,684	(734,318)	(433,634)
SUPPORT			
Donations	1,274,248	126,200	1,400,448
Fundraising events	379,854	-	379,854
Grants	118,057	-	118,057
In-kind support	76,806	-	76,806
	1,848,965	126,200	1,975,165
RELEASED FROM RESTRICTIONS			
Donor restricted endowment funds appropriated and released for current operations	176,180	(176,180)	-
Satisfaction of program restrictions	118,124	(118,124)	-
	294,304	(294,304)	-
Total revenues, support, and satisfaction of donor restrictions	2,443,953	(902,422)	1,541,531
OPERATING EXPENSES			
Program services:			
Animal welfare	1,543,051	-	1,543,051
Supporting services:			
General and administrative expenses	138,290	-	138,290
Fundraising expenses	292,210	-	292,210
Total expenses	1,973,551	-	1,973,551
CHANGE IN NET ASSETS	470,402	(902,422)	(432,020)
Net assets at beginning of year	6,037,338	4,855,667	10,893,005
NET ASSETS AT END OF YEAR	\$ 6,507,740	\$ 3,953,245	\$ 10,460,985

See notes to financial statements.

HEART OF THE VALLEY, INC.
STATEMENT OF ACTIVITIES
Year ended December 31, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE			
Shelter services	\$ 499,159	\$ -	\$ 499,159
Investment income, net	167,547	593,596	761,143
Retail sales income, net	18,911	-	18,911
	685,617	593,596	1,279,213
SUPPORT			
Donations	706,145	112,533	818,678
Fundraising events	272,849	-	272,849
Grants	131,719	-	131,719
Paycheck Protection Program loan forgiveness	192,031	-	192,031
In-kind support	63,388	-	63,388
	1,366,132	112,533	1,478,665
RELEASED FROM RESTRICTIONS			
Donor restricted endowment funds appropriated and released for current operations	145,134	(145,134)	-
Satisfaction of program restrictions	106,366	(106,366)	-
	251,500	(251,500)	-
Total revenues, support, and satisfaction of donor restrictions	2,303,249	454,629	2,757,878
EXPENSES			
Program services:			
Animal welfare	1,390,061	-	1,390,061
Supporting services:			
General and administrative expenses	134,334	-	134,334
Fundraising expenses	229,800	-	229,800
Total expenses	1,754,195	-	1,754,195
CHANGE IN NET ASSETS	549,054	454,629	1,003,683
Net assets at beginning of year	5,488,284	4,401,038	9,889,322
NET ASSETS AT END OF YEAR	\$ 6,037,338	\$ 4,855,667	\$ 10,893,005

See notes to financial statements.

HEART OF THE VALLEY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year ended December 31, 2022

	<u>Program</u>	<u>Supporting Services</u>		<u>Total</u>
	<u>Animal Welfare</u>	<u>General and Administrative</u>	<u>Fundraising</u>	
Salaries and wages	\$ 849,786	\$ 67,411	\$ 160,595	\$ 1,077,792
Accounting fees	-	45,137	-	45,137
Advertising	-	-	656	656
Animal care	97,024	-	-	97,024
Depreciation	153,450	4,950	6,600	165,000
Due and subscriptions	2,780	167	403	3,350
Employee benefits	35,986	2,855	6,800	45,641
Equipment lease and maintenance	12,014	724	1,737	14,475
Event expense	-	-	45,502	45,502
Information technology	5,441	206	346	5,993
Insurance	35,516	1,623	3,007	40,146
Miscellaneous	9,245	33	5,687	14,965
Occupancy expense	90,863	2,931	3,906	97,700
Office expense	19,014	4,036	13,657	36,707
Payroll taxes	69,619	5,523	13,156	88,298
Pension plan contributions	20,391	1,618	3,854	25,863
Professional fees	5,363	-	17,956	23,319
Shelter services	10,047	-	-	10,047
Staff training	16,842	891	7,950	25,683
Travel	1,330	43	57	1,430
Veterinary expense	101,194	-	-	101,194
Volunteer and employee recognition	7,146	142	341	7,629
	<u>\$ 1,543,051</u>	<u>\$ 138,290</u>	<u>\$ 292,210</u>	<u>\$ 1,973,551</u>
Total expenses	<u>\$ 1,543,051</u>	<u>\$ 138,290</u>	<u>\$ 292,210</u>	<u>\$ 1,973,551</u>

See notes to financial statements.

HEART OF THE VALLEY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year ended December 31, 2021

	<u>Program</u>	<u>Supporting Services</u>		<u>Total</u>
	<u>Animal Welfare</u>	<u>General and Administrative</u>	<u>Fundraising</u>	
Salaries and wages	\$ 758,717	\$ 64,184	\$ 140,489	\$ 963,390
Accounting fees	-	43,009	-	43,009
Advertising	-	-	1,621	1,621
Animal care	93,752	-	-	93,752
Depreciation	149,424	4,820	6,427	160,671
Dues and subscriptions	2,861	172	414	3,447
Employee benefits	20,748	1,755	3,842	26,345
Equipment lease and maintenance	11,437	689	1,654	13,780
Event expense	-	-	17,058	17,058
Information technology	6,158	240	417	6,815
Insurance	24,193	1,120	1,962	27,275
Miscellaneous	8,182	3,491	-	11,673
Occupancy expense	104,108	3,358	4,478	111,944
Office expense	20,384	4,550	15,213	40,147
Payroll taxes	58,256	4,928	10,787	73,971
Pension plan contributions	17,355	1,468	3,214	22,037
Professional fees	4,800	-	16,068	20,868
Shelter services	7,485	-	-	7,485
Staff training and development	6,863	369	5,797	13,029
Travel	2,197	71	94	2,362
Veterinary expense	88,236	-	-	88,236
Volunteer and employee recognitions	4,905	110	265	5,280
	<u>\$ 1,390,061</u>	<u>\$ 134,334</u>	<u>\$ 229,800</u>	<u>\$ 1,754,195</u>
Total expenses	<u>\$ 1,390,061</u>	<u>\$ 134,334</u>	<u>\$ 229,800</u>	<u>\$ 1,754,195</u>

See notes to financial statements.

**HEART OF THE VALLEY, INC.
STATEMENTS OF CASH FLOWS**

	Years ended December 31	
	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from donors and grantors	\$ 1,884,370	\$ 1,403,125
Other cash receipts	506,890	511,065
Payments for salaries and related cost	(1,192,887)	(1,063,981)
Payments to vendors	<u>(478,042)</u>	<u>(441,540)</u>
Net cash provided by operating activities	<u>720,331</u>	<u>408,669</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of fixed assets	(31,927)	(39,936)
Purchases of investments	(2,388,733)	(4,506,261)
Proceeds from sale of investments	<u>1,505,416</u>	<u>4,068,466</u>
Net cash used by investing activities	<u>(915,244)</u>	<u>(477,731)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash contributions restricted to endowment	15,727	7,005
Payments on long term debt	<u>-</u>	<u>(149,900)</u>
Net cash used by financing activities	<u>15,727</u>	<u>(142,895)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	<u>(179,186)</u>	<u>(211,957)</u>
Cash and cash equivalents at beginning of year	<u>773,486</u>	<u>985,443</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 594,300</u></u>	<u><u>\$ 773,486</u></u>
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Change in net assets	\$ (432,020)	\$ 1,003,683
Adjustments to reconcile change in net assets to cash flows from operating activities:		
Depreciation	165,000	160,671
Cash contributions restricted to endowment	(15,727)	(7,005)
Donated securities	(40,525)	-
Reinvested interest and dividends, net of investment fees	(125,885)	(311,544)
Net realized (gain) loss on sale of investments	(64,082)	(14,702)
Net unrealized (gain) loss on investments	1,192,432	(434,897)
Changes in operating assets and liabilities:		
Accounts receivable	(6,622)	3,114
Contributions receivable	(9,180)	-
Other current assets	5,154	(16,645)
Current liabilities	<u>51,786</u>	<u>25,994</u>
Net cash flows from operating activities	<u><u>\$ 720,331</u></u>	<u><u>\$ 408,669</u></u>

See notes to financial statements.

HEART OF THE VALLEY, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Activities

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.

Basis of Accounting

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).

Net Assets

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 donor-restricted support whose restrictions are met in the same reporting period. These net assets may be used at the discretion of the Organization's management and the Board of Directors.
- *Net assets with donor restrictions* - Net assets subject to donor-imposed stipulations. These donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time.

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.

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.

HEART OF THE VALLEY, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, savings, and money market accounts.

The Organization's cash balances are maintained in several bank depository accounts for which the Federal Deposit Insurance Corporation (FDIC) coverage is limited to \$250,000 per depositor, per insured bank. As of December 31, 2022 and 2021, the cash deposits with banks exceeded their insured limits by \$109,906 and \$254,465, 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.

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.

HEART OF THE VALLEY, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (continued)

It is the Organization's policy to report gifts of property 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.

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 amounted to \$165,000 and \$160,671 for the years ended December 31, 2022 and 2021, respectively.

HEART OF THE VALLEY, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 2 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 investment income 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, 2022 and 2021, amounted to \$23,660 and \$19,786, respectively, and are included in accrued liabilities on the statements of financial position.

Advertising Costs

The Organization expenses advertising costs as incurred. Advertising expense as of December 31, 2022 and 2021, amounted to \$656 and \$1,621, 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. The Organization's information returns (Form 990) are open to examination by the IRS generally, for three years after they were filed or the due date of the return, whichever is later.

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs 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.

HEART OF THE VALLEY, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Adoption of New Accounting Standards

Contributed Nonfinancial Assets

Effective January 1, 2022, the Organization retroactively adopted Accounting Standards Update (ASU) 2020-07, *Not-for-Profit (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which impacts the accounting for revenue and support. The new guidance requires the Organization to present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash and other financial assets, and disclose the amount of contributed nonfinancial assets recognized by category. The additional disclosure requires the Organization to disclose the following for each category: qualitative information; the Organization's policy (if any) about monetizing rather than utilizing the contributed nonfinancial asset; description of donor-imposed restrictions; description of valuation techniques and inputs used to arrive at fair value; and the principal market used to arrive at fair value measure if it is a market in which the recipient not-for-profit is prohibited by donor-imposed restriction from selling or using the contributed nonfinancial asset. Adoption of ASU 2020-07 did not have a significant impact on the financial statements.

Leases

Effective January 1 2022, the Organization adopted FASB ASC 842, *Leases*. The Organization determines if an arrangement contains a lease at inception based on whether the Organization has the right to control the asset during the contract period and other acts and circumstances. The new standard establishes a right of use (ROU) model that requires a lessee to record and ROU asset and a lease liability on the statement of financial position sheet for all leases with terms longer than 12 months. Leases are classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities. Leases with a term of less than 12 months will not record a right of use asset and lease liability and the payments will be recognized into profit or loss on a straight-line basis over the lease term. The adoption of FASB ASC 842 did not have a material impact on the Organization's financial statements.

Reclassifications

Certain reclassifications of amounts previously reported have been made to the accompanying financial statements to maintain consistency between periods presented. The reclassifications did not have an effect on previously reported net assets.

2. FAIR VALUE MEASUREMENT OF INVESTMENTS

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

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

HEART OF THE VALLEY, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021

2. FAIR VALUE MEASUREMENT OF INVESTMENTS (Continued)

Basis of Fair Value Measurement

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

Level 1 – Quoted prices for identical assets or liabilities in active markets;

Level 2 – Observable inputs for similar assets or liabilities in active markets, identical or similar assets in inactive markets, inputs other than quoted prices that are directly observable, and inputs derived from observable market data by correlation or other means; 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.

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, 2022 and 2021, 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
December 31, 2022 and 2021

2. FAIR VALUE MEASUREMENT OF INVESTMENTS (Continued)

The following table presents by level, within the fair value hierarchy, the Organization's investment assets at fair value, as of December 31, 2022. 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.

	2022		
	Cost	Gross Unrealized Gains (Losses)	Fair Value (Level 1)
Money market funds	\$ 101,959	\$ -	\$ 101,959
Equity securities			
Commodities broad basket	402,091	103,135	505,226
Mutual funds			
Large blend	1,401,062	(318,234)	1,082,828
Foreign large growth	1,223,435	310,034	1,533,469
Real estate	573,143	(82,448)	490,695
Intermediate core-plus bond	756,659	(114,786)	641,873
Foreign small/mid growth	328,003	(36,993)	291,010
Ultrashort bond	465,276	(7,142)	458,134
World bond	423,172	(52,354)	370,818
Bank loan	300,786	(26,323)	274,463
High yield bond	299,521	(25,222)	274,299
Diversified emerging markets	803,360	(242,449)	560,911
Total	<u>\$ 7,078,467</u>	<u>\$ (492,782)</u>	<u>\$ 6,585,685</u>

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 Gains (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 growth	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	<u>\$ 5,943,974</u>	<u>\$ 720,333</u>	<u>\$ 6,664,307</u>

HEART OF THE VALLEY, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021

3. INVESTMENT INCOME

Components of investment income for the years ended December 31, 2022 and 2021, consist of the following:

	<u>2022</u>	<u>2021</u>
Interest and dividend income	\$ 159,374	\$ 338,214
Unrealized gains (losses)	(1,190,066)	434,897
Realized gains (losses)	64,081	14,702
Investment management fees	<u>(31,764)</u>	<u>(26,670)</u>
Totals	<u>\$ (998,375)</u>	<u>\$ 761,143</u>

4. NET ASSETS

Net Assets without Donor Restrictions

Net assets without donor restrictions as of December 31, 2022 and 2021, consist of both designated and undesignated balances as follows:

	<u>2022</u>	<u>2021</u>
Undesignated	\$ 3,764,272	\$ 4,117,630
Board designated endowment funds	<u>2,743,468</u>	<u>1,919,708</u>
Total net assets without donor restrictions	<u>\$ 6,507,740</u>	<u>\$ 6,037,338</u>

Net Assets with Donor Restrictions

Net assets with donor restrictions as of December 31, 2022 and 2021, are as follows:

	<u>2022</u>	<u>2021</u>
Subject to expenditure for specified purpose:		
Animal welfare	\$ 103,742	\$ 95,667
Perpetual in nature:		
Donor restricted endowment funds	2,142,688	2,126,960
Subject to the Organization's spending policy and appropriation:		
Endowment earnings held until appropriated and released to support general operations	<u>1,706,815</u>	<u>2,633,040</u>
Total net assets with donor restrictions	<u>\$ 3,953,245</u>	<u>\$ 4,855,667</u>

HEART OF THE VALLEY, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021

5. 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.

Endowment net asset composition by fund type for the year ended December 31, 2022, are as follows:

	2022		
	Without Donor Restrictions	With Donor Restrictions	Total
Board designated endowment funds	\$ 2,743,468	\$ -	\$ 2,743,468
Donor-restricted endowment funds			
Original donor-restricted gift required to be maintained in perpetuity by donor	-	2,142,688	2,142,688
Accumulated investment earnings	-	1,706,815	1,706,815
	\$ 2,743,468	\$ 3,849,503	\$ 6,592,971

HEART OF THE VALLEY, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021

5. ENDOWMENT (Continued)

Endowment net asset composition by fund type for the year ended December 31, 2021, are as follows:

	2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Board designated endowment funds	\$ 1,919,708	\$ -	\$ 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
	\$ 1,919,708	\$ 4,760,000	\$ 6,679,708

Changes in endowment net asset composition for the years ended December 31, 2022 and 2021, respectively, are as follows:

	2022		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	\$ 1,919,708	\$ 4,760,000	\$ 6,679,708
Investment return, net	(252,420)	(734,317)	(986,737)
Contributions	900,000	-	900,000
Appropriation of endowment assets for expenditure	176,180	(176,180)	-
	\$ 2,743,468	\$ 3,849,503	\$ 6,592,971

	2021		
	Without Donor Restrictions	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	145,134	(145,134)	-
	\$ 1,919,708	\$ 4,760,000	\$ 6,679,708

For both of the years ended December 31, 2022 and 2021, the amount of the appropriation of endowment assets for expenditure was reinvested in the Board designated endowment fund for long-term investment.

HEART OF THE VALLEY, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021

5. ENDOWMENT (Continued)

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, 2022 and 2021:

	2022	2021
Endowment net assets, end of year	\$ 6,592,971	\$ 6,679,708
Cash and cash equivalents	(7,286)	(15,401)
Long-term investments	\$ 6,585,685	\$ 6,664,307

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, 2022 and 2021.

Return Objectives and Risk Parameters

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

Strategies Employed for Achieving Objectives

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

Spending Policy and How the Investment Objectives Relate to Spending Policy

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

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

HEART OF THE VALLEY, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021

5. ENDOWMENT (Continued)

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.

6. 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, 2022 and 2021, restricted contributions of \$103,742 and \$95,667, 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 statement of financial position date.

The following reflects the Organization's financial assets as of December 31, 2022 and 2021, net of amounts not available for general use within one year of the statement of financial position date:

Financial assets	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 594,300	\$ 773,486
Accounts receivable	38,828	32,206
Contributions receivable	9,180	-
Long-term investments	<u>6,585,685</u>	<u>6,664,307</u>
Financial resources available for general expenditure	<u>7,227,993</u>	<u>7,469,999</u>
Unavailable for general expenditure in one year		
Endowment investments held in perpetuity	(2,142,688)	(2,126,960)
Unappropriated endowment earnings	(1,529,015)	(2,456,860)
Board designated endowment funds held for long-term investment	<u>(2,743,468)</u>	<u>(1,919,708)</u>
Financial resources unavailable for general expenditure	<u>(6,415,171)</u>	<u>(6,503,528)</u>
Total financial resources available for general expenditure	<u>\$ 812,822</u>	<u>\$ 966,471</u>

HEART OF THE VALLEY, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021

6. LIQUIDITY AND AVAILABILITY (Continued)

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.

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, 2022, the Board has approved \$177,800 of earnings from the endowment to be appropriated and released for current operations in 2023. 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.

7. IN-KIND SUPPORT

The fair value of donated goods and services included as contributions in the financial statements for the year ended December 31, 2022, are as follows:

	<u>Program</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total</u>
Expenses:				
Animal care expense	\$ 40,927	\$ -	\$ -	\$ 40,927
Event expense	-	-	6,197	6,197
Professional fees	-	2,512	-	2,512
Veterinary services	17,117	-	-	17,117
	<u>58,044</u>	<u>2,512</u>	<u>6,197</u>	<u>66,753</u>
Capitalized:				
Property, plant and equipment	<u>-</u>	<u>10,053</u>	<u>-</u>	<u>10,053</u>
	<u>\$ 58,044</u>	<u>\$ 12,565</u>	<u>\$ 6,197</u>	<u>\$ 76,806</u>

HEART OF THE VALLEY, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021

7. IN-KIND SUPPORT (Continued)

The fair value of donated goods and services included as contributions in the financial statements for the year ended December 31, 2021, are as follows:

	<u>Program</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total</u>
Expenses:				
Animal care expense	\$ 38,667	\$ -	\$ -	\$ 38,667
Event expense	-	-	6,259	6,259
Professional fees	<u>102</u>	<u>2,496</u>	<u>-</u>	<u>2,598</u>
	<u>38,769</u>	<u>2,496</u>	<u>6,259</u>	<u>47,524</u>
Capitalized:				
Inventory	<u>-</u>	<u>-</u>	<u>15,864</u>	<u>15,864</u>
	<u>\$ 38,769</u>	<u>\$ 2,496</u>	<u>\$ 22,123</u>	<u>\$ 63,388</u>

Donated goods and services are reported at estimated fair value based on the retail prices to purchase similar items or comparable rates to obtain similar services.

The Organization also received benefit of approximately 18,391 and 22,038 hours of volunteer services in 2022 and 2021, respectively.

8. 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, 2022 and 2021, amounted to \$25,863 and \$22,037, respectively.

9. NOTES PAYABLE

In August 2020, the Organization received an Economic Injury Disaster Loan (EIDL) from the Small Business Administration in the amount of \$150,000. The loan was secured by real property, was to mature August 2051 and was to bear interest at a rate of 2.75% per annum. The loan was payable in monthly installments of \$641, including principal and interest, commencing on August 4, 2022. In December of 2021, the Organization paid off the outstanding balance and accrued interest of the EIDL loan.

HEART OF THE VALLEY, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021

10. PAYCHECK PROTECTION PROGRAM LOAN

On February 8, 2021, the Organization was granted a loan in the aggregate amount of \$190,647, under the second draw of the Paycheck Protection Program (PPP) administered by the Small Business Administration (SBA) under the CARES Act. The PPP loan and accrued interest were to 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.

The loan was forgiven in November 2021, at which point the Organization recorded revenue in accordance with the guidance for conditional contributions where there is no longer a measurable performance or other barrier and a right to return the loan.

11. RELATED PARTY TRANSACTIONS

The Organization received donations from multiple Board members and the Executive Director. Related party contributions for the years ended December 31, 2022 and 2021, were \$96,004 and \$71,566, 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, 2022 and 2021, were \$13,324 and \$35,805, respectively.

12. SUBSEQUENT EVENTS

Date of Management Evaluation

Management has evaluated subsequent events through July 19, 2023, the date on which the financial statements were available to be issued.