

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

**December 31, 2023 and 2022**



**AMATICS**  
**CPA GROUP**

**HEART OF THE VALLEY, INC.  
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## INDEPENDENT AUDITOR'S REPORT

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

### **Opinion**

We have audited the accompanying financial statements of Heart of the Valley, Inc. (a nonprofit organization), which comprise the statements of financial position as of December 31, 2023 and 2022, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Heart of the Valley, Inc., as of December 31, 2023 and 2022, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Basis for Opinion**

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

### **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  
June 19, 2024

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

**ASSETS**

	<b>December 31</b>	
	<b>2023</b>	<b>2022</b>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 551,025	\$ 594,300
Accounts receivable	33,484	38,828
Contributions receivable, current	71,000	9,180
Prepaid expenses	7,805	7,738
Inventory	<u>3,731</u>	<u>16,815</u>
Total current assets	<u>667,045</u>	<u>666,861</u>
<b>PROPERTY AND EQUIPMENT</b>		
Buildings and improvements	4,583,784	4,480,199
Equipment and vehicles	270,740	270,740
Land and improvements	716,454	716,454
Office furniture and equipment	<u>177,432</u>	<u>167,564</u>
	5,748,410	5,634,957
Less: accumulated depreciation	<u>(2,421,851)</u>	<u>(2,270,705)</u>
Property and equipment, net	<u>3,326,559</u>	<u>3,364,252</u>
<b>OTHER ASSETS</b>		
Contributions receivable, long-term	50,000	-
Long-term investments	<u>7,452,859</u>	<u>6,585,685</u>
	<u>7,502,859</u>	<u>6,585,685</u>
Total assets	<u>\$ 11,496,463</u>	<u>\$ 10,616,798</u>

**LIABILITIES AND NET ASSETS**

<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 18,914	\$ 14,968
Accrued liabilities	<u>144,955</u>	<u>140,845</u>
Total current liabilities	<u>163,869</u>	<u>155,813</u>
<b>NET ASSETS</b>		
Without donor restrictions - undesignated	3,674,955	3,764,272
Without donor restrictions - designated	3,205,553	2,743,468
With donor restrictions	<u>4,452,086</u>	<u>3,953,245</u>
Total net assets	<u>11,332,594</u>	<u>10,460,985</u>
Total liabilities and net assets	<u>\$ 11,496,463</u>	<u>\$ 10,616,798</u>

See notes to financial statements.

**HEART OF THE VALLEY, INC.**  
**STATEMENT OF ACTIVITIES**  
Year ended December 31, 2023

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
<b>REVENUE</b>			
Shelter services	\$ 524,159	\$ -	\$ 524,159
Investment income, net	295,991	533,928	829,919
Retail sales income, net	<u>20,320</u>	<u>-</u>	<u>20,320</u>
	<u>840,470</u>	<u>533,928</u>	<u>1,374,398</u>
<b>SUPPORT</b>			
Donations	765,491	388,820	1,154,311
Fundraising events	374,259	-	374,259
Grants	124,154	-	124,154
In-kind support	<u>80,343</u>	<u>-</u>	<u>80,343</u>
	<u>1,344,247</u>	<u>388,820</u>	<u>1,733,067</u>
<b>RELEASED FROM RESTRICTIONS</b>			
Donor restricted endowment funds appropriated and released for current operations	177,800	(177,800)	-
Satisfaction of program restrictions	<u>246,107</u>	<u>(246,107)</u>	<u>-</u>
	<u>423,907</u>	<u>(423,907)</u>	<u>-</u>
Total revenues, support, and satisfaction of donor restrictions	<u>2,608,624</u>	<u>498,841</u>	<u>3,107,465</u>
<b>OPERATING EXPENSES</b>			
Program services:			
Animal welfare	1,722,571	-	1,722,571
Supporting services:			
General and administrative expenses	141,905	-	141,905
Fundraising expenses	<u>371,380</u>	<u>-</u>	<u>371,380</u>
Total expenses	<u>2,235,856</u>	<u>-</u>	<u>2,235,856</u>
<b>CHANGE IN NET ASSETS</b>	372,768	498,841	871,609
Net assets at beginning of year	<u>6,507,740</u>	<u>3,953,245</u>	<u>10,460,985</u>
<b>NET ASSETS AT END OF YEAR</b>	<u><u>\$ 6,880,508</u></u>	<u><u>\$ 4,452,086</u></u>	<u><u>\$ 11,332,594</u></u>

See notes to financial statements.

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

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
<b>REVENUE</b>			
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)
<b>SUPPORT</b>			
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
<b>RELEASED FROM RESTRICTIONS</b>			
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
<b>EXPENSES</b>			
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
<b>CHANGE IN NET ASSETS</b>	470,402	(902,422)	(432,020)
Net assets at beginning of year	6,037,338	4,855,667	10,893,005
<b>NET ASSETS AT END OF YEAR</b>	<b>\$ 6,507,740</b>	<b>\$ 3,953,245</b>	<b>\$ 10,460,985</b>

See notes to financial statements.

**HEART OF THE VALLEY, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**Year ended December 31, 2023**

	<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	\$ 978,079	\$ 58,328	\$ 217,733	\$ 1,254,140
Accounting fees	-	55,090	-	55,090
Advertising	-	-	623	623
Animal care	97,806	-	-	97,806
Depreciation	140,566	4,534	6,046	151,146
Dues and subscriptions	3,008	181	435	3,624
Employee benefits	42,968	2,562	9,566	55,096
Equipment lease and maintenance	12,745	768	1,842	15,355
Event expense	-	-	58,729	58,729
Information technology	6,325	1,478	484	8,287
Insurance	48,649	2,160	5,965	56,774
Miscellaneous	9,480	1,375	-	10,855
Occupancy expense	109,291	3,526	4,700	117,517
Office expense	17,498	4,493	15,309	37,300
Payroll taxes	79,218	4,724	17,635	101,577
Pension plan contributions	22,143	1,321	4,929	28,393
Professional fees	5,297	-	17,735	23,032
Shelter services	10,409	-	-	10,409
Staff training	22,336	1,173	9,230	32,739
Travel	1,170	38	50	1,258
Veterinary expense	108,962	-	-	108,962
Volunteer and employee recognition	6,621	154	369	7,144
	<u>\$ 1,722,571</u>	<u>\$ 141,905</u>	<u>\$ 371,380</u>	<u>\$ 2,235,856</u>
Total expenses	<u>\$ 1,722,571</u>	<u>\$ 141,905</u>	<u>\$ 371,380</u>	<u>\$ 2,235,856</u>

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
Dues 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 and development	16,842	891	7,950	25,683
Travel	1,330	43	57	1,430
Veterinary expense	101,194	-	-	101,194
Volunteer and employee recognitions	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.  
STATEMENTS OF CASH FLOWS**

	<b>Years ended December 31</b>	
	<b>2023</b>	<b>2022</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from donors and grantors	\$ 1,556,608	\$ 1,884,370
Other cash receipts	494,042	506,890
Payments for salaries and related costs	(1,435,096)	(1,192,887)
Payments to vendors	(561,283)	(478,042)
Net cash provided by operating activities	54,271	720,331
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of fixed assets	(113,452)	(31,927)
Purchases of investments	(3,974,355)	(2,388,733)
Proceeds from sale of investments	3,925,393	1,505,416
Net cash used by investing activities	(162,414)	(915,244)
<b>CASH FLOWS PROVIDED BY FINANCING ACTIVITIES</b>		
Cash contributions restricted to endowment	64,868	15,727
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>		
	(43,275)	(179,186)
Cash and cash equivalents at beginning of year	594,300	773,486
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>		
	\$ 551,025	\$ 594,300
<b>RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Change in net assets	\$ 871,609	\$ (432,020)
Adjustments to reconcile change in net assets to cash flows from operating activities:		
Depreciation	151,146	165,000
Cash contributions restricted to endowment	(64,868)	(15,727)
Donated securities	(31,704)	(40,525)
Reinvested interest and dividends, net of investment fees	(193,843)	(125,885)
Net realized (gain) loss on sale of investments	592	(64,082)
Net unrealized (gain) loss on investments	(593,257)	1,192,432
Changes in operating assets and liabilities:		
Accounts receivable	5,345	(6,622)
Contributions receivable	(111,820)	(9,180)
Other current assets	13,017	5,154
Current liabilities	8,054	51,786
Net cash flows from operating activities	\$ 54,271	\$ 720,331

See notes to financial statements.

**HEART OF THE VALLEY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2023 and 2022**

**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.

**HEART OF THE VALLEY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2023 and 2022**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Use of Estimates**

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

**Cash and Cash Equivalents**

Cash and cash equivalents reported on the statement of financial position and the statement of cash flows include cash on hand and amounts held by financial institutions in checking, 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, 2023 and 2022, the cash deposits with banks exceeded their insured limits by \$0 and \$109,906, respectively.

**Accounts Receivable and Allowance for Credit Losses**

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 the amount the Organization expects to collect. The Organization considers allowances for credit losses for estimated losses resulting from the inability of its customers to make required payments. Management considers the following factors when determining the collectability of specific customer accounts: customer credit worthiness, past transaction history with customer, current economic industry trends, forecast of future events, and changes in customer payment terms. If the financial condition of the Organization's customers was to deteriorate, adversely affecting their ability to make payments, additional allowances would be required. Based on management's assessment, no allowance for estimated uncollectible accounts is necessary as of December 31, 2023 and 2022.

**Revenue Recognition**

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

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

*Shelter Services*

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

*Fundraising Events*

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

**HEART OF THE VALLEY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2023 and 2022**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Revenue Recognition (continued)**

*Contributions and Grants*

Contributions, including unconditional promises to give, are recognized as revenues in the period pledged. Unrestricted promises to give that are scheduled to be received after one year are shown as increases in net assets with donor restrictions and are reclassified to net assets without donor restrictions when the cash is received and any purpose restrictions are met. Donor restricted contributions whose restrictions are satisfied in the same reporting period are reported as net assets without donor restrictions. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value at date of receipt.

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

**HEART OF THE VALLEY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2023 and 2022**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Property and Equipment**

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

The estimated useful lives of property and equipment are as follows:

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

Total depreciation expense amounted to \$151,146 and \$165,000 for the years ended December 31, 2023 and 2022, 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 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, 2023 and 2022, amounted to \$22,382 and \$23,660, 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, 2023 and 2022, amounted to \$623 and \$656, 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.

**HEART OF THE VALLEY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2023 and 2022**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**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.

**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.

**Implementation of New Accounting Standards**

On January 1, 2023, the Organization adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-13, *Financial Instruments – Credit Losses*, and all related subsequent amendments. This guidance changed how the Organization will measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. The most significant change in this standard is a shift from the incurred loss model to the expected loss model. Under the standard, disclosures are required to provide users of the financial statements with useful information in analyzing the Organization’s exposure to credit risk and the measurement of credit losses. Financial assets held by the Organization that are subject to this guidance were accounts receivable.

**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, 2023 and 2022**

**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, 2023 and 2022, 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.**  
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**3. INVESTMENT INCOME**

Components of investment income for the years ended December 31, 2023 and 2022, consist of the following:

	<u>2023</u>	<u>2022</u>
Interest and dividend income	\$ 240,418	\$ 159,374
Unrealized gains (losses)	624,362	(1,190,066)
Realized gains (losses)	(592)	64,081
Investment management fees	<u>(34,269)</u>	<u>(31,764)</u>
Totals	<u>\$ 829,919</u>	<u>\$ (998,375)</u>

**4. NET ASSETS**

***Net Assets without Donor Restrictions***

Net assets without donor restrictions as of December 31, 2023 and 2022, consist of both designated and undesignated balances as follows:

	<u>2023</u>	<u>2022</u>
Undesignated	\$ 3,674,955	\$ 3,764,272
Board designated endowment funds	<u>3,205,553</u>	<u>2,743,468</u>
Total net assets without donor restrictions	<u>\$ 6,880,508</u>	<u>\$ 6,507,740</u>

***Net Assets with Donor Restrictions***

Net assets with donor restrictions as of December 31, 2023 and 2022, are as follows:

	<u>2023</u>	<u>2022</u>
Subject to expenditure for specified purpose:		
Animal welfare	\$ 60,588	\$ 94,562
Contribution receivable, proceeds of which are restricted to animal welfare	21,000	9,180
Perpetual in nature:		
Donor restricted endowment funds	2,207,555	2,142,688
Subject to the Organization's spending policy and appropriation:		
Endowment earnings held until appropriated and released to support general operations	2,062,943	1,706,815
Receivables restricted to endowment	<u>100,000</u>	<u>-</u>
Total net assets with donor restrictions	<u>\$ 4,452,086</u>	<u>\$ 3,953,245</u>

**HEART OF THE VALLEY, INC.**  
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**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, 2023, are as follows:

	<b>2023</b>		
	Without Donor Restrictions	With Donor Restrictions	Total
Board designated endowment funds	\$ 3,205,553	\$ -	\$ 3,205,553
Donor-restricted endowment funds			
Original donor-restricted gift required to be maintained in perpetuity by donor	-	2,207,555	2,207,555
Accumulated investment earnings	-	2,062,943	2,062,943
	3,205,553	4,270,498	7,476,051
Contributions receivable, restricted to endowment	-	100,000	100,000
	\$ 3,205,553	\$ 4,370,498	\$ 7,576,051

**HEART OF THE VALLEY, INC.**  
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**5. ENDOWMENT (Continued)**

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

	<b>2022</b>		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
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
	<u>\$ 2,743,468</u>	<u>\$ 3,849,503</u>	<u>\$ 6,592,971</u>

Changes in endowment net asset composition for the years ended December 31, 2023 and 2022, respectively, are as follows:

	<b>2023</b>		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 2,743,468	\$ 3,849,503	\$ 6,592,971
Investment return, net	284,285	533,927	818,212
Contributions	-	64,868	64,868
Appropriation of endowment assets for expenditure	<u>177,800</u>	<u>(177,800)</u>	<u>-</u>
	<u>\$ 3,205,553</u>	<u>\$ 4,270,498</u>	<u>\$ 7,476,051</u>

	<b>2022</b>		
	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
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	<u>176,180</u>	<u>(176,180)</u>	<u>-</u>
	<u>\$ 2,743,468</u>	<u>\$ 3,849,503</u>	<u>\$ 6,592,971</u>

**HEART OF THE VALLEY, INC.**  
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**5. ENDOWMENT (Continued)**

For both of the years ended December 31, 2023 and 2022, the amount of the appropriation of endowment assets for expenditure was reinvested in the Board designated endowment fund for long-term investment.

The following is a reconciliation of endowment net assets to endowment holdings reported as long-term investments on the statements of financial position as of December 31, 2023 and 2022:

	<b>2023</b>	<b>2022</b>
Endowment net assets held in:		
Cash and cash equivalents	\$ 23,192	\$ 7,286
Long-term investments	7,452,859	6,585,685
Endowment net assets, end of year	\$ 7,476,051	\$ 6,592,971

*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, 2023 and 2022.

*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.

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**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, 2023 and 2022, restricted contributions of \$60,588 and \$94,562, 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, 2023 and 2022, net of amounts not available for general use within one year of the statement of financial position date:

Financial assets	<u>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 551,025	\$ 594,300
Accounts receivable	33,484	38,828
Contributions receivable	121,000	9,180
Long-term investments	<u>7,452,859</u>	<u>6,585,685</u>
Financial resources available for general expenditure	<u>8,158,368</u>	<u>7,227,993</u>
Unavailable for general expenditure in one year		
Endowment investments held in perpetuity	(2,207,555)	(2,142,688)
Unappropriated endowment earnings	(2,062,943)	(1,706,815)
Board designated endowment funds held for long-term investment	(3,205,553)	(2,743,468)
Contributions receivable due in more than one year	<u>(50,000)</u>	<u>-</u>
Financial resources unavailable for general expenditure	<u>(7,526,051)</u>	<u>(6,592,971)</u>
Total financial resources available for general expenditure	<u>\$ 632,317</u>	<u>\$ 635,022</u>

**HEART OF THE VALLEY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2023 and 2022**

**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, 2023, the Board had not approved any earnings from the endowment to be released for current operations in 2024.

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, 2023, are as follows:

	<b>Program</b>	<b>General and Administrative</b>	<b>Fundraising</b>	<b>Total</b>
Expenses:				
Animal care expense	\$ 43,779	\$ -	\$ -	\$ 19
Event expense	-	-	30,374	30,374
Professional fees	-	6,190	-	6,190
	<u>\$ 43,779</u>	<u>\$ 6,190</u>	<u>\$ 30,374</u>	<u>\$ 80,343</u>

**HEART OF THE VALLEY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2023 and 2022**

**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, 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	<u>17,117</u>	<u>-</u>	<u>-</u>	<u>17,117</u>
	<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>

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 20,545 and 18,391 hours of volunteer services in 2023 and 2022, 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, 2023 and 2022, amounted to \$28,393 and \$25,863, respectively.



**HEART OF THE VALLEY, INC.**  
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**December 31, 2023 and 2022**

**9. RELATED PARTY TRANSACTIONS**

The Organization received donations from multiple Board members and staff. Related party contributions for the years ended December 31, 2023 and 2022, were \$104,185 and \$96,004, 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, 2023 and 2022, were \$20,023 and \$13,324, respectively.

**10. CONTRIBUTIONS RECEIVABLE**

Contributions receivable at December 31, 2023 and 2022, are schedule to be received as follow:

	<u>2023</u>	<u>2022</u>
In one year	\$ 71,000	\$ 9,180
One to five years	<u>50,000</u>	<u>-</u>
	121,000	9,180
Less current portion	<u>(71,000)</u>	<u>(9,180)</u>
Contributions receivable, net of current portion	<u>\$ 50,000</u>	<u>\$ -</u>

**11. SUBSEQUENT EVENTS**

**Date of Management Evaluation**

Management has evaluated subsequent events through June 19, 2024, the date on which the financial statements were available to be issued.