



Financial Statements
December 31, 2014

Children's Village Foundation

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Independent Auditor's Report

The Board of Directors
Children's Village Foundation
Fargo, North Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of Children's Village Foundation, which comprise the financial position as of December 31, 2014, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Children's Village Foundation as of December 31, 2014, 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.

Report on Summarized Comparative Information

We have previously audited the Children's Village Foundation's 2013 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 22, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2013 is consistent, in all material respects, with the audited financial statements from which it has been derived.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Fargo, North Dakota
April 29, 2015

Children's Village Foundation
Statement of Financial Position
December 31, 2014
(With Comparative Totals as of December 31, 2013)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
				2014	2013
Assets					
Cash and Cash Equivalents	\$ 113,799	\$ -	\$ -	\$ 113,799	\$ 114,680
Prepaid Expenses	2,200	-	-	2,200	2,200
Marketable Securities					
Marketable securities	1,595,453	439,356	155,547	2,190,356	2,899,922
Marketable securities-annuity reserve	153,401	-	-	153,401	140,692
	<u>1,748,854</u>	<u>439,356</u>	<u>155,547</u>	<u>2,343,757</u>	<u>3,040,614</u>
Investments, at cost	214,000	-	-	214,000	214,000
Receivables					
Note receivable from Village Family Service Center - Term Loan	1,475,000	-	-	1,475,000	1,100,000
Due from Village Family Service Center	-	-	-	-	80,000
Promises to Give	32,750	-	-	32,750	-
Interest and dividends receivable	14,912	-	-	14,912	30,224
	<u>1,522,662</u>	<u>-</u>	<u>-</u>	<u>1,522,662</u>	<u>1,210,224</u>
Total assets	<u>\$ 3,601,515</u>	<u>\$ 439,356</u>	<u>\$ 155,547</u>	<u>\$ 4,196,418</u>	<u>\$ 4,581,718</u>
Liabilities and Net Assets					
Liabilities					
Annuities payable	\$ 31,971	\$ -	\$ -	\$ 31,971	\$ 36,319
Due to Village Family Service Center	552,282	-	-	552,282	477,880
	<u>584,253</u>	<u>-</u>	<u>-</u>	<u>584,253</u>	<u>514,199</u>
Net Assets					
Unrestricted	3,017,262	-	-	3,017,262	3,591,447
Temporarily restricted	-	439,356	-	439,356	375,806
Permanently restricted	-	-	155,547	155,547	100,266
	<u>3,017,262</u>	<u>439,356</u>	<u>155,547</u>	<u>3,612,165</u>	<u>4,067,519</u>
Total liabilities and net assets	<u>\$ 3,601,515</u>	<u>\$ 439,356</u>	<u>\$ 155,547</u>	<u>\$ 4,196,418</u>	<u>\$ 4,581,718</u>

Children's Village Foundation
Statements of Activities
Years Ended December 31, 2014
(With Comparative Totals for Year Ended December 31, 2013)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
				2014	2013
Revenue Gains and Support					
Interest and dividends	\$ 52,168	\$ 2,605	\$ -	\$ 54,773	\$ 62,391
Donations and bequests	74,283	63,550	55,281	193,114	136,303
Unrealized loss on investments	(38,688)	(16,029)	-	(54,717)	167,076
Realized gain on investments	228,355	23,685	-	252,040	212,984
Miscellaneous	1,697	-	-	1,697	2,048
Net assets released from restrictions	10,261	(10,261)	-	-	-
	<u>328,076</u>	<u>63,550</u>	<u>55,281</u>	<u>446,907</u>	<u>580,802</u>
Expenses					
Program services	881,034	-	-	881,034	461,508
Trustees' fees	16,587	-	-	16,587	21,866
Professional fees	5,935	-	-	5,935	7,000
Interest	3,042	-	-	3,042	2,994
Change in value of split interest agreements	(4,348)	-	-	(4,348)	(144,277)
Contribution	-	-	-	-	246,897
Miscellaneous	10	-	-	10	95
	<u>902,260</u>	<u>-</u>	<u>-</u>	<u>902,260</u>	<u>596,083</u>
Change in net assets	(574,184)	63,550	55,281	(455,353)	(15,281)
Net Assets, Beginning of Year	<u>3,591,447</u>	<u>375,806</u>	<u>100,266</u>	<u>4,067,519</u>	<u>4,082,800</u>
Net Assets, End of Year	<u>\$ 3,017,263</u>	<u>\$ 439,356</u>	<u>\$ 155,547</u>	<u>\$ 3,612,166</u>	<u>\$ 4,067,519</u>

Children's Village Foundation
 Statements of Cash Flows
 Year Ended December 31, 2014

Operating Activities	
Change in net assets	\$ (455,354)
Adjustments to reconcile change in net assets to cash flows from operating activities	
Unrealized gain on investments	54,717
Realized gain on investments	(252,040)
Changes in operating assets and liabilities	
Accounts receivable	15,312
Due from Village Family Service Center	(375,000)
Promises to give	(32,750)
Due to Village Family Service Center	154,402
Net annuity payable	(4,348)
	<hr/>
Net Cash used for Operating Activities	(895,061)
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Investing Activities	
Purchase of investment securities	(2,613,464)
Proceeds from sale and maturity of investment securities	3,507,644
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Net Cash from Investing Activities	894,180
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Net Change in Cash and Cash Equivalents	(881)
	<hr/>
Cash and Cash Equivalents, Beginning of Year	114,680
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Cash and Cash Equivalents, End of Year	<u><u>\$ 113,799</u></u>

Note 1 - Organization and Summary of Significant Accounting Policies

Organization

The Children's Village Foundation (Foundation) is organized as a nonprofit corporation under the laws of the state of North Dakota. The Foundation is exempt from the payment of federal income taxes under Section 501(c)(3) of the Internal Revenue Code of 1986 and from the payment of state income taxes under Section 57-38-09 of the North Dakota Century Code.

The Foundation was created for the purpose of providing permanent support for the activities and programs of The Village Family Service Center (Village).

Cash and Cash Equivalents

The Foundation considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Assets Held and Liabilities under Split-Interest Agreements

Charitable Gift Annuities

Under charitable gift annuity contracts, the Foundation receives immediate and unrestricted title to contributed assets and agrees to make fixed recurring payments over the stipulated period. Contributed assets are recorded at fair value on the date of receipt. The related liability for future payments to be made to the specified beneficiaries is recorded at fair value using present value techniques and risk-adjusted discounts rate designed to reflect the assumptions market participants would use in pricing the liability. The excess of contributed assets over the annuity liability is recorded as an unrestricted contribution. In subsequent years, the liability for future payments to the donor is reduced by payments made to the donor and is adjusted to reflect changes in the fair value of the liability at the end of the year. Upon termination of the annuity contract, the remaining liability is removed and recognized as income. The estimated present value of future payments to be made under these agreements totals \$31,971 at December 31, 2014.

Investments

Investments in marketable securities are recorded at cost, or if donated, at fair value on the date of donation. Thereafter, investments with readily determinable fair values are reported at their fair values in the statement of financial position. Net investment gain/(loss) is reported in the statement of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less investment management and custodial fees.

Real estate investments without readily determinable fair values are stated at cost.

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Unrestricted Net Assets – Net assets available for use in general operations. Unrestricted board-designated net assets consist of net assets designated by the Board of Directors for operating reserve and quasi-endowment.

Temporarily Restricted Net Assets – Net assets subject to donor restrictions that may or will be met by expenditures or actions of the Foundation and/or the passage of time, and certain income earned on permanently restricted net assets that has not yet been appropriated for expenditure by the Foundation's Board of Directors.

The Foundation reports contributions as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently Restricted Net Assets – Net assets whose use is limited by donor-imposed restrictions that neither expire by the passage of time nor can be fulfilled or otherwise removed by action of the Foundation. The restrictions stipulate that resources be maintained permanently but permit the Foundation to expend the income generated in accordance with the provisions of the agreements.

Revenue and Revenue Recognition

Revenue is recognized when earned. Contributions are recognized when cash, securities or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

Contributions

The Foundation reports gifts of cash and other assets as restricted support if they are received with donor restrictions that limit the use of donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the statement of activities as net assets released from restrictions. There are no permanently restricted net assets.

Promises to Give

Unconditional promises to give expected to be collected within one year are recorded at net realizable value. At December 31, 2014, promised to give totaled 32,750.

Income Taxes

The Foundation is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the Foundation is subject to income tax on net income that is derived from business activities that are unrelated to their exempt purposes. The Foundation has determined it is not subject to unrelated business income tax and has not filed an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS.

The Foundation believes that it has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the financial statements. The Foundation would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and those differences could be material.

Reclassifications

Certain reclassifications of amounts previously reported have been made to the accompanying financial statements to maintain consistency between periods presented. The reclassifications had no impact on net income or stockholders' equity.

Subsequent Events

The Foundation has evaluated subsequent events through April 29, 2015, the date which the financial statements were available to be issued noting the following significant events.

Note 2 - Notes Receivable

The Foundation has a non-interest bearing note receivable with the Village. The \$1,475,000 non-interest bearing receivable is reviewed each year to determine what, if any, payments will be due. During the year ended December 31, 2014, the Foundation forgave debt of \$425,000 related to this note which has been recorded as a program expense. The Foundation also extended another \$800,000 to the Village. These notes are subordinated to bank debt held by the Village.

Note 3 - Fair Value Measurements and Disclosures

Certain assets and liabilities are reported at fair value in the consolidated financial statements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal, or most advantageous, market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique. Inputs used to determine fair value refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability based on the best information available. A three-tier hierarchy categorizes the inputs as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the Foundation can access at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and market-corroborated inputs.

Level 3 – Unobservable inputs for the asset or liability. In these situations, the Foundation develops inputs using the best information available in the circumstances.

In some cases, the inputs used to measure the fair value of an asset or a liability might be categorized within different levels of the fair value hierarchy. In those cases, the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to entire measurement requires judgment, taking into account factors specific to the asset or liability. The categorization of an asset within the hierarchy is based upon the pricing transparency of the asset and does not necessarily correspond to the Foundation’s assessment of the quality, risk or liquidity profile of the asset or liability.

A significant portion of the Foundation’s investment assets are classified within Level 1 because they are government equity securities, U.S. Federal agency debt securities and corporate debt securities which are valued by reference to quoted market prices. The Foundation also holds an investment in real estate investment trust. This is valued based on the private sales and trading of the company’s shares and are classified within Level 2. The Foundation is a partner in the Pines Townhomes LLLP, the value of this investment is based on the cost basis. The fair values of gift annuity agreements are determined by management using present value techniques and risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the underlying assets, and are based on the fair values of trust investments as reported by the trustees. The mineral rights values are determined based on analysis and input by specialists. These are considered to be Level 3 measurements.

The following table presents assets and liabilities measured at fair value on a recurring basis at December 31, 2014:

	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
<u>Assets</u>			
Equity securities	\$ 967,426	\$ -	\$ -
U.S. Federal agency debt securities	240,174	-	-
Corporate debt securities	314,505	-	-
Real estate investment trusts	-	796,432	-
Mineral Rights	-	-	25,220
	<u>\$ 1,522,105</u>	<u>\$ 796,432</u>	<u>\$ 25,220</u>
<u>Liabilities</u>			
Gift annuity agreements	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 31,971</u>

Also included in the above amounts is marketable securities-annuity reserve of \$153,401 and it is singled out to meet a North Dakota statute.

Below is a reconciliation of the beginning and ending balance of liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended December 31, 2014:

	Amount
Balance, beginning of year	\$ 36,319
Payments to beneficiaries	(3,042)
Change in split interest agreements	(1,306)
Balance, end of year	\$ 31,971

Note 4 - Net Investment Return

Net investment return consists of the following for the year ended December 31, 2014:

Interest and dividends	\$ 54,773
Net realized and unrealized gain (loss)	197,323
Less investment management and trustee fees	(16,587)
	\$ 235,509

Note 5 - Related Party Transactions

The Foundation is affiliated with the Village (see Note 1) and provides permanent support for the activities and programs of the Village. The Foundation annually provides support to the Village. The Village pays certain expenses of the Foundation and the Village is reimbursed by the Foundation for these expenses. See also notes 2 and 6.

The following is a summary of transactions between the two entities for 2014:

Statement of Financial Position	
Compensated Absences	\$ 381,106
Land Costs	71,266
Due from Village Family Service Center	99,910
Total Due to Village Family Service Center	\$ 552,282
Note Receivable from Village Family Service Center	\$ 1,475,000
Statement of Support, Revenue and Expenses	
Contributions for operations	\$ 754,402
Contributions for compensated absences	25,176
Contributions for land expenses	101,456
Total support and revenue	\$ 881,034

Note 6 - Contingencies

The Foundation has signed as a co-borrower of the bank debt of the Village held by Bremer Bank. As of December 31, 2014, the total outstanding balance due to Bremer Bank was \$1,209,362.

Note 7 - Temporarily Restricted Net Assets

Included in temporarily restricted net assets is \$439,356 contributed to be used toward the support of Nokomis daycare operations.

Note 8 - Endowments

The Foundation's endowment (the Endowment) consists of approximately 11 individual funds established by donors. The interest on these funds provides annual funding for specific activities and general operations. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Foundation's Board of Directors has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, unless there are explicit donor stipulations to the contrary. At December 31, 2014 and 2013, there were no such donor stipulations. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the Endowment, (b) the original value of subsequent gifts donated to the Endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added. The remaining portion of the donor-restricted endowment is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. The Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund
- The purposes of the organization and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the organization
- The investment policies of the organization

Investment and Spending Policies

The Foundation has adopted investment and spending policies for the Endowment that attempt to provide a predictable stream of funding for operations while seeking to maintain the purchasing power of the endowment assets. Over time, long-term rates of return should be equal to an amount sufficient to maintain the purchasing power of the Endowment assets, to provide the necessary capital to fund the spending policy, and to cover the costs of managing the Endowment investments. The target rate of return is intended to maintain the purchasing power of current assets and all future contributions. To satisfy this long-term rate-of-return objective, the investment portfolio is structured on a total-return approach through which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends).

The Endowment's spending policy, as approved by the Foundation Board, is to make available 4% to 6% of the investment returns for the donor's intended purposes immediately following the end of the year.

Changes in Endowment net assets for the year ending December 31, 2014 are as follows:

	For the Year Ending December 31, 2014			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Endowment net assets, beginning of year	\$ -	\$ -	\$ 100,266	\$ 100,266
Investment return:				
Investment income	-	2,605	-	2,605
Net appreciation/(depreciation) (realized and unrealized)	-	7,656	-	7,656
Contributions	-	-	55,281	55,281
Appropriation of endowment assets for expenditure	-	(10,261)	-	(10,261)
Other changes:				
Transfer to other temporarily restricted donor funds:	-	-	-	-
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 155,547</u>	<u>\$ 155,547</u>