Financial Statements
December 31, 2018 (with comparative totals for 2017)

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 (Foundation), which comprise the statement of financial position as of December 31, 2018, and the related statement 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 audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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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, 2018, 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.

Change of Accounting Principle
As discussed in Note 1 to the financial statements, the Foundation has adopted the provisions of Financial Accounting Standards Board Accounting Standards Update No. 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities.* Accordingly, the December 31, 2017 financial statements have been restated to adopt this standard. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information
We have previously audited the Children's Village Foundation's 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 20, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Eide Bailly LLP

Fargo, North Dakota
June 6, 2019

Children's Village Foundation
Statement of Financial Position
December 31, 2018
(With Comparative Totals for December 31, 2017)

	2018	2017 (restated)
Assets		
Cash and cash equivalents	$ 89,846	$ 117,150
Marketable securities		
Marketable securities	2,420,992	2,778,478
Marketable securities-annuity reserve	163,248	172,261
	2,584,240	2,950,739
Investments, at cost	214,000	214,000
Receivables		
Note receivable from Village Family Service Center	2,203,133	2,203,133
Interest and dividends receivable	9,765	12,685
	2,212,898	2,215,818
Land and improvements held for sale	2,256,575	2,731,575
Total assets	$ 7,357,559	$ 8,229,282
Liabilities and Net Assets		
Liabilities		
Annuities payable	$ 26,122	$ 33,491
Water rights payable	205,670	205,670
Due to Village Family Service Center	410,288	501,311
Total liabilities	642,080	740,472
Net Assets		
Without donor restrictions	4,859,234	5,645,080
With donor restrictions		
Purpose restriction, children's services	1,554,440	1,551,925
Perpetual in nature	301,805	291,805
	1,856,245	1,843,730
Total net assets	6,715,479	7,488,810
Total liabilities and net assets	$ 7,357,559	$ 8,229,282

	Without Donor Restrictions	With Donor Restrictions	Total 2018	Total 2017 (restated)
Revenue, Gains, and Support				
Net investment return	$ (39,700)	$ (14,792)	$ (54,492)	$ 288,981
Donations and bequests	-	12,515	12,515	3,003,955
Change in value of split-interest agreements	7,369	-	7,369	-
Miscellaneous	6,410	-	6,410	934
Transfers	(14,792)	14,792	-	-
Total revenue, gains, and support	(40,713)	12,515	(28,198)	3,293,870
Expenses and Losses				
Program services				
Support of the Village's activities	190,064	-	190,064	380,371
Management and general				
Professional fees	7,555	-	7,555	4,547
Interest	4,325	-	4,325	4,325
Real estate taxes	68,124	-	68,124	61,002
Miscellaneous	65	-	65	45
Total management and general expenses	80,069	-	80,069	69,919
Impairment loss on land held for sale	475,000	-	475,000	-
Total expenses and losses	745,133	-	745,133	450,290
Change in Net Assets	(785,846)	12,515	(773,331)	2,843,580
Net Assets, Beginning of Year	5,645,080	1,843,730	7,488,810	4,645,230
Net Assets, End of Year	$ 4,859,234	$ 1,856,245	$ 6,715,479	$ 7,488,810

	2018	2017
Operating Activities		
Change in net assets	$ (773,331)	$ 2,843,580
Adjustments to reconcile change in net assets to cash flows (used for) from operating activities		
Change in unrealized losses and gains on investments	213,055	(98,023)
Realized losses (gains) on investments	(72,449)	(111,158)
Donation of land and improvements held for sale	-	(1,675,000)
Impairment loss on land held for sale	475,000	-
Contributions restricted for endowment	(10,000)	(20,001)
Change in value of split-interest agreements	(7,369)	-
Changes in operating assets and liabilities		
Prepaid expenses	-	2,200
Accounts receivable	2,920	22,091
Due from Village Family Service Center	-	(1,073,133)
Due to Village Family Service Center	(91,023)	(69,480)
Water rights payable	-	205,670
Net Cash From (Used For) Operating Activities	(263,197)	26,746
Investing Activities		
Purchase of investment securities	(366,060)	(549,810)
Proceeds from sale and maturity of investment securities	591,953	457,955
Net Cash From (Used For) Investing Activities	225,893	(91,855)
Financing Activity		
Contributions restricted for endowment	10,000	20,001
Net Change in Cash and Cash Equivalents	(27,304)	(45,108)
Cash and Cash Equivalents, Beginning of Year	117,150	162,258
Cash and Cash Equivalents, End of Year	$ 89,846	$ 117,150
Supplemental Disclosure of Noncash Investing Activity		
Donation of land and improvements held for sale	$ -	$ 1,675,000

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

Comparative Financial Information

The accompanying financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America (GAAP). Accordingly, such information should be read in conjunction with our audited financial statements for the year ended December 31, 2017, from which the summarized information was derived.

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.

Income Taxes

The Foundation is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the Internal Revenue Service (IRS). In addition, the Foundation is subject to income tax on net income that is derived from business activities that are unrelated to its 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.

Cash and Cash Equivalents

The Foundation considers cash and all highly liquid investments with an original maturity of three months or less when purchased, and which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents.

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, and are evaluated for impairment annually, or more frequently upon the occurrence of an event or when circumstances indicate that the amount of the investment is greater than its fair value. As of December 31, 2018 and 2017, the value of the real estate investments are not considered impaired.

Land and Improvements Held for Sale

Land and improvements held for sale represents land and improvements that were recorded at fair value at the date of donation. Land and improvements held for sale are no longer depreciated, but instead analyzed for impairment. The Foundation considers whether indicators of impairment are present and performs the necessary analysis to determine if the carrying values of assets are appropriate. An impairment of $475,000 was identified for the year ended December 31, 2018. No impairment was identified for the year ended December 31, 2017.

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 discount rates 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 $26,122 and $33,491 at December 31, 2018 and 2017.

Net Assets

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

> *Net Assets Without Donor Restrictions* – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

Net Assets With Donor Restrictions – Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. The Foundation reports contributions restricted by donors as increases in net assets with donor restrictions 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, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

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

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. Conditional promises to give are reported at fair value when conditions have been substantially met. 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, net assets with donor restrictions are reclassified to net assets without donor restrictions and are reported in the statement of activities as net assets released from restrictions.

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. Also included in the statement of activities is the natural classification detail of expenses by function. The expenses are generally directly attributable to a functional category with no significant allocations between program service activities and supporting service activities occurring.

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 previously reported net assets.

Change in Accounting Principle

As of January 1, 2018, the Foundation adopted the provisions of Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements for Not-For-Profit Entities.* The provisions of the ASU replace the existing three classes of net assets with two new classes (net assets without donor restrictions and net assets with donor restrictions) and enhance the disclosure requirements for the Foundation's donor restricted endowment funds. The ASU introduces new disclosure requirements to provide information about what is included or excluded from the Foundation's intermediate measure of operations as well as disclosures to improve a financial statement user's ability to assess the Foundation's liquidity and exposure to risk. The ASU also introduces new reporting requirements to present expenses by both function and natural classification in a single location and to present investment returns on the statements of activities net of external and direct internal investment expenses.

The amendments should be applied on a retrospective basis; however, if presenting comparative financial statements, the ASU allows for the option to omit, for any periods presented before the period of adoption, the analysis of expenses by both natural classification and functional classification (the separate presentation of expenses by functional classification and expenses by natural classification is still required), and the disclosure about liquidity and availability of resources. The Foundation has elected not to present comparative information for these amendments.

The Foundation has adopted this standard as management believes the standard improves the usefulness and understandability of the Foundation's financial reporting.

Subsequent Events

The Foundation has evaluated subsequent events through June 6, 2019, the date which the financial statements were available to be issued.

Note 2 - Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following at December 31, 2018:

Financial Assets	
Cash and cash equivalents	$ 89,846
Marketable securities	2,584,240
Interest and dividends receivable	9,765
Total financial assets	2,683,851
Less amounts not available for general expenditures within the next year:	
Subject to expenditure for a specific purpose	
Support of children's services or similar services	1,554,440
Investments to be held in perpetuity	301,805
Total financial assets not available for general expenditures within the next year	1,856,245
Financial assets available for general expenditures within the next year	$ 827,606

As part of a liquidity management plan, cash in excess of daily requirements is deposited in cash and cash equivalents or invested in marketable securities.

Note 3 - Note Receivable

The Foundation has a non-interest-bearing note receivable with the Village. The balance of the non-interest bearing receivable as of December 31, 2018 and 2017 is $2,203,133, and is reviewed each year to determine what, if any, payments will be due.

Note 4 - Fair Value Measurements and Disclosures

Certain assets are reported at fair value in the 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 the 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 comprised of equity securities with readily determinable fair values based on daily redemption values. US Federal agency debt securities and corporate debt securities are valued by the custodians of the securities using pricing models based on credit quality, time to maturity, stated interest rates and market-rate assumptions and are classified within Level 2. The Foundation also holds an investment in a 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 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 measured at fair value on a recurring basis at December 31, 2018 and 2017:

December 31, 2018	Total	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Assets				
Equity securities	$ 946,082	$ 946,082	$ -	$ -
U.S. Federal agency debt securities	22,878	-	22,878	-
Corporate debt securities	971,281	-	971,281	-
Real estate investment trusts	618,779	-	618,779	-
Mineral rights	25,220	-	-	25,220
	$ 2,584,240	$ 946,082	$ 1,612,938	$ 25,220

December 31, 2017	Total	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Assets				
Equity securities	$ 1,252,523	$ 1,252,523	$ -	$ -
U.S. Federal agency debt securities	17,114	-	17,114	-
Corporate debt securities	1,070,964	-	1,070,964	-
Real estate investment trusts	584,918	-	584,918	-
Mineral rights	25,220	-	-	25,220
	$ 2,950,739	$ 1,252,523	$ 1,672,996	$ 25,220

Note 5 - Contingencies

The Foundation has signed as a co-borrower on a line of credit with the Village. The 5.0% line of credit matures on July 2019 and has a maximum draw down amount of $1,000,000. As of December 31, 2018, there was no amount outstanding.

Note 6 - Endowments

The Foundation's endowment (the Endowment) consists of approximately 18 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, 2018 and 2017, there were no such donor stipulations. As a result of this interpretation, the Foundation retains in perpetuity (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. Donor-restricted amounts not retained in perpetuity are subject to appropriation 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 Foundation 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 Foundation
- The investment policies of the Foundation

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 annually make available the investment returns for the donor's intended purposes.

Changes in Endowment net assets for the years ending December 31, 2018 and 2017 are as follows:

	For the Year Ending December 31, 2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	$ -	$ 291,805	$ 291,805
Investment return:			
Investment income	-	5,846	5,846
Net appreciation/(depreciation) (realized and unrealized)	-	(20,638)	(20,638)
Contributions	-	10,000	10,000
Transfer	-	14,792	14,792
Endowment net assets, end of year	$ -	$ 301,805	$ 301,805

	For the Year Ending December 31, 2017		
	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets, beginning of year	$ -	$ 271,804	$ 271,804
Investment return:			
Investment income	-	3,651	3,651
Net appreciation/(depreciation) (realized and unrealized)	-	24,611	24,611
Contributions	-	20,001	20,001
Appropriation of endowment assets for expenditure	-	(28,262)	(28,262)
Endowment net assets, end of year	$ -	$ 291,805	$ 291,805

Note 7 - Net Assets with Donor Restrictions

Donor restricted net assets with a purpose restriction as of December 31, 2018 and 2017 are $1,554,440 and $1,551,925, which represent amounts contributed and to be used toward the support of children’s services or similar services.

In 2017, net assets were released from restrictions in the amount of $28,262. These amounts are included in net assets released from restrictions in the accompanying financial statements.

Donor restricted net assets that are perpetual in nature as of December 31, 2018 and 2017 are $301,805 and $291,805, which represent amounts contributed to the endowment to support the mission of the Foundation.

Note 8 - Related Party Transactions

The Foundation is affiliated with the Village (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 3 and 5.

The following is a summary of transactions between the two entities for 2018 and 2017:

	2018	2017
Statement of Financial Position		
Note receivable from Village Family Service Center	$ 2,203,133	$ 2,203,133
Due to Village Family Service Center	$ 410,288	$ 501,311
Statement of Activities		
Contributions for operations	$ (147,059)	$ (432,752)
Contributions for compensated absences	18,332	58,429
Contributions for special assessments and property taxes	(61,337)	(63,864)
Contributions of excess proceeds from Village land sale	-	1,078,133
	$ (190,064)	$ 639,946

Note 9 - Restatement Resulting from Change in Accounting Policy

As disclosed in Note 1, the Foundation adopted the provisions of ASU 2016-14, *Presentation of Financial Statements for Not-For-Profit Entities* as of January 1, 2018. As a part of the adoption, changes were made to the presentation of the financial statements and the classification of net assets. Following is a summary of the effects of the change in accounting policy in the Foundation’s December 31, 2017 net assets.

The effect on the Foundation’s statement of financial position as of December 31, 2017 is as follows:

	As Previously Reported	Adoption of ASU 2016-14	As Restated
Unrestricted	$ 5,645,080	$ (5,645,080)	$ -
Temporarily restricted	1,551,925	(1,551,925)	-
Permanently restricted	291,805	(291,805)	-
Net assets without donor restriction	-	5,645,080	5,645,080
Net assets with donor restriction			
Purpose restrictions	-	1,551,925	1,551,925
Perpetual in nature	-	291,805	291,805