



Financial Statements  
December 31, 2014

# Village Family Service Center

Independent Auditor’s Report.....	1
Financial Statements	
Statement of Financial Position.....	3
Statements of Activities.....	4
Statements of Cash Flows .....	6
Statement of Functional Expenses.....	7
Notes to Financial Statements .....	10
Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	17
Independent Auditor’s Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by <i>OMB Circular A-133</i> .....	19
Schedule of Expenditures of Federal Awards .....	22
Notes to the Schedule of Expenditures of Federal Awards .....	23
Schedule of Findings and Questioned Costs .....	24
Summary Schedule of Prior Year Findings.....	28



## Independent Auditor's Report

The Board of Directors  
Village Family Service Center  
Fargo, North Dakota

### Report on the Financial Statements

We have audited the accompanying financial statements of the Village Family Service Center which comprise the statement of financial position as of December 31, 2014, and the related statements of activities, functional expenses, cash flows for the year then ended and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Audit Standards*, issued by the Comptroller General of the United States. 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 opinions.

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Village Family Service Center as of December 31, 2014, and the results of its operations 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 Village Family Service Center's 2013 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 29, 2015. 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.

## **Other Matters**

### **Other Information**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively compromise the Village Family Service Center's basic financial statements. The accompanying schedule of expenditures of federal awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued a report dated April 29, 2015 on our consideration of the Village Family Service Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Village Family Service Center's internal control over financial reporting and compliance.



Fargo, North Dakota  
April 29, 2015

**Village Family Service Center**  
 Statement of Financial Position  
 December 31, 2014  
 (With Comparative Totals as of December 31, 2013)

	General Fund	Temporarily Restricted	Trust Fund	Total	
				2014	2013
<b>Assets</b>					
Cash	\$ 10,218	\$ -	\$ 7,012	\$ 17,230	\$ 18,038
Receivables	671,305	-	-	671,305	759,994
Due from Children's Village Foundation	552,281	-	-	552,281	477,880
Prepaid Expenses	113,420	-	-	113,420	114,758
Due from Other Funds	-	133,378	-	133,378	104,504
Intangible Assets, Net of Accumulated Amortization	527,577	-	-	527,577	527,577
Property and Equipment, Net of Accumulated Depreciation	2,386,017	-	-	2,386,017	2,396,875
	<u>\$ 4,260,818</u>	<u>\$ 133,378</u>	<u>\$ 7,012</u>	<u>\$ 4,401,208</u>	<u>\$ 4,399,626</u>
<b>Liabilities and Net Assets</b>					
<b>Liabilities</b>					
Checks outstanding in excess of bank balance	\$ -	\$ -	\$ -	\$ -	\$ 11,482
Due to other funds	133,378	-	-	133,378	104,504
Due to Children's Village Foundation	-	-	-	-	80,000
Short-term notes payable	615,682	-	-	615,682	757,351
Long-term debt	2,338,994	-	-	2,338,994	2,185,704
Accounts payable	230,904	-	-	230,904	237,181
Accrued liabilities	706,094	-	-	706,094	653,972
Deferred revenue	336,679	-	-	336,679	301,232
Funds held for FRC clients	-	-	7,012	7,012	7,985
	<u>4,361,731</u>	<u>-</u>	<u>7,012</u>	<u>4,368,743</u>	<u>4,339,411</u>
<b>Net Assets</b>					
Temporarily restricted	-	133,378	-	133,378	104,504
Unrestricted	(100,913)	-	-	(100,913)	(44,289)
	<u>(100,913)</u>	<u>133,378</u>	<u>-</u>	<u>32,465</u>	<u>60,215</u>
	<u>\$ 4,260,818</u>	<u>\$ 133,378</u>	<u>\$ 7,012</u>	<u>\$ 4,401,208</u>	<u>\$ 4,399,626</u>

# Village Family Service Center

## Statements of Activities

Year Ended December 31, 2014

(With Comparative Totals for Year Ended December 31, 2013)

	General Fund	Temporarily Restricted	Total	
			2014	2013
<b>Public Support</b>				
Foundations	\$ 754,402	\$ -	\$ 754,402	\$ 341,516
Donations from businesses, individuals, and organizations	602,793	-	602,793	673,495
Gross special events revenue	465,231	-	465,231	393,827
Less cost of direct benefits to donors	(104,485)	-	(104,485)	(111,137)
<b>Total received from public</b>	<b>1,717,941</b>	<b>-</b>	<b>1,717,941</b>	<b>1,297,701</b>
Allocated by United Ways	732,115	-	732,115	660,343
<b>Total public support</b>	<b>2,450,056</b>	<b>-</b>	<b>2,450,056</b>	<b>1,958,044</b>
<b>Other Revenue</b>				
Counseling fees	4,665,745	-	4,665,745	4,092,438
VBI	1,774,576	-	1,774,576	1,634,345
Federal and other grant revenue	900,186	354,325	1,254,511	1,670,885
Child care	1,016,859	-	1,016,859	1,009,816
First Step Recovery	878,597	-	878,597	859,995
Financial Resource Center	371,136	-	371,136	529,417
Net assets released from restrictions	325,451	(325,451)	-	-
Program and sublease rent	196,915	-	196,915	201,416
Adoption fees	194,011	-	194,011	146,991
Truancy Intervention	133,601	-	133,601	125,054
Magazine sales	129,927	-	129,927	112,897
Miscellaneous revenues	32,129	-	32,129	31,165
<b>Total other revenue</b>	<b>10,619,133</b>	<b>28,874</b>	<b>10,648,007</b>	<b>10,414,419</b>
<b>Total public support and other revenue</b>	<b>13,069,189</b>	<b>28,874</b>	<b>13,098,063</b>	<b>12,372,463</b>
<b>Expenses</b>				
<b>Program services</b>				
Counseling Services	2,977,626	-	2,977,626	2,746,438
Family Therapy	2,209,929	-	2,209,929	2,138,571
VBI	1,678,627	-	1,678,627	1,572,082
Child Care	1,568,460	-	1,568,460	1,427,589
Financial Resource Center	917,482	-	917,482	1,044,438
First Step Recovery	1,134,235	-	1,134,235	814,918
Native American	325,149	-	325,149	477,481
Big Brother Big Sister	317,452	-	317,452	299,680
Adoption	179,806	-	179,806	200,028
Truancy Intervention	169,908	-	169,908	147,731
Village Magazine	141,169	-	141,169	136,758
Alternative to Abortion	63,615	-	63,615	59,547
	<u>11,683,458</u>	<u>-</u>	<u>11,683,458</u>	<u>11,065,261</u>
<b>Supporting services</b>				
Management and general	1,004,813	-	1,004,813	989,495
Fundraising	437,542	-	437,542	475,466
	<u>1,442,355</u>	<u>-</u>	<u>1,442,355</u>	<u>1,464,961</u>
<b>Total expenses</b>	<b>13,125,813</b>	<b>-</b>	<b>13,125,813</b>	<b>12,530,222</b>

**Village Family Service Center**  
 Statements of Activities  
 Years Ended December 31, 2014  
 (With Comparative Totals for Year Ended December 31, 2013)

---

	General Fund	Temporarily Restricted	Total	
			2014	2013
Change in Net Assets	\$ (56,624)	\$ 28,874	\$ (27,750)	\$ (157,759)
Net Assets, Beginning of Year	(44,289)	104,504	60,215	217,974
Net Assets End of Year	\$ (100,913)	\$ 133,378	\$ 32,465	\$ 60,215

Village Family Service Center  
 Statements of Cash Flows  
 Year Ended December 31, 2014

Operating Activities	
Change in net assets	\$ (27,750)
Adjustments to reconcile changes in net assets to net cash used in operating activities	
Depreciation	114,455
Forgiveness of long-term debt recognized as a contribution	(425,000)
Changes in assets and liabilities	
Receivables	(65,712)
Prepaid expenses	1,338
Deferred revenue	35,447
Accrued liabilities	52,122
Checks outstanding in excess of bank balance	(11,482)
Accounts payable	(6,277)
	<u>(332,859)</u>
Net Cash use for Operating Activities	
Investing Activities	
Purchases of property and equipment	(103,597)
Decrease in funds held for FRC clients - liabilities	(973)
	<u>(104,570)</u>
Net Cash used for Investing Activities	
Financing Activities	
Payments on long-term debt	(221,710)
Proceeds from issuance of long-term debt	800,000
Net change in short-term debt	(141,669)
	<u>436,621</u>
Net Cash from Financing Activities	
Net Change in Cash	(808)
Cash, Beginning of Year	<u>18,038</u>
Cash, End of Year	<u><u>\$ 17,230</u></u>
Supplemental Schedule of Cash Payments for Interest	<u><u>\$ 58,807</u></u>
Supplemental Disclosures of Noncash Investing and Financing Activities:	
Equipment acquired under capital lease	<u><u>\$ 103,488</u></u>



Village Family Service Center  
Statement of Functional Expenses  
Year Ended December 31, 2014  
(With Comparative Totals for Year Ended December 31, 2013)

	Family Therapy	Counseling Services	Financial Resource Center	Child Care	Village Business Institute	Big Brother Big Sister
Salaries	\$ 1,359,477	\$ 1,864,987	\$ 501,035	\$ 973,215	\$ 712,840	\$ 187,153
Employee benefits	226,267	297,361	110,681	124,694	110,037	39,558
Travel	135,067	63,760	13,587	3,769	40,342	2,653
Allocated program rent and utilities	82,494	208,718	70,136	44,641	68,844	6,084
Contracted services	7,686	37,673	34	19,162	446,433	-
Office supplies and postage	18,378	24,969	17,421	117,178	20,741	4,319
Printing and publications	11,896	16,290	25,816	1,778	61,543	8,536
Telephone	40,882	32,304	14,068	4,537	17,148	1,761
Repairs, maint. and other rentals	15,760	28,519	15,181	14,918	11,117	2,185
Staff training	30,911	23,921	7,537	2,954	11,322	3,974
Professional fees	24,595	24,429	23,299	4,480	1,418	1,281
Advertising	4,626	57,314	14,239	3,435	8,866	846
Insurance	15,143	22,372	10,127	16,245	8,812	2,245
Interest	16,747	4,762	877	13,852	-	-
Client Assistance and special programs	1,857	952	-	-	6,965	29,814
Administrative charge	206,316	254,588	90,990	133,637	149,119	23,207
Other	4,165	1,766	57	62,227	(109)	1,989
<b>Total expenses before depreciation</b>	<b>2,202,267</b>	<b>2,964,685</b>	<b>915,085</b>	<b>1,540,722</b>	<b>1,675,438</b>	<b>315,605</b>
Depreciation of property and equipment	7,662	12,941	2,397	27,738	3,189	1,847
<b>Total expenses</b>	<b>\$ 2,209,929</b>	<b>\$ 2,977,626</b>	<b>\$ 917,482</b>	<b>\$ 1,568,460</b>	<b>\$ 1,678,627</b>	<b>\$ 317,452</b>

Village Family Service Center  
Statement of Functional Expenses  
Year Ended December 31, 2014  
(With Comparative Totals for Year Ended December 31, 2013)

	Adoption	Truancy Intervention	The Village Family Magazine	First Step Recovery	Alternative to Abortion	Native American
Salaries	\$ 64,325	\$ 127,987	\$ 51,239	\$ 675,187	\$ 31,200	\$ 198,463
Employee benefits	11,895	21,718	8,727	120,066	6,476	40,366
Travel	10,364	2,686	1,661	3,331	-	2,099
Allocated program rent and utilities	14,614	-	3,907	116,909	-	8,658
Contracted services	33,276	-	-	13,691	-	29,580
Office supplies and postage	2,643	1,198	195	11,694	1,064	681
Printing and publications	2,035	190	73,782	12,248	-	20
Telephone	2,312	1,290	370	5,451	658	1,066
Repairs, maint. and other rentals	3,251	-	-	19,100	-	53
Staff training	60	-	25	1,476	-	3,117
Professional fees	4,208	-	-	26,698	3,984	8,733
Advertising	7,412	229	694	28,985	16,473	-
Insurance	1,169	2,009	686	6,765	-	2,754
Interest	251	-	-	5,193	-	-
Client Assistance and special programs	40	-	-	7,975	-	-
Administrative charge	36,306	12,587	-	79,318	3,760	29,559
Other	(15,107)	14	(117)	(3,190)	-	-
<b>Total expenses before depreciation</b>	<b>179,054</b>	<b>169,908</b>	<b>141,169</b>	<b>1,130,897</b>	<b>63,615</b>	<b>325,149</b>
Depreciation of property and equipment	752	-	-	3,338	-	-
<b>Total expenses</b>	<b>\$ 179,806</b>	<b>\$ 169,908</b>	<b>\$ 141,169</b>	<b>\$ 1,134,235</b>	<b>\$ 63,615</b>	<b>\$ 325,149</b>

Village Family Service Center

Statement of Functional Expenses

Year Ended December 31, 2014

(With Comparative Totals for Year Ended December 31, 2013)

	Total Program Services Expenses	Support Services			Total Expenses	
		Management and General	Fund Raising	Total Support	2014	2013
Salaries	\$ 6,747,108	\$ 1,243,021	\$ 259,012	\$ 1,502,033	\$ 8,249,141	\$ 7,766,509
Employee benefits	1,117,846	156,082	56,606	212,688	1,330,534	1,254,373
Travel	279,319	82,070	13,890	95,960	375,279	395,535
Allocated program rent and utilities	625,005	169,773	15,461	185,234	810,239	720,039
Contracted services	587,535	13,564	1,533	15,097	602,632	577,661
Office supplies and postage	220,481	62,130	8,719	70,849	291,330	304,598
Printing and publications	214,134	25,033	45,030	70,063	284,197	278,028
Telephone	121,847	23,122	3,756	26,878	148,725	153,193
Repairs, maint. and other rentals	110,084	45,623	4,441	50,064	160,148	169,725
Staff training	85,297	32,438	1,287	33,725	119,022	136,085
Professional fees	123,125	50,189	3,192	53,381	176,506	199,964
Advertising	143,119	30,149	16,995	47,144	190,263	193,183
Insurance	88,327	(30,149)	3,645	(26,504)	61,823	70,221
Interest	41,682	17,125	-	17,125	58,807	54,237
Client Assistance and special programs	47,603	2,816	14	2,830	50,433	59,513
Administrative charge	1,019,387	(1,019,387)	-	(1,019,387)	-	-
Other	51,695	47,561	3,023	50,584	102,279	83,683
Total expenses before depreciation	11,623,594	951,160	436,604	1,387,764	13,011,358	12,416,547
Depreciation of property and equipment	59,864	53,653	938	54,591	114,455	113,675
Total expenses	<u>\$ 11,683,458</u>	<u>\$ 1,004,813</u>	<u>\$ 437,542</u>	<u>\$ 1,442,355</u>	<u>\$ 13,125,813</u>	<u>\$ 12,530,222</u>

## **Note 1 - Organization and Summary of Significant Accounting Policies**

### **Organization and Nature of Operations**

The Village Family Service Center (Village) is organized as a nonprofit corporation under the laws of the state of North Dakota. The Village 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 mission of the Village is to improve the quality of life through services designed to strengthen individuals, families, and organizations.

### **Concentrations of Credit Risk**

The Village maintains its cash accounts in various deposit accounts, the balances of which are periodically in excess of federally insured limits.

### **Cash and Cash Equivalents**

The Village considers all cash and highly liquid financial instruments with original maturities of three months or less, and which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents. Cash and highly liquid financial instruments restricted to capital expenditures, permanent endowment, or other long-term purposes of the Village are excluded from this definition.

### **Receivables and Credit Policy**

Trade receivables are uncollateralized customer obligations due upon receipt. Payments on trade receivables are applied to the earliest unpaid invoices. The carrying amount of trade receivables is reduced by a valuation allowance that reflects management's best estimate of the amounts that will not be collected. Management reviews all aged trade receivable balances and based on an assessment of current creditworthiness, estimates the portion, if any, of the balance that will not be collected. The allowance for doubtful accounts as of December 31, 2014 is \$85,801.

### **Goodwill**

Goodwill represents costs in excess of purchase price over the fair value of the assets of businesses acquired, including other identifiable intangible assets.

Goodwill is not amortized, rather potential impairment is considered on an annual basis, or more frequently upon the occurrence of an event or when circumstances indicate that the amount of goodwill is greater than its fair value. As of December 31, 2014, the carrying value of the Organization's goodwill of \$522,577 was not considered impaired.

### **Intangible Assets**

Intangible assets with a finite life consist of a covenant not to compete, and is carried at cost of \$5,000 less accumulated amortization. The Company amortizes the cost of the identifiable intangible asset on a straight-line basis over the expected period of benefit, which is five years.

## **Property and Equipment**

Acquisitions of property and equipment in excess of \$1,000 are stated at cost. It is the policy of the Village to provide depreciation using the straight-line method over the estimated useful lives of the assets, which range from 2 to 40 years.

## **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.

*Temporarily Restricted Net Assets* – Net assets subject to donor restrictions that may or will be met by expenditures or actions of the Village 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 Village's Board of Directors.

The Village 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 Village. The restrictions stipulate that resources be maintained permanently but permit the Village to expend the income generated in accordance with the provisions of the agreements.

## **Income Taxes**

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

## **Revenue Recognition**

Revenue is recognized when earned. Program service fees and payments under cost-reimbursable contracts received in advance are deferred to the applicable period in which the related services are performed or expenditures are incurred, respectively. 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.

**Advertising Costs**

Advertising costs are expensed as incurred and totaled \$190,263 and \$193,183 for the years ended December 31, 2014 and 2013, respectively.

**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.

**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.

**Note 2 - Property and Equipment**

Property and equipment consists of the following:

	2014			2013
	Cost	Accumulated Depreciation	Net	Net
Land	\$ 377,218	\$ -	\$ 377,218	\$ 377,218
Land held for future use	915,000	-	915,000	915,000
Building and leasehold improvements	1,928,089	1,079,890	848,199	914,624
Office furniture and equipment	753,616	508,016	245,600	190,033
	\$ 3,973,923	\$ 1,587,906	\$ 2,386,017	\$ 2,396,875

**Note 3 - Leases**

The Village rents office space for 17 satellite sites under operating leases. The terms of 5 of the leases are on a month-to-month basis while the remaining 12 leases have various ending times through December 2020.

The Village rents office equipment for its Fargo operation and satellite sites under leases expiring at various times through March 2015. These leases are accounted for as operating leases.

The Village leases 11 autos. These leases are accounted for as operating leases and have various ending times through August 2017.

The Village leases telephone equipment under a capital lease ending February 2018.

Future minimum lease payments under leases with terms greater than month-to-month are as follows:

<u>Year</u>	<u>Capital Lease</u>	<u>Operating Leases</u>
2015	\$ 24,974	\$ 406,742
2016	24,974	289,550
2017	24,974	217,602
2018	2,082	164,656
2019	-	51,509
Thereafter	-	24,073
Total minimum lease payments	77,004	<u>\$ 1,154,132</u>
Less portion representing interest	8,891	
Present value of minimum lease payments - Note 4	<u>\$ 68,113</u>	

Total rent expense for office space, equipment, and auto was \$667,669 and \$567,196 in 2014 and 2013, respectively.

Leased property under capital lease at December 31, 2014 includes:

	<u>2014</u>
Equipment	\$ 103,488
Less accumulated amortization	35,375
	<u>\$ 68,113</u>

**Note 4 - Notes Payable**

**Line of Credit and Short-Term Notes Payable**

The Organization has a line of credit with maximum borrowings of \$1,000,000 through Bremer Bank. The line of credit has a variable interest rate equal to the index plus .75 percentage points (4% at December 31, 2014). The outstanding balance was \$615,682 and \$757,351 at December 31, 2014 and 2013, respectively; the line matures June 2015 and is secured by substantially all assets.

**Long-Term Notes Payable**

	2014	2013
0% note payable to the Foundation, due on demand, unsecured, subordinated to bank debt	\$ 1,475,000	\$ 1,100,000
Non-interest payable to Michael Kaspari, due in annual installments of \$30,000, plus an expected annual incentive payment of \$40,000 plus 25% of the annual revenue over \$600,000 of the First Step Recovery program, to February 1, 2017	195,633	320,000
3.375 % note payable to Gate City Bank, due in monthly installments of \$2,202 to March 1, 2015, secured by substantially all assets	6,568	32,297
3.5% note payable to Bremer Bank, due in monthly installments of \$5,965 to December 1, 2015 at which time the remaining balance is due in full, secured by real estate and substantially all business assets	504,459	549,277
3.75% note payable to Bremer Bank, due in monthly installments of \$1,056 to December 1, 2015, at which time the remaining balance is due in full, secured by real estate and substantially all business assets	89,221	97,260
Capital lease obligation - Note 3	68,113	86,870
	\$ 2,338,994	\$ 2,185,704

Minimum repayments of debt obligations to maturity are as follows:

Years	Amount
2015	\$ 2,227,404
2016	85,745
2017	23,776
2018	2,069
	\$ 2,338,994



The bank debt agreement has restrictive covenants. The Organization was in violation of some of these covenants at December 31, 2014, for which a waiver has been obtained.

The Children's Village Foundation is a co-borrower to all notes with Bremer Bank.

**Note 5 - Temporarily Restricted Net Assets**

Temporarily restricted net assets are available for the following programs:

Financial Resource Center	\$ 46,022
Childcare	38,500
Counseling Services	36,000
Family Therapy	7,856
Development	5,000
	<hr/>
	\$ 133,378
	<hr/>

**Note 6 - Pension Plan**

Employees with one year of service and a minimum of 1,000 hours are eligible for participation in the Village's contribution pension plan; however the Village suspended funding to this plan effective September 1, 2009.

There was no pension expense as of December 31, 2014 and 2013.

**Note 7 - Related Party Transactions**

The Village is affiliated with the Children's Village Foundation (Foundation). The Foundation was created for the purpose of providing permanent support for the activities and programs of the Village. See Note 4 for financing provided by the Foundation to the Village.

The Village annually receives support from the Foundation. The Village pays certain expenses of the Foundation. The Village is reimbursed by the Foundation for these expenses.

The following is a summary of transactions between the two entities for 2014 and 2013:

	2014	2013
<b>Statement of Financial Position</b>		
Due from Children's Village Foundation	\$ 552,281	\$ 477,880
Due to Children's Village Foundation	\$ -	\$ 80,000
<b>Statement of Support, Revenues and Expenses</b>		
<b>Support and revenue</b>		
Contributions for operations	\$ 754,402	\$ 341,516
Contributions for compensated absences	\$ 25,176	\$ 30,716
Contributions for land expenses	\$ 101,456	\$ 89,276

**Note 8 - Subsequent Events**

The Village has evaluated subsequent events through April 29, 2015, the date of the financial statement were available to be issued noting the following significant events.



**Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance  
and Other Matters Based on an Audit of Financial Statements Performed in Accordance with  
*Government Auditing Standards***

To the Board of Directors  
Village Family Service Center  
Fargo, North Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Village Family Service Center, which comprise the statement of 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, and have issued our report thereon dated April 29, 2015.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Village Family Service Center's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village Family Service Center’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Village Family Service Center’s internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not yet been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as 2014-A and 2014-B, that we consider to be significant deficiencies.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Village Family Service Center's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Village Family Service Center's Response to Findings**

The Village Family Service Center's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The Village Family Service Center's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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



**Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by *OMB Circular A-133***

To the Board of Directors  
Village Family Service Center  
Fargo, North Dakota

**Report on Compliance for Each Major Federal Program**

We have audited the Village Family Service Center's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Village Family Service Center's major federal programs for the year ended December 31, 2014. The Village Family Service Center's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on the compliance for each of the Village Family Service Center's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Village Family Service Center's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Village Family Service Center's compliance.

### **Opinion on Each Major Federal Program**

In our opinion, the Village Family Service Center complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect of each of its major Federal programs identified above for the year ended December 31, 2014.

### **Other Matters**

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2014-001. Our opinion on the federal program is not modified with respect to this matter.

The Village Family Service Center's response to the noncompliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The Village Family Service Center's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### **Report on Internal Control over Compliance**

Management of the Village Family Service Center is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Village Family Service Center's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Village Family Service Center's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses and significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a certain deficiency in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as item 2014-001 that we consider to be a significant deficiency.

The Village Family Service Center's response to the internal control over compliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The Village Family Service Center's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Eide Bailly LLP*

Fargo, North Dakota  
April 29, 2015

Village Family Service Center  
Schedule of Expenditures of Federal Awards  
December 31, 2014

<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Agency or Pass-through Number</u>	<u>Federal Share of Expenditures</u>
U.S. Department of Health and Human Services			
Direct Award			
Family Engagement for Native American Youth Grant	93.605		\$ 325,149
Passed through Minnesota Department of Human Services			
Children's Mental Health Division			
DHS Early Childhood Mental Health Grant	93.958	209SM010027	92,606
Passed through North Dakota Department of Human Services			
Economic Assistance Policy Division			
Alternative to Abortion Program	93.558	405-08616	<u>63,536</u>
Total for U.S. Department of Health and Human Services			<u>481,291</u>
U.S. Department of Justice			
Direct Award			
Strategic Enhancement to Mentoring Program	16.726		62,484
Passed through the North Dakota Department of Health			
Mental Health Disaster Assistance and Emergency			
Stop Violence Against Women Grant	16.588	G11.429	<u>17,496</u>
Total for U.S. Department of Justice			<u>79,980</u>
U.S. Department of Housing and Urban Development			
Passed through the National Foundation For Credit			
Counseling, Inc.			
HUD Comprehensive Grant	14.169	HC120011021	<u>34,933</u>
Total Expenditures of Federal Awards			<u>\$ 596,204</u>



**Note A – Basis of Presentation**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Village Family Service Center, and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. The Village Family Service Center received federal awards both directly from federal agencies and indirectly through pass-through entities. Federal financial assistance provided to a subrecipient is treated as an expenditure when it is paid to the subrecipient.

**Note B – Significant Accounting Policies**

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, Cost Principles for Non-profit Organizations, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Village Family Service Center’s summary of significant accounting policies is presented in Note 1 in the Village Family Service Center’s basic financial statements.

**Note C – Subrecipients of Grant Awards**

Of the federal expenditures presented in the accompanying schedule of expenditures of federal awards, the Village Family Service Center provided federal awards to subrecipients as follows:

Program Title	Federal CFDA Number	Amount Provided to Subrecipients
Family Engagement for Native American Youth Grant	93.605	\$ <u>29,580</u>

**Section I – Summary of Auditor’s Results**

**FINANCIAL STATEMENTS**

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	Yes
Noncompliance material to financial statements noted?	No

**FEDERAL AWARDS**

Internal control over major program:	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	Yes
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133 §.510(a):	Yes

**Identification of major programs:**

<u>Name of Federal Program</u>	<u>CFDA Number</u>
Family Engagement for Native American Youth Grant	93.605
Dollar threshold used to distinguish between type A and type B programs:	\$ 300,000
Auditee qualified as low-risk auditee?	Yes

---

**Section II – Financial Statement Findings**

---

**Finding 2014-A**

**Segregation of Duties  
Significant Deficiency**

**Criteria:** A good system of internal control contemplates an adequate segregation of duties so that no one individual handles a transaction from its inception to completion.

**Condition:** The Village Family Service Center has a lack of segregation of duties in certain areas due to a limited staff. During the audit process we noted several areas specifically in which there was inadequate segregation of duties and/or review process in place. First, we noted that the bank reconciliation is prepared by an individual within the Village Family Service Center that processes the payroll and creates manual checks. In addition, we noted there is no review process in place related to the bank reconciliation or bank statement. Secondly, we noted that an individual within the Village Family Service Center is responsible for processing accounts payable, creating checks and subsequently mailing the check. Further, we noted that all checks are affixed with the signer's signature via software. Therefore, adequate review of the checks written was not noted. Lastly, there is no review process in place for expense reports submitted by executives.

**Effect:** Inadequate segregation of duties could adversely affect the Village Family Service Center's ability to detect and correct unintentional or intentional misstatements to the financial statements in a timely period by employees in the normal course of performing their assigned functions.

**Cause:** The Village Family Service Center's size and budget constraints limit the number of personnel and does not facilitate the segregation of duties necessary to adequately separate procedures.

**Recommendation:** While we recognize that your staff may not be large enough to permit complete segregation of duties in all respects for an effective system of internal control. However, we would recommend the Village Family Service Center implement a review and approval process surrounding manual journal entries, bank reconciliation, executive expense reports, and checks written. Also, we would recommend the Village Family Service Center have an individual outside of cash receipts and cash disbursements prepare the bank reconciliation. In addition, an overall review of the accounting functions should be done to determine if additional segregation is feasible and to improve efficiency and effectiveness of financial management of the Village Family Service Center.

**Management Response  
And Corrective Plan:** Due to cost constraints, there will be no further administrative employees added. In addition, management has adopted review procedures at the board level to mitigate some of this risk.

<b>Finding 2014-B</b>	<b>Preparation of Financial Statements Significant Deficiency</b>
Criteria:	A good system of internal accounting control should provide for the preparation of the financial statements and footnotes in accordance with generally accepted accounting principles that are materially correct.
Condition:	The Village Family Service Center does not have an internal control system designed to provide for the preparation of the financial statements and related footnotes being audited in accordance with generally accepted accounting principles. As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements.
Effect:	Inadequate controls over financial reporting could result in the Village Family Service Center not being able to draft the financial statements and accompanying footnotes that are correct without the assistance of the auditors.
Cause:	This deficiency is partially due to the limited resources in the financial reporting process due to budgetary constraints.
Recommendation:	This circumstance is not unusual in an organization of your size. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.
Management Response And Corrective Plan:	Due to cost constraints, the Village Family Service Center will continue to have the auditors draft the financial statements and accompanying notes to the financial statements.

---

**Section III – Federal Award Findings and Questioned Costs**

---

<b>Finding 2014-001</b>	<b>CFDA #93.605 Family Engagement for Native American Youth Grant Reporting Significant Deficiency in Internal Controls</b>
Criteria:	The grant requires reporting subawards greater than or equal to \$25,000 under the Federal Funding Accountability and Transparency Act (FFATA).
Condition:	The Village Family Service Center provided a federal subaward in the amount of \$39,376 for the Federal fiscal year to the University of North Dakota Research Center. This subaward was not reported under the FFATA compliance requirement.
Effect:	Without proper implementation of internal controls over reporting, noncompliance with grant award requirements occurred.

Cause: The Village Family Service Center was aware of the compliance requirement however due to time management and the assessment of the risk they did not complete the reporting.

Recommendation: Management should take steps to ensure they are aware of all reporting requirements under the grant.

Management Response  
And Corrective Plan: Management will stress the importance of grant compliance and ensure that the FFATA reporting requirement is completed for any subawards in future grants. In addition, Management will communicate the importance of a thorough review of the grant agreements to ensure they are aware of all compliance requirements.

**Finding 2014-001**      **CFDA #93.605**  
**Family Engagement for Native American Youth Grant**  
**Reporting**  
**Significant Deficiency in Internal Controls**

Criteria:                      The grant requires reporting subawards greater than or equal to \$25,000 under the Federal Funding Accountability and Transparency Act (FFATA). The Village Family Service Center provided a federal subaward in the amount of \$47,033 for the Federal fiscal year to the University of North Dakota Research Center. This subaward was not reported under the FFATA compliance requirement.

Status:                         The finding was uncorrected as of December 31, 2014.

Auditor Response:         The finding was reported on the Schedule of Findings and Questioned Costs for year ended December 31, 2014.