Financial Statements
December 31, 2015 and 2014

Children's Village Foundation

EideBailly

CPAs & BUSINESS ADVISORS

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 statement of financial position as of December 31, 2015, and the related statement of activity 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.

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, 2015, 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.

Report on Summarized Comparative Information
We have previously audited the Children's Village Foundation's 2014 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, 2014 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Eide Bailly LLP

Fargo, North Dakota
May 4, 2016

Children's Village Foundation
Statement of Financial Position
December 31, 2015
(With Comparative Totals as of December 31, 2014)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2015	Total 2014
Assets					
Cash and cash equivalents	$ 75,321	$ 10,633	$ -	$ 85,954	$ 113,799
Prepaid expenses	2,200	-	-	2,200	2,200
Marketable securities					
Marketable securities	1,187,400	920,845	215,897	2,324,142	2,190,356
Marketable securities-annuity reserve	149,745	-	-	149,745	153,401
	1,337,145	920,845	215,897	2,473,887	2,343,757
Investments, at cost	214,000	-	-	214,000	214,000
Receivables					
Note receivable from Village Family Service Center - term loan	1,125,000	-	-	1,125,000	1,475,000
Promises to give	-	-	-	-	32,750
Interest and dividends receivable	17,032	-	-	17,032	14,912
	1,142,032	-	-	1,142,032	1,522,662
Total assets	$ 2,770,698	$ 931,478	$ 215,897	$ 3,918,073	$ 4,196,418
Liabilities and Net Assets					
Liabilities					
Annuities payable	$ 33,491	$ -	$ -	$ 33,491	$ 31,971
Due to Village Family Service Center	516,810	-	-	516,810	552,282
	550,301	-	-	550,301	584,253
Net Assets					
Unrestricted	2,220,397	-	-	2,220,397	3,017,262
Temporarily restricted	-	931,478	-	931,478	439,356
Permanently restricted	-	-	215,897	215,897	155,547
	2,220,397	931,478	215,897	3,367,772	3,612,165
Total liabilities and net assets	$ 2,770,698	$ 931,478	$ 215,897	$ 3,918,073	$ 4,196,418

Children's Village Foundation
Statement of Activity
Year Ended December 31, 2015
(With Comparative Totals for Year Ended December 31, 2014)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2015	Total 2014
Revenue, Gains, and Support					
Interest and dividends	$ 222,746	$ 1,900	$ -	$ 224,646	$ 54,773
Donations and bequests	12,880	492,122	60,350	565,352	193,114
Unrealized loss on investments	(67,727)	(22,067)	-	(89,794)	(54,717)
Realized gain on investments	73,605	13,137	-	86,742	252,040
Miscellaneous	830	-	-	830	1,697
Net assets released from restrictions	(7,030)	7,030	-	-	-
Total revenue, gains, and support	235,304	492,122	60,350	787,776	446,907
Expenses and losses					
Program services	1,007,328	-	-	1,007,328	881,034
Trustees' fees	13,321	-	-	13,321	16,587
Professional fees	7,350	-	-	7,350	5,935
Interest	4,125	-	-	4,125	3,042
Change in value of split interest agreements	-	-	-	-	(4,348)
Miscellaneous	45	-	-	45	10
Total expenses and losses	1,032,169	-	-	1,032,169	902,260
Change in net assets	(796,865)	492,122	60,350	(244,393)	(455,353)
Net Assets, Beginning of Year	3,017,262	439,356	155,547	3,612,165	4,067,518
Net Assets, End of Year	$ 2,220,397	$ 931,478	$ 215,897	$ 3,367,772	$ 3,612,165

	2015
Operating Activities	
Change in net assets	$ (244,393)
Adjustments to reconcile change in net assets to cash flows from operating activities	
Unrealized loss on investments	89,794
Realized gain on investments	(114,588)
Changes in operating assets and liabilities	
Accounts receivable	(2,120)
Due from Village Family Service Center	350,000
Promises to give	32,750
Due to Village Family Service Center	(35,472)
Annuities payable	1,520
Net Cash From Operating Activities	77,491
Investing Activities	
Purchase of investment securities	(839,643)
Proceeds from sale and maturity of investment securities	734,307
Net Cash Used For Investing Activities	(105,336)
Net Change in Cash and Cash Equivalents	(27,845)
Cash and Cash Equivalents, Beginning of Year	113,799
Cash and Cash Equivalents, End of Year	$ 85,954

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).

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, 2014, from which the summarized information was derived.

Cash and Cash Equivalents

The Foundation considers cash and 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 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 $33,491 and $31,971, respectively, at December 31, 2015 and 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 activity 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 activity 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 activity as net assets released from restrictions.

Promises to Give

Unconditional promises to give expected to be collected within one year are recorded at net realizable value.

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statements of activity. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

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.

Subsequent Events

The Foundation has evaluated subsequent events through May 4, 2016, the date which the financial statements were available to be issued.

Note 2 - 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, 2015 and 2014 is $1,125,000 and $1,475,000, respectively, and is reviewed each year to determine what, if any, payments will be due. During the year ended December 31, 2015 and 2014, the Foundation forgave debt of $550,000 and $425,000, respectively, related to this note which has been recorded as a program expense. The Foundation also extended another $200,000 and $800,000, respectively, to the Village during 2015 and 2014. 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 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, 2015:

December 31, 2015	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Assets			
Equity securities	$ 903,486	$ -	$ -
U.S. Federal agency debt securities	29,402	-	-
Corporate debt securities	482,612	-	-
Real estate investment trusts	-	1,033,167	-
Mineral Rights	-	-	25,220
	$ 1,415,500	$ 1,033,167	$ 25,220
Liabilities			
Gift annuity agreements	$ -	$ -	$ 33,491

Also included in the above amounts is marketable securities-annuity reserve of $149,745, and it is singled out to meet a North Dakota statute.

Investments in an Unrealized Loss Position

The duration of the investments in an unrealized loss position at December 31, 2015 are shown in the following table:

	Greater Than 12 Months		Less Than 12 Months	
December 31, 2015	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Equities - mutual funds	$ 479,383	$ (59,289)	$ -	$ -
Corporate debt securities	512,014	(13,621)	-	-
Real estate investment trust	219,568	(10,093)	-	-
	$ 1,210,965	$ (83,003)	$ -	$ -

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, 2015:

	2015
Balance, beginning of year	$ 31,971
Payments to beneficiaries	(4,125)
Change in split interest agreements	5,645
Balance, end of year	$ 33,491

Note 4 - Net Investment Return

Net investment return consists of the following for the year ended December 31, 2015 and 2014:

	2015	2014
Interest and dividends	$ 224,646	$ 54,773
Net realized and unrealized gain (loss)	(3,052)	197,323
Less investment management and trustee fees	(13,321)	(16,587)
	$ 208,273	$ 235,509

Note 5 - 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 2 and 6.

The following is a summary of transactions between the two entities for 2015 and 2014:

	2015	2014
Statement of Financial Position		
Compensated absences	$ 411,393	$ 381,106
Land costs	86,051	71,266
Due from Village Family Service Center	19,366	99,910
Total due to Village Family Service Center	$ 516,810	$ 552,282
Note receivable from Village Family Service Center	$ 1,125,000	$ 1,475,000
Statement of Activity		
Contributions for operations	$ 862,441	$ 754,402
Contributions for compensated absences	30,287	25,176
Contributions for land expenses	114,600	101,456
Total support and revenue	$ 1,007,328	$ 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, 2015 and 2014, the total outstanding balance due to Bremer Bank was $1,657,211 and $1,209,362, respectively.

Note 7 - Temporarily Restricted Net Assets

Included in temporarily restricted net assets as of December 31, 2015 and 2014 is $931,478, and $439,256, respectively, 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, 2015 and 2014, 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 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 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 years ending December 31, 2015 and 2014 are as follows:

	For the Year Ending December 31, 2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ -	$ -	$ 155,547	$ 155,547
Investment return:				
Investment income	-	1,900	-	1,900
Net appreciation/(depreciation) (realized and unrealized)	-	(8,930)	-	(8,930)
Contributions	-	-	60,350	60,350
Appropriation of endowment assets for expenditure	-	7,030	-	7,030
Other changes:				
Transfer to other temporarily restricted donor funds:	-	-	-	-
Endowment net assets, end of year	$ -	$ -	$ 215,897	$ 215,897

	For the Year Ending December 31, 2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
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	$ -	$ -	$ 155,547	$ 155,547

Note 9 - Functional Expenses

Total expenses by function were as follows for the years ended December 31, 2015 and 2014:

	2015	2014
Support of Village's activities	$ 1,007,328	$ 881,034
Management and general fees	24,841	21,226
	$ 1,032,169	$ 902,260