



Financial Statements
June 30, 2018 and 2017

Los Cabos Children's Foundation

Los Cabos Children's Foundation

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June 30, 2018 and 2017

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CPAs & BUSINESS ADVISORS

Independent Auditor's Report

To the Board of Directors
Los Cabos Children's Foundation
Eagan, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of Los Cabos Children's Foundation (LCCF) which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities, functional expenses and cash flows for the years 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 the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Los Cabos Children's Foundation as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads "Eide Bailly LLP".

Sioux Falls, South Dakota
January 29, 2019

Los Cabos Children's Foundation
 Statements of Financial Position
 June 30, 2018 and 2017

	2018	2017
Assets		
Cash and cash equivalents	\$ 181,698	\$ 1,897,685
Cash - fiscal agent	8,183	-
Cash - restricted	123,204	-
Cash - endowment	50,000	-
Promises to give, net	424,742	278,233
Prepaid expenses	-	6,000
Land held for sale	115,000	136,846
Donated equipment in transit	19,000	19,000
Investments	1,716,046	-
	\$ 2,637,873	\$ 2,337,764
Liabilities and Net Assets		
Accounts payable	\$ 3,075	\$ -
Other liabilities	14,856	14,742
Grant payable	25,220	-
Fiscal agent payable	8,183	-
Deferred revenue	-	5,868
	51,334	20,610
Net Assets		
Unrestricted	2,077,347	2,121,572
Temporarily restricted	459,192	195,582
Permanently restricted	50,000	-
	2,586,539	2,317,154
	\$ 2,637,873	\$ 2,337,764

Los Cabos Children's Foundation
Statements of Activities
Years Ended June 30, 2018 and 2017

	2018	2017
Unrestricted Revenue, Support, and Gains		
Contributions	\$ 240,179	\$ 158,533
Proud partners program	87,343	102,690
In-kind contributions	95,615	52,894
Gross special events revenue (including \$73,706 and \$83,887 of in-kind contributions for 2018 and 2017, respectively)	1,293,612	1,182,652
Less cost of direct benefits to donors	<u>(132,617)</u>	<u>(143,068)</u>
Net special events revenue	1,160,995	1,039,584
Net investment return	7,085	1,902
Exchange rate (loss) gain	(7,961)	11,477
Net assets released from restrictions for operating purposes	122,475	68,495
Impairment loss	<u>(21,846)</u>	<u>-</u>
Total unrestricted revenue, support and gains	<u>1,683,885</u>	<u>1,435,575</u>
Expenses and Losses		
Program	1,104,470	855,454
Management and general	150,524	115,089
Fundraising	<u>166,719</u>	<u>106,988</u>
Total expenses	<u>1,421,713</u>	<u>1,077,531</u>
Loss on uncollectible promises to give	<u>306,397</u>	<u>1,815</u>
Total expenses and losses	<u>1,728,110</u>	<u>1,079,346</u>
Change in Unrestricted Net Assets	<u>(44,225)</u>	<u>356,229</u>
Temporarily Restricted Net Assets		
Contributions	386,085	73,107
Net assets released from restrictions	<u>(122,475)</u>	<u>(68,495)</u>
Change in Temporarily Restricted Net Assets	<u>263,610</u>	<u>4,612</u>
Permanently Restricted Net Assets		
Contributions	<u>50,000</u>	<u>-</u>
Change in Net Assets	269,385	360,841
Net Assets, Beginning of Year	<u>2,317,154</u>	<u>1,956,313</u>
Net Assets, End of Year	<u><u>\$ 2,586,539</u></u>	<u><u>\$ 2,317,154</u></u>

Los Cabos Children's Foundation
Statement of Functional Expenses
Year Ended June 30, 2018

	Program Services	Support Services		Total
		Management and General	Fundraising and Development	
Medical programs and coordination	\$ 123,578	\$ -	\$ -	\$ 123,578
Grants	848,527	-	-	848,527
Entertainment	-	-	63,717	63,717
Food and beverage	-	-	66,385	66,385
Payroll	126,169	15,065	70,516	211,750
Travel	6,196	-	8,773	14,969
Recognition/awards	-	-	2,515	2,515
Development	-	16,386	85,694	102,080
Rent	-	9,899	-	9,899
Bank charges	-	5,656	-	5,656
Professional fees & consulting	-	79,650	-	79,650
Phone	-	1,961	-	1,961
Supplies	-	2,945	1,736	4,681
Other	-	16,853	-	16,853
Insurance	-	2,109	-	2,109
	<u>1,104,470</u>	<u>150,524</u>	<u>299,336</u>	<u>1,554,330</u>
Less expenses included with revenues on the statement of activities				
Cost of direct benefits to donors	-	-	(132,617)	(132,617)
	<u>-</u>	<u>-</u>	<u>(132,617)</u>	<u>(132,617)</u>
Total expenses included in the expense section on the statements of activities	<u>\$ 1,104,470</u>	<u>\$ 150,524</u>	<u>\$ 166,719</u>	<u>\$ 1,421,713</u>

Los Cabos Children's Foundation
Statement of Functional Expenses
Year Ended June 30, 2017

	Program Services	Support Services		Total
		Management and General	Fundraising and Development	
Medical programs and coordination	\$ 135,206	\$ -	\$ -	\$ 135,206
Grants	589,000	-	-	589,000
Entertainment	-	-	77,580	77,580
Food and beverage	-	-	54,826	54,826
Payroll	125,097	18,204	59,857	203,158
Travel	6,151	-	2,121	8,272
Recognition/awards	-	-	10,662	10,662
Development	-	-	44,844	44,844
Rent	-	6,640	-	6,640
Bank charges	-	2,993	-	2,993
Professional fees & consulting	-	72,853	-	72,853
Phone	-	2,412	-	2,412
Supplies	-	1,238	166	1,404
Other	-	6,153	-	6,153
Insurance	-	4,596	-	4,596
	<u>855,454</u>	<u>115,089</u>	<u>250,056</u>	<u>1,220,599</u>
Less expenses included with revenues on the statement of activities				
Cost of direct benefits to donors	-	-	(143,068)	(143,068)
	<u>-</u>	<u>-</u>	<u>(143,068)</u>	<u>(143,068)</u>
Total expenses included in the expense section on the statements of activities	<u>\$ 855,454</u>	<u>\$ 115,089</u>	<u>\$ 106,988</u>	<u>\$ 1,077,531</u>

Los Cabos Children's Foundation
 Statements of Cash Flows
 Years Ended June 30, 2018 and 2017

	2018	2017
Cash Flows from Operating Activities		
Change in net assets	\$ 269,385	\$ 360,841
Adjustments to reconcile change in net assets to net cash from operating activities		
Loss on uncollectible promises to give	306,397	1,815
Loss on impairment of property	21,846	-
Realized loss on investments	436	-
Unrealized gain on sale of investments	(4,882)	-
Contributions restricted to endowment	(50,000)	-
Changes in operating assets and liabilities		
Cash temporarily restricted by donors	(123,204)	-
Promises to give	(452,906)	(75,711)
Prepaid expenses	6,000	(6,000)
Accounts payable	3,075	(418)
Other liabilities	114	14,742
Grants payable	25,220	(43,500)
Deferred revenue	(5,868)	5,868
	(4,387)	257,637
Net Cash from Operating Activities		
Cash Flows from Investing Activities		
Purchases of investments	(1,711,600)	-
Net Change in Cash and Cash Equivalents	(1,715,987)	257,637
Cash and Cash Equivalents, Beginning of Year	1,897,685	1,640,048
Cash and Cash Equivalents, End of Year	\$ 181,698	\$ 1,897,685

Note 1 - Principal Activity and Significant Accounting Policies

Organization

Los Cabos Children's Foundation (LCCF) is a nonprofit organization established to assist children by providing medical, educational, and humanitarian assistance in the Los Cabos area and in the United States.

Cash and Cash Equivalents

LCCF considers all cash and highly liquid financial instruments with original maturities of three months or less, and which are neither held as the fiscal agent nor restricted by donors for long-term purposes, to be cash and cash equivalents.

Promises to Give

Unconditional promises to give expected to be collected within one year are recorded at net realizable value. Unconditional promises to give expected to be collected in future years are initially recorded at fair value using present value techniques incorporating risk-adjusted discount rates designed to reflect the assumptions market participants would use in pricing the asset. In subsequent years, amortization of the discounts is included in contribution revenue in the statements of activities. Management determines the allowance for uncollectable promises to give based on historical experience, an assessment of economic conditions, and a review of subsequent collections. Promises to give are written off when deemed uncollectable. At June 30, 2018 and 2017, the allowance was \$253,740 and \$3,740, respectively.

Investments

LCCF records investment purchases at cost, or if donated, at fair value on the date of donation. Thereafter, investments are reported at fair value in the statements of financial position. Net investment return/(loss) is reported in the statements of activities and consists of interest and dividend income, realized and unrealized capital gains and losses, less investment management and custodial fees.

Land

LCCF acquired land located in San Jose Del Cabo, Los Cabos during the year ended June 30, 2016. LCCF reviews the carrying value of the land whenever events or circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When considered impaired, an impairment loss is recognized to the extent carrying value exceeds the fair value of the asset. LCCF has determined that the land was impaired during the year ended June 30, 2018, and has recorded an impairment loss of \$21,846 at June 30, 2018. There were no indicators of asset impairment during the year ended June 30, 2017.

Donated Equipment in Transit

LCCF has received notification of a donation of a bloodmobile to the Organization. The donation has been recorded at fair value on the date of donation. LCCF is waiting for the bloodmobile to be delivered across the border and as a result, no amount has been depreciated.

Grants Payable

LCCF makes grants to certain charitable organizations within Los Cabos and the surrounding area that complement their mission to assist children by providing medical, educational, and humanitarian assistance in the Los Cabos area. The liability for future committed payments to be made to the grantees is included in the statements of financial position.

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 LCCF and/or the passage of time.

LCCF reports contributions restricted by donors as increases in unrestricted net assets if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements 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 LCCF.

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.

Donated Services and In-Kind Contributions

Volunteers contribute significant amounts of time to LCCF's program services, administration, and fundraising and development activities; however, the financial statements do not reflect the value of these contributed services because they do not meet recognition criteria prescribed by generally accepted accounting principles. Contributed goods are recorded at fair value at the date of donation. LCCF records donated professional services at the respective fair values of the services received (Note 5).

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.

Fund Raising Costs

Fund raising costs are expensed when the related event takes place.

Income Taxes

LCCF is organized as a South Dakota nonprofit corporation and has been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3). LCCF is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, LCCF is subject to income tax on net income that is derived from business activities that are unrelated to their exempt purposes. LCCF 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.

LCCF 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. LCCF 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.

Financial Instruments and Credit Risk

LCCF has concentrations of credit risk for cash by maintaining deposits in banks located in Mexico which are not covered by federal insurance. The maximum loss that would have resulted from that risk totaled \$115,819 and \$223,817 at June 30, 2018 and 2017, respectively. In addition, LCCF has concentration of credit risk for cash by maintaining deposits in excess of federally insured limits of \$0 and \$1,427,000 at June 30, 2018 and 2017, respectively. LCCF manages deposit concentration risk by placing cash with financial institutions believed by management to be creditworthy. To date, LCCF has not experienced losses in any of these accounts. Credit risk for promises to give is concentrated as well due to substantially all of the balances being due from board members. Investments consists solely of U.S Government Treasury bills of a short- term nature in which the fair value is not expected to fluctuate significantly.

Foreign Currency Translation

LCCF operates an office in Mexico. The functional currency of this office is the local currency. The financial transactions of this office have been translated into U.S. dollars. All statements of financial position accounts have been translated using the exchange rate in effect at the statements of financial position date. Statements of activities amounts have been translated using the daily exchange rate and aggregate exchange rate gains and losses are included in the statements of activities.

Note 2 - Fair Value Measurements and Disclosures

LCCF reports certain assets 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 can be accessed 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, inputs are developed 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 an assessment of the quality, risk or liquidity profile of the asset or liability.

U.S. Government obligations 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 following table presents assets measured at fair value on a recurring basis at June 30, 2018:

	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
June 30, 2018			
U.S. Government obligations	\$ -	\$ 1,716,046	\$ -

There were no assets or liabilities measured at fair value at June 30, 2017.

Note 3 - Promises to Give

Unconditional promises to give are estimated to be collected as follows at June 30, 2018 and 2017:

	2018	2017
Within one year	266,169	235,298
In one to five years	430,000	50,000
	696,169	285,298
Less discount to net present value (3.5%)	(17,687)	(3,325)
Less allowance for uncollectible promises to give	(253,740)	(3,740)
	\$ 424,742	\$ 278,233

At June 30, 2018 and 2017, one and five donors accounted for 36% and 84% of total promises to give, respectively.

LCCF has received a conditional promise to give totaling \$200,000 during the year ended June 30, 2018. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional.

Note 4 - Fiscal Agent

During the years ended June 30, 2018 and 2017, LCCF was a fiscal agent for various organizations supporting the mission of LCCF. LCCF received and disbursed funds on behalf of those organizations. Fiscal agent funds totaled \$8,183 and \$0 as of June 30, 2018 and 2017, respectively. The amounts were included in cash - fiscal agent and fiscal agent payable in the accompanying statements of financial position. Since the Organization is a fiscal agent, these activities are appropriately not included in the accompanying statements of activities.

Total amounts received and disbursed relating to these activities were \$84,625 and \$76,442, respectively, for the year ended June 30, 2018. Total amounts received and disbursed relating to these activities were \$70,012 and \$76,012, respectively, for the year ended June 30, 2017.

Note 5 - Donated Professional Services and Materials

LCCF received donated professional services and medical supplies as follows during the years ended June 30, 2018 and 2017:

	2018			
	Program Services	Management and General	Fundraising and Development	Total
Special events - golf	\$ -	\$ -	\$ 73,706	\$ 73,706
Transportation	\$ 6,091	\$ -	\$ -	\$ 6,091
Rent	-	6,899	-	6,899
Printing and reproduction	-	-	36,490	36,490
Accounting services	-	46,135	-	46,135
	\$ 6,091	\$ 53,034	\$ 36,490	\$ 95,615
	2017			
	Program Services	Management and General	Fundraising and Development	Total
Special events - golf	\$ -	\$ -	\$ 83,887	\$ 83,887
Transportation	\$ 5,590	\$ -	\$ -	\$ 5,590
Medical equipment	-	6,641	-	6,641
Rent	-	5,435	-	5,435
Printing and reproduction	-	28,800	-	28,800
Accounting services	-	-	6,428	6,428
	\$ 5,590	\$ 40,876	\$ 6,428	\$ 52,894

Note 6 - Related Party Transactions

Promises to give at June 30, 2018 and 2017, include amounts from several board members with gross recorded values of \$61,330 and \$99,800, respectively, which do not include any reduction for discounts. In addition, several board members contributed amounts to LCCF totaling approximately \$485,654 and \$709,676 for the years ended June 30, 2018 and 2017, respectively. In-kind good and services provided by board members totaled \$37,825 and \$36,481 for the years ended June 30, 2018 and 2017, respectively.

Note 7 - Restricted Net Assets

Temporarily restricted net assets are available for the following purposes or years at June 30, 2018 and 2017:

	2018	2017
Promises to give that are not restricted by donors, but which are unavailable for expenditure until due	\$ 335,988	\$ 122,475
Special medical cases	36,943	-
Other	13,154	-
Restricted by donor for Cancer Registry	73,107	73,107
	\$ 459,192	\$ 195,582

Net assets were released from restrictions as follows for the years ended June 30, 2018 and 2017:

	2018	2017
Expiration of time restrictions	\$ 122,475	\$ 68,495

Permanently restricted net assets consist of endowment funds restricted by a donor for investment in perpetuity. Permanently restricted net asset balances were \$50,000 and \$0 as of June 30, 2018 and 2017, respectively.

Note 8 - Endowment Funds

LCCF's endowment funds consist of a donor restricted endowment fund. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of LCCF has interpreted the South Dakota 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 June 30, 2018, there were no such donor stipulations. As a result of this interpretation, permanently restricted net assets are classified at (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 in a manner consistent with the standard of prudence prescribed by UPMIFA. LCCF considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

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

The following summarizes endowment net assets at June 30, 2018:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted endowment funds	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 50,000</u>	<u>\$ 50,000</u>

LCCF is in the process of setting up investment policies including planned spending policies as it relates to the endowed funds.

The following summarizes the change in endowment net assets for the year ended June 30, 2018:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Contributions and bequests	<u>-</u>	<u>-</u>	<u>50,000</u>	<u>50,000</u>
Endowment net assets, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 50,000</u>	<u>\$ 50,000</u>

Note 9 - Subsequent Events

In November 2018, an offer on the land held for sale for \$115,000 was accepted with installment payments. The final payment is due on July 31, 2019. A closing date is pending.

LCCF has evaluated subsequent events through January 29, 2019, the date the financial statements were available to be issued.