SOUTHSIDE EARLY CHILDHOOD CENTER AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITOR'S REPORT

DECEMBER 31, 2017

TABLE OF CONTENTS

Page

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Independent Auditor's Report

Board of Trustees
SouthSide Early Childhood Center and Subsidiary
St. Louis, Missouri

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of SouthSide Early Childhood Center and Subsidiary (a nonprofit organization), which comprise the consolidated statements of financial position as of December 31, 2017 and 2016, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the consolidated 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 Organization'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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of SouthSide Early Childhood Center as of December 31, 2017 and 2016 and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedules of consolidating statements of financial position and activities are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the basic consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Brown Smith Wallace, LLP

St. Louis, Missouri
April 26, 2018

SOUTHSIDE EARLY CHILDHOOD CENTER AND SUBSIDIARY

Consolidated Statements of Financial Position

At December 31, 2017 and 2016

		2017		2016
ASSETS				
Current Assets				
Cash and cash equivalents - Operating	**$**	**644,778**	$	505,309
Cash and cash equivalents - Capital Campaign		**118,233**		118,142
Accounts receivable		**73,902**		32,133
Promises to give		**413,287**		398,425
Prepaid expenses		**30,585**		9,888
Total Current Assets		**1,280,785**		1,063,897
Investments		**30,017**		-
New Markets Tax Credits Note Receivable (Note K)		**2,720,800**		2,720,800
Land, Building, and Equipment, net		**4,011,249**		4,111,794
TOTAL ASSETS	**$**	**8,042,851**	$	7,896,491
LIABILITIES AND NET ASSETS				
Current Liabilities				
Accounts payable	**$**	**67,131**	$	16,588
Accrued expenses		**20,235**		24,203
Accrued payroll		**57,321**		51,751
Deferred revenue		**29,500**		1,055
Total Current Liabilities		**174,187**		93,597
New Markets Tax Credits Note Payable A (Note K)		**2,720,800**		2,720,800
New Markets Tax Credits Note Payable B (Note K)		**1,119,200**		1,119,200
Less structuring fees		**86,859**		120,482
		3,753,141		3,719,518
TOTAL LIABILITIES		**3,927,328**		3,813,115
NET ASSETS				
Unrestricted		**1,289,887**		1,314,862
Temporarily restricted		**2,795,636**		2,768,514
Permanently restricted		**30,000**		-
Total Net Assets		**4,115,523**		4,083,376
TOTAL LIABILITIES AND NET ASSETS	**$**	**8,042,851**	$	7,896,491

The accompanying notes are an integral part of these consolidated financial statements.

SOUTHSIDE EARLY CHILDHOOD CENTER AND SUBSIDIARY

Consolidated Statement of Activities
Year Ended December 31, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and Revenue:				
Contributions	$ 235,110	$ 105,049	$ 30,000	$ 370,159
Contributions in-kind	10,794	-	-	10,794
Fees and grants from governmental agencies	1,019,081	-	-	1,019,081
Private foundations and grants	192,057	353,866	-	545,923
Program service fees	333,232	-	-	333,232
United Way of Greater St. Louis, Inc.	37,226	218,376	-	255,602
Special events, net of direct expenses of $121,471	277,667	-	-	277,667
Other income	1,910	17	-	1,927
Net assets released from restrictions	650,186	(650,186)	-	-
Total support and revenue	2,757,263	27,122	30,000	2,814,385
Expenses and Losses:				
Program services	2,400,761	-	-	2,400,761
Management and general	164,962	-	-	164,962
Fundraising	182,892	-	-	182,892
Total expenses	2,748,615	-	-	2,748,615
Change in net assets before New Market Tax Credits interest expense	8,648	27,122	30,000	65,770
New Markets Tax Credits interest expense	33,623	-	-	33,623
CHANGE IN NET ASSETS	(24,975)	27,122	30,000	32,147
Net assets at beginning of year	1,314,862	2,768,514	-	4,083,376
Net assets at end of year	$ 1,289,887	$ 2,795,636	$ 30,000	$ 4,115,523

The accompanying notes are an integral part of these consolidated financial statements.

SOUTHSIDE EARLY CHILDHOOD CENTER AND SUBSIDIARY

Consolidated Statement of Activities

Year Ended December 31, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Support and Revenue:				
Contributions	$ 344,453	$ -	$ -	$ 344,453
Contributions in-kind	27,423	-	-	27,423
Fees and grants from governmental agencies	976,027	-	-	976,027
Private foundations and grants	-	327,000	-	327,000
Program service fees	290,759	-	-	290,759
United Way of Greater St. Louis, Inc.	-	218,868	-	218,868
Special events, net of direct expenses of $107,684	278,111	-	-	278,111
Capital campaign	9,475	-	-	9,475
Other income	680	-	-	680
Net assets released from restrictions	714,214	(714,214)	-	-
Total support and revenue	2,641,142	(168,346)	-	2,472,796
Expenses and Losses:				
Program services	2,189,432	-	-	2,189,432
Management and general	206,474	-	-	206,474
Fundraising	171,215	-	-	171,215
Total expenses	2,567,121	-	-	2,567,121
Change in net assets before New Market Tax Credits interest expense loss and other expenses	74,021	(168,346)	-	(94,325)
New Markets Tax Credits interest expense	33,623	-	-	33,623
CHANGE IN NET ASSETS	40,398	(168,346)	-	(127,948)
Net assets at beginning of year	1,274,464	2,936,860	-	4,211,324
Net assets at end of year	$ 1,314,862	$ 2,768,514	$ -	$ 4,083,376

The accompanying notes are an integral part of these consolidated financial statements.

SOUTHSIDE EARLY CHILDHOOD CENTER AND SUBSIDIARY

Consolidated Statement of Functional Expenses
Year Ended December 31, 2017

	Program Services	Supporting Services: Management And General	Supporting Services: Fund-Raising	Total Expenses
Salaries	$ 1,402,069	$ 53,902	$ 101,300	$ 1,557,271
Employee benefits	161,668	6,215	11,681	179,564
Payroll taxes and workmen's compensation	131,935	5,072	9,532	146,539
Total salaries and related expenses	1,695,672	65,189	122,513	1,883,374
Program supplies	251,538	-	-	251,538
Professional fees	103,023	71,513	23,559	198,095
Supplies	26,249	3,956	3,956	34,161
Occupancy	60,987	3,032	3,032	67,051
Maintenance and repairs	116,369	5,786	5,786	127,941
Conferences, conventions, and meetings	13,202	4,347	645	18,194
Printing and publications	15,160	-	8,442	23,602
Fundraising	-	-	7,783	7,783
Miscellaneous	1,448	3,963	-	5,411
Interest	6,639	1,683	1,683	10,005
Total expenses before depreciation and amortization	2,290,287	159,469	177,399	2,627,155
Depreciation and amortization	110,474	5,493	5,493	121,460
	$ 2,400,761	$ 164,962	$ 182,892	$ 2,748,615

The accompanying notes are an integral part of these consolidated financial statements.

SOUTHSIDE EARLY CHILDHOOD CENTER AND SUBSIDIARY

Consolidated Statement of Functional Expenses
Year Ended December 31, 2016

		Supporting Services		
	Program Services	Management And General	Fund-Raising	Total Expenses
Salaries	$ 1,208,849	$ 134,952	$ 87,609	$ 1,431,410
Employee benefits	150,184	16,766	10,884	177,834
Payroll taxes and workmen's compensation	111,598	12,459	8,088	132,145
Total salaries and related expenses	1,470,631	164,177	106,581	1,741,389
Program supplies	157,126	-	-	157,126
Professional fees	197,423	19,478	31,291	248,192
Supplies	28,459	1,415	1,416	31,290
Occupancy	67,288	2,463	2,320	72,071
Maintenance and repairs	93,893	4,182	4,182	102,257
Conferences, conventions, and meetings	16,041	5,350	-	21,391
Printing and publications	3,624	-	10,171	13,795
Fundraising	-	-	7,137	7,137
Miscellaneous	27,222	3,058	1,766	32,046
Interest	9,149	455	455	10,059
Total expenses before depreciation and amortization	2,070,856	200,578	165,319	2,436,753
Depreciation and amortization	118,576	5,896	5,896	130,368
	$ 2,189,432	$ 206,474	$ 171,215	$ 2,567,121

The accompanying notes are an integral part of these consolidated financial statements.

SOUTHSIDE EARLY CHILDHOOD CENTER AND SUBSIDIARY

Consolidated Statements of Cash Flows
Years Ended December 31, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Change in net assets	**$ 32,147**	$ (127,948)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	**121,460**	130,368
New market tax credits structuring fees	**33,623**	33,623
Present value adjustment for promises to give	**-**	11,941
(Increase) decrease in operating assets:		
Accounts receivable	**(41,769)**	(36,090)
Promises to give	**(14,862)**	-
Prepaid expenses	**(20,697)**	977
(Increase) decrease in operating liabilities:		
Accounts payable	**50,543**	7,359
Accrued expenses	**(3,968)**	(11,392)
Accrued payroll	**5,570**	-
Deferred revenue	**28,445**	(13,998)
Net cash provided by (used in) operating activities	**190,492**	(5,160)
Cash flows from investing activities:		
Payments for property and equipment	**(20,915)**	(46,837)
Reinvestment of dividends and interest	**(17)**	-
Purchase of investments	**(30,000)**	-
Net cash used in investing activities	**(50,932)**	(46,837)
Cash flows from financing activities:		
Payments on notes payable	**-**	(8,443)
Proceeds from contributions restricted for long term purposes	**-**	104,604
Net cash provided by financing activities	**-**	96,161
INCREASE IN CASH AND CASH EQUIVALENTS	**139,560**	44,164
Cash and cash equivalents at beginning of year	**623,451**	579,287
Cash and cash equivalents at end of year	**$ 763,011**	$ 623,451

The accompanying notes are an integral part of these consolidated financial statements.

Note A - Nature of the Organization

SouthSide Early Childhood Center (the "Organization" or "SouthSide") was founded in 1886 as South Side Day Nursery by 15 Unitarian women with the mission to "prevent pauperism by assisting breadwinners with young children on their hands to earn an honest living." Today the Organization's mission is to nurture, educate, and inspire children and families in a diverse and inclusive environment, promoting healthy development and a strong foundation for success.

SouthSide is committed to providing every child with the skills he or she needs to succeed in kindergarten and beyond. This commitment starts with our dedication to diversity in all forms: racial, ethnic, economic and developmental. The educational programs offered are a critically important first "block" in building a strong foundation for success in school. Full-day, full-year early childhood education and child care is provided for up to 144 children, ages six weeks through five years of age. The program improves language and literacy skills, increasing the likelihood that children will read at grade level by the end of their kindergarten year; and increases the probability a child will graduate from high school and have increased earning power as an adult. Social-emotional skill development is a focus of the program and results in increased readiness for the routine and social environment of elementary school.

The Organization also provides much-needed family support services to parents, including monthly meetings and educational workshops, nutrition education, and connections to health, employment, housing and legal services through community partnerships.

The Organization receives funding through Head Start and Early Head Start partnerships, state child care subsidy, United Way funding and parent fees. To bridge the gap between the cost of services and the revenues received, the Organization raises contributions annually from individuals, corporations, organizations and foundations.

The Organization established an entity called Friends of SouthSide as part of the New Markets Tax Credits ("NMTC") transaction, which provided funding for the Organization's new early childhood center facility in 2013. Friends of SouthSide ("FOSS") is a sole member organization controlled by SouthSide Early Childhood Center. See Note K for additional information on the NMTC.

Note B - Summary of Significant Accounting Policies

Basis of Accounting and Presentation

The consolidated financial statements have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payable, and other liabilities. Revenues and expenses are recognized in the period in which they are earned or incurred. Additionally, consolidated financial statement presentation follows the recommendations of the Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) 958-205-05, *Not for Profit Entities* under which the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted as follows:

Unrestricted – Those resources over which the Board has discretionary control. Designated amounts represent those resources that the Board has set aside for a particular purpose.

Temporarily Restricted – Those resources subject to donor-imposed or time restrictions that will be satisfied by actions of the Organization or the passage of time.

Permanently Restricted – Those resources subject to donor-imposed restrictions that will be maintained permanently by the Organization.

Principles of Consolidation

The consolidated financial statements include the accounts of the SouthSide Early Childhood Center and Friends of SouthSide, collectively referred to as the Organization. All significant intercompany accounts and transactions have been eliminated.

Use of Estimates in Financial Statement Preparation

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Note B - Summary of Significant Accounting Policies (Continued)

Restricted and Unrestricted Revenue and Support

Grants, unconditional promises to give cash, and other assets are accrued at estimated fair value at the date each promise is received. Gifts are reported as temporarily or permanently restricted support if they are received with donor-imposed stipulations that limit the use of the donated assets.

When a donor-imposed restriction is satisfied, temporarily restricted net assets are released and reported as an increase in unrestricted net assets.

Unrestricted Cash and Cash Equivalents

For purposes of the consolidated statement of cash flows, the Organization considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents. The Organization's cash and cash equivalents are on deposit with three domestic financial institutions. At times, bank deposits may be in excess of federally insured limits.

Restricted Cash and Cash Equivalents

Cash and cash equivalents also include NMTC cash in bank accounts as part of the NMTC transaction. Separate cash accounts are required to track NMTC activity in order to comply with NMTC regulations. The NMTC cash balance as of December 31, 2017 and 2016 is $1,077 and $0, respectively.

See Note K for additional background information on the New Markets Tax Credits transaction.

Accounts Receivable

Accounts receivable are expected to be collected within one year; therefore, management does not consider an allowance for uncollectible receivables to be necessary.

Promises to Give

Promises to give are recognized in the period the contribution or promise is made. Unconditional promises expected to be collected in future years are recorded at the present value of expected cash flows. The cash flows are discounted at an incremental borrowing rate. Promises to give are expected to be collected within one year; therefore, management does not consider an allowance for uncollectible promises to be necessary.

Note B - Summary of Significant Accounting Policies (Continued)

Note Receivable

Note receivables are carried at the unpaid principal balance. Management does not consider an allowance for uncollectible receivable to be necessary. Interest on loans is recognized over the term of the loan.

Property and Equipment

Purchases of property and equipment with a value of $2,000 or more are capitalized, while all other purchases are recorded as an expense in the year purchased. Property and equipment is recorded at cost, if purchased, or estimated fair value on date of receipt, if donated.

Depreciation and amortization is provided on the straight-line method over the estimated useful lives of each asset, which range from three to forty years.

Structuring Fees

The Organization’s structuring fees are related to the NMTC transaction. These are recorded at cost and are amortized over seven years, the tax credit investment compliance period. In 2016, the Organization adopted Accounting Standards Update 2015-03, *Interest – Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs* regarding the presentation on the statement of financial position of the costs of structuring debt and related amortization expense in the statement of activities. The new guidance requires presenting such unamortized costs as a direct deduction from the face amount of the debt. As of December 31, 2017 and 2016, net carrying amount of structuring fees were $86,859, and $120,482, respectively. Amortization recorded as interest expense was $33,623 for each of the years ended December 31, 2017 and 2016, respectively.

Income Taxes

The Organization constitutes a qualified not-for-profit organization under Section 501(c)(3) of the Internal Revenue Code and is, therefore, exempt from federal income taxes. Contributions to the organization are tax deductible to donors under Section 170 of the IRC. The Organization is not classified as a private foundation.

The Organization has evaluated its tax positions, expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings, and believes that no provisions for income taxes is necessary at this time to cover any uncertain tax positions.

Note B - Summary of Significant Accounting Policies (Continued)

Functional Allocation of Expenses

Expenses are charged to each program based on the direct costs incurred. Shared costs are distributed proportionally and equitably to applicable funding sources based upon management's evaluation of the expense incurred.

Donated Services and Goods

The Organization records donated services and goods in accordance with FASB ASC 958-605, *Revenue Recognition*. As such, donated services are recognized when the service either creates or enhances a non-financial asset or requires specialized skill that would be purchased if the service was not donated. During the years ended December 31, 2017 and 2016, the Organization received donated services and goods valued at $10,794 and $27,423, respectively.

Additionally, the Organization tracks donated volunteer time received that neither enhances a non-financial asset or requires a specialized skill. Because these donations do not meet the criteria under FASB ASC 958-605, they are not recorded for financial statement purposes. These donations have an estimated fair value of $112,776 and $99,135 for the years ended December 31, 2017 and 2016, respectively.

Subsequent Events

The Organization evaluated all subsequent events through April 26, 2018, the date the consolidated financial statements were available to be issued.

Note C - Property and Equipment

Property and equipment consist of the following at December 31, 2017 and 2016:

	2017	2016
Land	**$ 652,383**	$ 652,383
Building and playground	**3,529,330**	3,529,330
Furniture, equipment	**272,167**	296,714
	4,453,880	4,478,427
Less accumulated depreciation and amortization	**(442,631)**	(366,633)
Property and equipment, net	**$4,011,249**	$4,111,794

Depreciation expense was $121,460 and $130,368 for the years ended December 31, 2017 and 2016, respectively.

Note D - Fair Value Measurements

The Organization follows FASB ASC 820-10, *Fair Value Measurements and Disclosures*, which establishes a framework for measuring fair value and expands disclosures about fair value measurements.

FASB ASC 820-10 defines fair value as the price that would be received to sell an asset or transfer a liability in an orderly transaction between market participants at the measurement date. The standard also establishes a fair value hierarchy used to disclose the measurement of fair value based on levels of observable or unobservable inputs. The standard maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs reflect management's assumptions that market participants would use in pricing the asset or liability developed based upon the best information available in the circumstances.

The hierarchy consists of three broad levels:

Level 1 - Observable inputs that are derived from quoted prices (unadjusted) for identical assets or liabilities in an active market.

Level 2 - Observable inputs based on quoted prices in non-active markets or in active markets for similar assets or liabilities. Inputs other than quoted prices that are observable, or inputs that are not directly observable, but are corroborated by observable market data.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The Organization records marketable securities held at fair value on the statement of financial position with unrealized gains and losses reflected in the statement of activities. The degree of judgment use in measuring fair value of investments held generally correlates to the level of pricing observability. Pricing observability is impacted by a number of factors, including the type of investment held, whether the investment held is new to the market and not yet established, and the characteristics specific to the transaction. Investments held with readily available active quoted prices for which fair value can be measured from actively quoted prices, generally will have a higher degree of pricing observability and lesser degree of judgment used in measuring fair value. Conversely, investments held, rarely traded, or not quoted, will generally have less or no pricing observability and a higher degree of judgment used in measuring fair value.

Note D - Fair Value Measurements (Continued)

The Organization determines the fair value measurement valuation policies and procedures, including those for Level 3 recurring and nonrecurring measurements. The Organization assesses and approves these policies and procedures. At least annually, The Organization: (1) determines if the current valuation techniques used in fair value measurements are still appropriate and (2) evaluates and adjusts the unobservable inputs used in the fair value measurements based on current market conditions and third-party information.

The Organization recognizes transfers between levels in the fair value hierarchy at the end of the reporting period. For year ended December 31, 2017, there were no transfers between levels. Money market funds are valued at their carrying amount due to their short maturities (Level 1). Equity securities and mutual funds are reported at fair value based on quoted market prices (Level 1).

Investments at fair value consist of the following at December 31, 2017:

Description	Level 1	Level 2	Level 3	Total
Investments:				
Money market funds	**$ 30,017**	**$ -**	**$ -**	**$ 30,017**
Total Investments	**$ 30,017**	**$ -**	**$ -**	**$ 30,017**

No investments were held during the year ended December 31, 2016.

Note E - Line-of-Credit

The Organization has a $80,000 line-of-credit available at a local financial institution, which matures on June 13, 2018. When funds are drawn on this line, interest is payable monthly. The interest is subject to change with an initial rate of 4%. Any outstanding balance is payable at maturity. The note is collateralized by a money market account at the same financial institution. At both December 31, 2017 and 2016, there was no balance outstanding on the line.

Note F - Notes Payable

Maturities of long-term debt are as follows:

Maturity Schedule	Note A	Note B	Total
2018	$ -	$ -	$ -
2019	-	-	-
2020	2,720,800	1,119,200	3,840,000
	$ 2,720,800	$ 1,119,200	$ 3,840,000

See Note K for details on NMTC Notes Payable Note A and B.

Note G - Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the following at December 31, 2017 and 2016:

	2017	**2016**
Time restrictions	**$ 383,387**	$ 218,377
Program restrictions	**291,619**	299,050
Endowment earnings	**17**	-
Capital Campaign restrictions	**2,120,613**	2,251,087
	$ 2,795,636	$ 2,768,514
Net assets released as of December 31:		
Time restrictions	**$ 218,376**	$ 237,512
Program restrictions	**301,815**	313,028
Capital Campaign restrictions	**129,995**	163,674
Total net assets released	**$ 650,186**	$ 714,214

Note H - Supplemental Disclosure of Cash Flow Information

Interest paid during 2017 and 2016 amounted to $10,005 and $10,059, respectively.

Note I - Benefit Plan

The Organization has a 401(k) profit sharing plan where eligible employees can contribute a percentage of their annual compensation not to exceed federal limits. The Organization made no contribution to the Plan for the years ended December 31, 2017 and 2016.

Note J - Concentration of Income Sources

In 2017 and 2016, the Organization received approximately 37% and 45%, respectively, of its total support and revenue from two sources.

Note K - New Markets Tax Credits Transaction

Background

New Markets Tax Credits are tax credits created by the federal government in 2000 and renewed each year thereafter to help encourage sustained investment in low-income communities. The purpose is to provide investors with a financial incentive (a tax credit) to invest in projects being built in low-income communities. Investors receive a 39% federal tax credit earned over a seven year period (the compliance period). The NMTC transaction provided a mechanism for SouthSide to receive funding towards the construction of a new building.

SouthSide NMTC Structure and Partners

SouthSide entered into a NMTC transaction with U.S. Bancorp Community Development Corporation (“USBCDC”), the “investor” of the tax credits, and Saint Louis Development Corporation (“SLDC or SLDC CDE”), an entity making community investment loans to Southside. Friends of SouthSide was the “Leverage Lender” in the NMTC transaction.

NMTC Note Receivable

SouthSide made an initial investment in Friends of SouthSide with cash generated by SouthSide’s capital campaign proceeds in the amount of $1,325,800. Additionally, Capital Campaign pledges totaling $1,458,035 made to SouthSide were assigned to Friends of SouthSide. Friends of SouthSide borrowed $1,500,000 from Enterprise Bank and Trust using the Capital Campaign pledges as collateral. With these loan funds and cash, Friends of SouthSide made a $2,720,800 loan, due July 2048, to St. Louis SLDC NMTC Fund=XXIX, LLC. This fund was used to lend funds to SouthSide through SLDC. Friends of SouthSide paid the loan in full as of December 31, 2016.

During the time frame from July 2013 through July 2020, SLDC will make interest-only payments at the interest rate of 0.96903% with all principal being due subsequent to this time frame.

Note K - New Markets Tax Credits Transaction (Continued)

Building Fund

USBCDC made a net investment of $1,119,200 into the St Louis SLDC CDE NMTC Fund by purchasing the seven year tax credits made available through the SLDC for SouthSide's new building project. The combined investment amounts of both Friends of Southside and USBCDC, which total $3,840,000, fund the notes from the SLDC CDE to SouthSide.

SouthSide incurred $234,671 in structuring fees associated with structuring the NMTC and paid off a $421,896 loan from IFF to purchase the land for the new building, leaving $3,194,308 of funds to be used for the sole purpose of constructing a new building for SouthSide.

New Markets Tax Credits - Notes Payable

As a component of the NMTC transaction, SouthSide received two loans from the SLDC CDE totaling $3,840,000 (Note A - $2,720,800 and Note B - $1,119,200) on July 17, 2013. SouthSide is obligated to make monthly interest payments, at an interest rate of 0.96903%, during the seven year NMTC compliance period which is expected to end July 18, 2020.

Option Agreement

Simultaneous with the above transactions, SouthSide entered into a Put and Call Option Agreement with USBCDC (the sole investor in the fund) to put the ownership interest in the Fund for $1,000 commencing on July 18, 2020; the first day after the seven year tax credit investment compliance period. Exercising of the Option will effectively extinguish SouthSide's outstanding debt owed to the SLDC CDE. All entities related to the structure, (including the SLDC CDE Investment Fund) will then be effectively dissolved, thus ending the structured financing deal.

Should the structure not dissolve, SouthSide will make principal and interest payments until the loans mature on July 31, 2048. The probability of the loans extending past the seven year compliance period is very low provided that SouthSide utilizes the new building in accordance with the original intent in the NMTC allocation as a qualified low- income community business.

Note L - Endowment Funds

The Organization's endowment was established in 2017 and includes funds designated by the Board of Trustees and donors to function as endowments. As required by accounting standards, net assets associated with endowment funds, including funds designated by the Board of Trustees and donors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Endowment and similar funds are invested under the direction of the Board of Trustees to achieve maximum long-term total return with prudent concern for the preservation of investment capital. All investments of endowment and similar funds are recorded in the statement of financial position as long-term investments, including cash balances held by external investment managers. The fair value of endowment investments (separately invested and pooled) was $30,017 as of December 31, 2017.

Interpretation of Relevant Law

The Board of Trustees of the Organization 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 absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Trustees in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Trustees consider the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

(1) the duration and preservation of the funds,

(2) the purposes of the Organization and the donor-restricted endowment funds,

(3) general economic conditions,

(4) the possible effect of inflation and deflation,

(5) the expected total return from income and appreciation of investments,

(6) other resources of the Organization and,

(7) the investment policies of the Organization.

Note L - Endowment Funds (Continued)

As of December 31, 2017, the endowment net asset composition by type and fund consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ -	$ 17	$ 30,000	$ 30,017
Total funds	$ -	$ 17	$ 30,000	$ 30,017

The following is a reconciliation of the beginning and ending balance of the Organization's endowment net assets for the year ended December 31, 2017:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, January 1, 2017	$ -	$ -	$ -	$ -
Contributions	-	-	30,000	30,000
Interest and dividends	-	17	-	17
Endowment net assets, December 31, 2017	$ -	$ 17	$ 30,000	$ 30,017

Return Objectives, Risk Parameters, and Strategies for Achieving Objectives

The purpose of the endowment fund is to manage, grow, and distribute amounts according to the Organization's policy. The assets of the endowment fund can be viewed as short-term and long-term in nature. The investment strategy for short-term funds focuses on a "Conservative Investment Account Profile." The strategy for investing these funds will focus primarily on principal preservation and liquidity. Diversification of risk, preservation of purchasing power, and generating reliable sources of interest income are also important considerations. The investment strategy for long-term funds focuses on a "Balance Investment Account Profile". The strategy for investing these funds will focus on a balance of long-term growth of capital plus generation of interest and dividend income. The objective is to achieve overall returns that outpace inflation, while diversifying risk and minimizing capital losses.

Note L - Endowment Funds (Continued)

Strategies Employed For Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Organization relies on returns from the investment's current yield (interest). The Organization specifically targets money market funds and mutual funds for its objectives.

Spending Policy and How the Investment Objectives Relate To Spending Policy

In 2017, the Board of Trustees revised and adopted the Organization's spending policy in the newly adopted investment policy. The new policy states that for the foreseeable future, the endowment is expected to be focused on achieving prudent growth and reinvesting its gains and income, until the endowment's assets exceed at least $1.0 million. At such time as deemed appropriate, it will be the Trustees' responsibility to approve an annual spending allowance. As such, all earnings in the endowment for the year ended December 31, 2017 remain in temporarily restricted net assets until such appropriation is made by the Trustees.

Supplemental Information

SOUTHSIDE EARLY CHILDHOOD CENTER AND SUBSIDIARY

Consolidating Statement of Financial Position

December 31, 2017
(See Independent Auditor's Report)

	SSEC	FOSS	Consolidated
ASSETS			
Current Assets			
Cash and cash equivalents - Operating	$ 561,723	$ 83,055	$ 644,778
Cash and cash equivalents - Capital Campaign	1,959	116,274	118,233
Accounts receivable	73,902	-	73,902
Promises to give	413,287	-	413,287
Prepaid expenses	30,585	-	30,585
Total Current Assets	1,081,456	199,329	1,280,785
Investments	30,017	-	30,017
New Markets Tax Credits Note Receivable	-	2,720,800	2,720,800
Land, Building, and Equipment, net	4,011,249	-	4,011,249
TOTAL ASSETS	$ 5,122,722	$ 2,920,129	$ 8,042,851
LIABILITIES AND NET ASSETS			
Current Liabilities			
Accounts payable	$ 42,983	$ 24,148	$ 67,131
Accrued expenses	20,235	-	20,235
Accrued payroll	57,321	-	57,321
Deferred revenue	29,500	-	29,500
Total Current Liabilities	150,039	24,148	174,187
New Markets Tax Credits Note Payable A	2,720,800	-	2,720,800
New Markets Tax Credits Note Payable B	1,119,200	-	1,119,200
Less structuring fees	86,859	-	86,859
	3,753,141	-	3,753,141
Total Liabilities	3,903,180	24,148	3,927,328
NET ASSETS			
Unrestricted	(1,545,352)	2,835,239	1,289,887
Temporarily restricted	2,734,894	60,742	2,795,636
Permanently restricted	30,000	-	30,000
Total Net Assets	1,219,542	2,895,981	4,115,523
TOTAL LIABILITIES AND NET ASSETS	$ 5,122,722	$ 2,920,129	$ 8,042,851

SOUTHSIDE EARLY CHILDHOOD CENTER AND SUBSIDIARY

Consolidating Statement of Activities

Year Ended December 31, 2017
(See Independent Auditor's Report)

	SSEC	FOSS	Consolidated
Change in unrestricted net assets:			
Unrestricted revenue, support, gains and losses:			
Contributions	$ 235,110	$ -	$ 235,110
Contributions in-kind	10,794	-	10,794
Fees and grants from governmental agencies	1,019,081	-	1,019,081
Private foundations and grants	192,057	-	192,057
Program service fees	333,232	-	333,232
United Way of Greater St. Louis, Inc.	37,226	-	37,226
Special events, net of direct expenses of $121,471	277,667	-	277,667
Other income	1,652	258	1,910
Net assets released from restrictions	650,186	-	650,186
Total unrestricted revenue and support	2,757,005	258	2,757,263
Unrestricted expenses:			
Program services	2,404,954	(4,193)	2,400,761
Management and general	161,606	3,356	164,962
Fundraising	182,892	-	182,892
Total unrestricted expenses	2,749,452	(837)	2,748,615
New Markets Tax Credits interest expense	33,623	-	33,623
Change in unrestricted net assets	(26,070)	1,095	(24,975)
Change in temporarily restricted net assets			
Contributions private foundations and grants	458,915	-	458,915
United Way of Greater St. Louis, Inc.	218,376	-	218,376
Endowment earnings	17	-	17
Net assets released from restrictions	(650,186)	-	(650,186)
Change in temporarily restricted net assets	27,122	-	27,122
Change in permanently restricted net assets			
Contributions to endowment	30,000	-	30,000
Change in permanently restricted net assets	30,000	-	30,000
Change in net assets	31,052	1,095	32,147
Net assets, beginning of year	1,188,490	2,894,886	4,083,376
Net assets, end of year	$ 1,219,542	$ 2,895,981	$ 4,115,523