

**SOUTHSIDE EARLY CHILDHOOD CENTER
AND SUBSIDIARY**

CONSOLIDATED FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITOR'S REPORT

DECEMBER 31, 2014

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Independent Auditor's Report

Board of Directors
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, 2014 and 2013, 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 and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the 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, 2014 and 2013 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 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 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 financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the basic 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 financial statements as a whole.

Brown Smith Wallace, LLC

St. Louis, Missouri

March 18, 2015

SOUTHSIDE EARLY CHILDHOOD CENTER AND SUBSIDIARY

Consolidated Statements of Financial Position

At December 31, 2014 and 2013

	2014	2013
ASSETS		
Current Assets		
Cash and cash equivalents - Operating	\$ 387,389	\$ 520,064
Cash and cash equivalents - Capital Campaign	36,859	2,839,937
Cash and cash equivalents - Certificate of Deposit	75,375	75,000
United Way receivable	232,355	249,840
Grants receivable	221,784	175,078
Capital campaign pledges receivable, current portion, net	301,867	313,277
Accounts receivable - other	-	15,067
Prepaid expenses	19,678	40,834
Total Current Assets	1,275,307	4,229,097
Capital Campaign Pledges Receivable, less current portion, net	66,664	324,415
New Markets Tax Credits Note Receivable (Note N)	2,720,800	2,720,800
New Markets Tax Credits Intangible Assets, net (Note N)	187,727	210,475
Properties Held for Sale	-	90,000
Land, Building, and Equipment, net	4,291,173	1,945,235
TOTAL ASSETS	\$ 8,541,671	\$ 9,520,022
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 64,013	\$ 11,408
Accrued expenses	62,086	379,779
Other liability	21,486	23,021
Notes payable - current portion	353,125	313,277
Total Current Liabilities	500,710	727,485
Notes Payable - Pledge Loan, Less Current Portion	-	377,448
New Markets Tax Credits Note Payable A (Note N)	2,720,800	2,720,800
New Markets Tax Credits Note Payable B (Note N)	1,119,200	1,119,200
NET ASSETS		
Unrestricted	1,301,260	1,297,545
Temporarily restricted	2,899,701	3,277,544
Total Net Assets	4,200,961	4,575,089
TOTAL LIABILITIES AND NET ASSETS	\$ 8,541,671	\$ 9,520,022

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

SOUTHSIDE EARLY CHILDHOOD CENTER AND SUBSIDIARY

Consolidated Statement of Activities

Year ended December 31, 2014

	Unrestricted	Temporarily Restricted	Total
Support and Revenue:			
Contributions	\$ 285,007	\$ -	\$ 285,007
Contributions in-kind	12,636	-	12,636
Fees and grants from governmental agencies	813,239	-	813,239
Private foundations and grants	-	228,222	228,222
Program service fees	41,877	-	41,877
United Way of Greater St. Louis, Inc.	-	232,344	232,344
Special events, net of direct expenses of \$82,532	221,629	-	221,629
Capital Campaign	-	21,633	21,633
Rental income	-	-	-
Other income	2,632	-	2,632
Net assets released from restrictions	860,042	(860,042)	-
Total support and revenue	2,237,062	(377,843)	1,859,219
Expenses and Losses:			
Program services	1,797,552	-	1,797,552
Management and general	191,257	-	191,257
Fundraising	221,101	-	221,101
Total expenses	2,209,910	-	2,209,910
Change in net assets before impairment loss and other expenses	27,152	(377,843)	(350,691)
Impairment loss on property held for sale	-	-	-
New Markets Tax Credits amortization and other expenses	33,623	-	33,623
Net gain on disposal of building and equipment	(10,186)	-	(10,186)
Total impairment loss and NMTC other	23,437	-	23,437
CHANGE IN NET ASSETS	3,715	(377,843)	(374,128)
Net assets at beginning of year	1,297,545	3,277,544	4,575,089
Net assets at end of year	\$ 1,301,260	\$ 2,899,701	\$ 4,200,961

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

SOUTHSIDE EARLY CHILDHOOD CENTER AND SUBSIDIARY

Consolidated Statement of Activities

Year ended December 31, 2013

	Unrestricted	Temporarily Restricted	Total
Support and Revenue:			
Contributions	\$ 354,784	\$ -	\$ 354,784
Contributions in-kind	11,687	-	11,687
Fees and grants from governmental agencies	687,695	-	687,695
Private foundations and grants	102,943	275,968	378,911
Program service fees	18,237	-	18,237
United Way of Greater St. Louis, Inc.	-	249,840	249,840
Special events, net of direct expenses of \$79,939	189,581	-	189,581
Capital Campaign	-	596,539	596,539
Rental income	13,741	-	13,741
Other income	5,159	-	5,159
Net assets released from restrictions	1,138,248	(1,138,248)	-
Total support and revenue	2,522,075	(15,901)	2,506,174
Expenses and Losses:			
Program services	1,412,897	-	1,412,897
Management and general	167,278	-	167,278
Fundraising	199,512	-	199,512
Total expenses	1,779,687	-	1,779,687
Change in net assets before impairment loss and other expenses	742,388	(15,901)	726,487
Impairment loss on property held for sale	26,000	-	26,000
New Markets Tax Credits amortization and other expenses	28,321	-	28,321
Net gain on disposal of building and equipment	-	-	-
Total impairment loss and NMTC other	54,321	-	54,321
CHANGE IN NET ASSETS	688,067	(15,901)	672,166
Net assets at beginning of year	609,478	3,293,445	3,902,923
Net assets at end of year	\$ 1,297,545	\$ 3,277,544	\$ 4,575,089

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

SOUTHSIDE EARLY CHILDHOOD CENTER AND SUBSIDIARY

Consolidated Statement of Functional Expenses

Year ended December 31, 2014

		Supporting Services		
	Program Services	Management And General	Fund- Raising	Total Expenses
Salaries	\$ 844,100	\$ 107,998	\$ 115,848	\$ 1,067,946
Employee benefits	105,122	13,450	14,427	132,999
Payroll taxes and workmen's compensation	80,564	10,308	11,057	101,929
Total salaries and related expenses	1,029,786	131,756	141,332	1,302,874
Program supplies	161,569	-	-	161,569
Professional fees	164,049	14,900	20,715	199,664
Supplies	45,478	1,977	1,977	49,432
Occupancy	91,731	4,734	3,447	99,912
Maintenance and repairs	55,546	2,039	2,039	59,624
Conferences, conventions, and meetings	24,224	4,876	-	29,100
Printing and publications	6,240	-	15,065	21,305
Fundraising	-	-	7,623	7,623
Miscellaneous	48,005	4,455	4,407	56,867
Interest	13,478	-	562	14,040
Non-recurring	86,365	23,430	20,844	130,639
Total expenses before depreciation and amortization	1,726,471	188,167	218,011	2,132,649
Depreciation and amortization	71,081	3,090	3,090	77,261
	<u>\$ 1,797,552</u>	<u>\$ 191,257</u>	<u>\$ 221,101</u>	<u>\$ 2,209,910</u>

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

SOUTHSIDE EARLY CHILDHOOD CENTER AND SUBSIDIARY

Consolidated Statement of Functional Expenses

Year ended December 31, 2013

		Supporting Services		
	Program Services	Management And General	Fund- Raising	Total Expenses
Salaries	\$ 662,456	\$ 110,602	\$ 62,452	\$ 835,510
Employee benefits	89,015	14,961	8,448	112,424
Payroll taxes and workmen's compensation	62,100	10,368	5,854	78,322
Total salaries and related expenses	813,571	135,931	76,754	1,026,256
Program supplies	104,134	-	-	104,134
Professional fees	242,064	19,713	86,024	347,801
Supplies	31,269	1,360	1,361	33,990
Occupancy	54,656	2,235	3,874	60,765
Maintenance and repairs	102,196	4,326	4,325	110,847
Conferences, conventions, and meetings	22,645	1,385	-	24,030
Printing and publications	5,353	-	13,886	19,239
Fundraising	-	-	9,433	9,433
Miscellaneous	21,017	1,633	3,159	25,809
Interest	-	-	-	-
Non-recurring	-	-	-	-
Total expenses before depreciation and amortization	1,396,905	166,583	198,816	1,762,304
Depreciation and amortization	15,992	695	696	17,383
	<u>\$ 1,412,897</u>	<u>\$ 167,278</u>	<u>\$ 199,512</u>	<u>\$ 1,779,687</u>

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

SOUTHSIDE EARLY CHILDHOOD CENTER AND SUBSIDIARY

Consolidated Statements of Cash Flows

Years ended December 31, 2014 and 2013

	2014	2013
Cash flows from operating activities:		
Change in net assets	\$ (374,128)	\$ 672,166
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	77,261	17,383
New market tax credits amortization	33,623	13,321
Gain on sale of property held for sale	(34,699)	-
Net loss on disposal of property and equipment	24,513	-
Impairment loss on property held for sale	-	26,000
Present value adjustment for promises to give	24,821	(51,927)
Allowance for doubtful pledges receivable	(10,346)	(58,073)
(Increase) decrease in operating assets:		
Contributions restricted for long term purposes	(21,633)	(1,476,943)
Accounts receivable - other	15,067	(15,067)
United Way receivable	17,485	(4,956)
Grants receivable	(46,706)	(47,898)
Prepaid expenses	21,156	(19,865)
Decrease in operating liabilities:		
Accounts payable	52,605	(795)
Accrued expenses	(317,693)	349,597
Other liability	(1,535)	(24,421)
Net cash used in operating activities	(540,209)	(621,478)
Cash flows from investing activities:		
Proceeds from sale of property	124,699	56,500
Payments for NMTC intangible assets	(10,875)	(223,796)
NMTC - note receivable made to SLDC	-	(2,720,800)
Payments for property and equipment	(2,447,712)	(1,306,166)
Net cash used in investing activities	(2,333,888)	(4,194,262)
Cash flows from financing activities:		
Payments on notes payable	(337,600)	(1,228,227)
Proceeds from NMTC- notes payable	-	3,840,000
Proceeds from borrowing for purchase of property	-	1,500,000
Proceeds from contributions restricted for long term purposes	276,319	2,450,603
Net cash (used in) provided by financing activities	(61,281)	6,562,376
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(2,935,378)	1,746,636
Cash and cash equivalents at beginning of year	3,435,001	1,688,365
Cash and cash equivalents at end of year	\$ 499,623	\$ 3,435,001

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

SOUTHSIDE EARLY CHILDHOOD CENTER AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2014

Note A - Nature of the Organization

SouthSide Early Childhood Center (“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, SouthSide’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 preschool 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 148 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.

SouthSide 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.

SouthSide 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, SouthSide raises contributions annually from individuals, corporations, organizations and foundations.

In 2013, SouthSide established a new 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. See Note N for additional information on the NMTC.

SOUTHSIDE EARLY CHILDHOOD CENTER AND SUBSIDIARY

Notes to Consolidated Financial Statements – Continued

December 31, 2014

Note B - Summary of Significant Accounting Policies

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.

Basis of Accounting and Presentation

The consolidated financial statements have been prepared using the accrual basis of accounting. 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. The Organization's Board had not designated any net assets at December 31, 2014 and 2013.

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. The Organization had no permanently restricted net assets at December 31, 2014 and 2013.

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.

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.

SOUTHSIDE EARLY CHILDHOOD CENTER AND SUBSIDIARY

Notes to Consolidated Financial Statements – Continued

December 31, 2014

Note B - Summary of Significant Accounting Policies (Continued)

Restricted and Unrestricted Revenue and Support (Continued)

When a donor-imposed restriction is satisfied, temporarily restricted net assets are released and reported as an increase in unrestricted net assets. When donor-restricted contributions are received and used for the purpose and/or time-period intended during the same year, they are 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 four domestic financial institutions. At times, bank deposits may be in excess of federally insured limits. The certificate of deposit is shown at cost which approximates fair market value and matures on June 11, 2015.

Restricted Cash and Cash Equivalents

Cash and cash equivalents also include New Markets Tax Credits 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, 2014 and 2013 is \$36,426 and \$2,701,899, respectively.

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

United Way, Grants, and Other Receivables

United Way, grants, and other receivables are expected to be collected within one year; therefore, management does not consider an allowance for uncollectible receivables to be necessary.

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.

Intangible Assets

The Organization's intangible assets include various structure costs related to the new market tax credit transaction. These are recorded at cost.

SOUTHSIDE EARLY CHILDHOOD CENTER AND SUBSIDIARY

Notes to Consolidated Financial Statements – Continued

December 31, 2014

Note B - Summary of Significant Accounting Policies (Continued)

Property and Equipment

Purchases of property and equipment with a value of \$5,000 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.

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.

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.

The Organization has addressed the provisions of FASB ASC 740, *Accounting for Income Taxes*. In that regard, 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. The Organization's federal Form 990 for tax years 2010 and later remain subject to examination by taxing authorities.

Fair Value Measurements

FASB ASC 820-10, *Fair Value Measurements and Disclosures*, applies to all financial instruments that are measured and reported on a fair value basis. FASB ASC 820-10 defines fair value and 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 paid to transfer a liability in an orderly transaction between market participants at the measurement date. FASB ASC 820-10 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

SOUTHSIDE EARLY CHILDHOOD CENTER AND SUBSIDIARY

Notes to Consolidated Financial Statements – Continued

December 31, 2014

Note B - Summary of Significant Accounting Policies (Continued)

Fair Value Measurements (Continued)

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Unobservable inputs that are significant and reflect substantial management judgment or estimation, including the use of pricing models, discounted cash flow methodologies or similar techniques.

Management determines the fair value measurement valuation policies and procedures, which are subject to Board of Directors assessment and approval. At least annually, Management determines if the current valuation techniques used in fair value measurements are still appropriate.

The Organization recognized transfers, if any, between levels in the fair value hierarchy at the end of the reporting period.

During the years ended December 31, 2014 and 2013, there were no changes in the methods or assumptions utilized to derive the fair value of the Organization's assets and liabilities.

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, 2014 and 2013, the Organization recognized donated services and goods valued at \$12,636 and \$11,687, 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 \$69,029 and \$63,099 for the years ended December 31, 2014 and 2013, respectively.

SOUTHSIDE EARLY CHILDHOOD CENTER AND SUBSIDIARY

Notes to Consolidated Financial Statements – Continued

December 31, 2014

Note B - Summary of Significant Accounting Policies (Continued)

Subsequent Events

The Organization evaluated all subsequent events through March 18, 2015, the date the financial statements were available to be issued.

Note C - Conditional Promise to Give

The Organization was selected in 2008 to be a member of the Deaconess Impact Partnership. The partnership is a four year capacity building commitment from the Deaconess Foundation (the “Foundation”) to fund items outside normal operations. Future commitments are subject to the annual approval of the Foundation.

The following is a reconciliation of total Management and General and Fundraising expenses (“Supporting Services”) from the Consolidated Statements of Functional Expenses less Foundation funded expenses for the years ended December 31:

	<u>2014</u>	<u>2013</u>
Total Supporting Services	\$ 411,455	\$ 366,789
Less Foundation funded expenses	<u>(-)</u>	<u>(47,050)</u>
Total Supporting Services less Foundation funded expenses	<u>\$ 411,455</u>	<u>\$ 319,739</u>

As a percentage of total expenses, Supporting Services, excluding Foundation funded expenses, as of December 31, 2014 and 2013 were 19% and 23%, respectively.

Note D - Promises to Give – Capital Campaign Pledges Receivable

Promises to give represent temporarily restricted unconditional promises which have been made by donors but not yet received by the Organization. Promises which will be received in the subsequent years have been discounted using an estimated rate of return which could be earned if such contributions had been made in the current year, if such amount is material to the consolidated financial statements.

SOUTHSIDE EARLY CHILDHOOD CENTER AND SUBSIDIARY

Notes to Consolidated Financial Statements – Continued

December 31, 2014

Note D - Promises to Give – Capital Campaign Pledges Receivable (Continued)

Promises to give consist of pledges related to the capital campaign. Balances at December 31, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
Unconditional promises to give		
Due in less than one year	\$ 363,375	\$ 313,277
Due in one to five years	<u>83,479</u>	<u>417,213</u>
Unconditional promises to give	446,854	730,490
Less present value component	(16,050)	(40,871)
Less allowance for uncollectible pledges	<u>(62,273)</u>	<u>(51,927)</u>
Unconditional promises to give, net	<u>\$ 368,531</u>	<u>\$ 637,692</u>

Fair value for promises to give is determined by calculating the discount at a rate that approximates the Organization's incremental borrowing rate. The present value calculation shown above was calculated using a discount rate of 3.5% for each of the years ended December 31, 2014 and 2013, respectively.

Note E - Properties Held for Sale

Assets and liabilities reported at fair value include properties held for sale. The portion of these properties under contract are reported as Level 2 values pending the sale of the property; the remaining properties are reported as Level 3 values using a market approach with similar real estate property values.

The following table sets forth by level, within the fair value hierarchy, the Organization's properties held for sale at fair value as of December 31, 2014 and 2013:

Properties Held for Sale at Fair Value As of December 31, 2014

	Total	Level 1	Level 2	Level 3
Beginning Balance	\$ 90,000	\$ -	\$ 90,000	\$ -
Sales	(124,699)	-	(124,699)	-
Gain on sale	34,699	-	34,699	-
Transfers	-	-	-	-
Write-offs	-	-	-	-
Ending Balance	\$ -	\$ -	\$ -	\$ -

SOUTHSIDE EARLY CHILDHOOD CENTER AND SUBSIDIARY

Notes to Consolidated Financial Statements – Continued

December 31, 2014

Note E - Properties Held for Sale (Continued)

Properties Held for Sale at Fair Value As of December 31, 2013

	Total	Level 1	Level 2	Level 3
Beginning Balance	\$ 172,500	\$ -	\$ 49,500	\$ 123,000
Sales	(56,500)	-	(56,500)	-
Gain on sale	-	-	-	-
Transfers	-	-	123,000	(123,000)
Write-offs	(26,000)	-	(26,000)	-
Ending Balance	<u>\$ 90,000</u>	<u>\$ -</u>	<u>\$ 90,000</u>	<u>\$ -</u>

SouthSide sold the properties above in 2014. There are no properties being held for sale as of December 31, 2014.

Note F - Land, Building, and Equipment

Land, building, and equipment consist of the following at December 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Land	\$ 652,383	\$ 574,509
Building and playground	3,510,051	-
Capitalized Interest	-	62,394
Construction In Process (new building)	-	1,267,605
Furniture, equipment	<u>238,684</u>	<u>579,564</u>
	<u>4,401,118</u>	<u>2,484,072</u>
Less accumulated depreciation and amortization	<u>(109,945)</u>	<u>(538,837)</u>
Land, building, and equipment, net	<u>\$4,291,173</u>	<u>\$1,945,235</u>

Interest expense capitalized was \$21,540 and \$36,382 for the years ended December 31, 2014 and 2013, respectively. The accumulated capitalized interest was included in the new building account upon completion of construction in June 2014. Depreciation expense was \$77,261 and \$17,383 for the years ended December 31, 2014 and 2013, respectively.

SOUTHSIDE EARLY CHILDHOOD CENTER AND SUBSIDIARY

Notes to Consolidated Financial Statements – Continued

December 31, 2014

Note G - Line-of-Credit

The Organization has a \$75,000 line-of-credit available at Commerce Bank, which matures on June 17, 2015. When funds are drawn on this line, interest is payable monthly at the prime rate + 2% points (prime rate was 3.25% at December 31, 2014). The note is collateralized by a certificate of deposit. At both December 31, 2014 and 2013, there was no balance outstanding on this line.

Note H - Notes Payable

	<u>2014</u>	<u>2013</u>
4.71% fixed note payable to Enterprise Bank and Trust; ("Enterprise") interest due monthly with principal balance due based on receipt of pledges – collateralized by pledges receivable.	\$ 353,125	\$ 690,725
Less current portion	<u>353,125</u>	<u>313,277</u>
Total notes payable, less current portion	\$ <u>-</u>	\$ <u>377,448</u>

<u>Maturity Schedule</u>	<u>Enterprise</u>	<u>Note A</u>	<u>Note B</u>	<u>Total</u>
2015	\$ 353,125	\$ -	\$ -	\$ 353,125
2016	-	-	-	-
2017	-	-	-	-
2018	-	-	-	-
2019	-	-	-	-
Thereafter	<u>-</u>	<u>2,720,800</u>	<u>1,119,200</u>	<u>3,840,000</u>
	\$ <u>353,125</u>	\$ <u>2,720,800</u>	\$ <u>1,119,200</u>	\$ <u>4,193,125</u>

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

Note I - Contingency

In August 2011, the Organization signed a promissory note with forgiveness features with the City of St. Louis, Missouri for land adjacent to its property on Jefferson Avenue in the amount of \$149,942 to be used for the development of a new facility. The conditions to forgive the note were fulfilled upon the completion of the new facility. The note was forgiven in June 2014.

SOUTHSIDE EARLY CHILDHOOD CENTER AND SUBSIDIARY

Notes to Consolidated Financial Statements – Continued

December 31, 2014

Note J - Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the following at December 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Time restrictions	\$ 232,354	\$ 249,840
Program restrictions	79,570	183,653
Capital Campaign restrictions	<u>2,587,777</u>	<u>2,844,051</u>
	<u>\$2,899,701</u>	<u>\$3,277,544</u>
Net assets released as of December 31:		
Time restrictions	\$ 249,830	\$ 244,884
Program restrictions	333,092	299,422
Capital Campaign restrictions	<u>277,120</u>	<u>593,942</u>
Total net assets released	<u>\$ 860,042</u>	<u>\$1,138,248</u>

Note K - Supplemental Disclosure of Cash Flow Information

Interest paid during 2014 and 2013 amounted to \$35,579 and \$36,382, respectively.

Note L - 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, 2014 and 2013.

Note M - Concentration of Income Sources

In 2014 and 2013, the Organization received approximately 29% and 31% of its total support and revenue from two sources.

SOUTHSIDE EARLY CHILDHOOD CENTER AND SUBSIDIARY

Notes to Consolidated Financial Statements – Continued

December 31, 2014

Note N - 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 school 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 is collecting pledge payments and using these proceeds to pay down the loan from Enterprise Bank and Trust. As of December 31, 2014 and December 31, 2013 the initial \$1,500,000 pledge loan balance was \$353,125 and \$690,725 respectively.

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.

SOUTHSIDE EARLY CHILDHOOD CENTER AND SUBSIDIARY

Notes to Consolidated Financial Statements – Continued

December 31, 2014

Note N - 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 school 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 school building, leaving \$3,194,308 of funds to be used for the sole purpose of constructing a new school building for SouthSide. Structuring fees are to be amortized over seven years, the tax credit investment compliance period. Amortization of these costs for the years ending December 31, 2014 and 2013 was \$33,623 and \$13,321, respectively.

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 school building in accordance with the original intent in the NMTC allocation as a qualified low- income community business.

Supplemental Information

SOUTHSIDE EARLY CHILDHOOD CENTER AND SUBSIDIARY

Consolidating Statement of Financial Position

December 31, 2014

(See Independent Auditor's Report)

	SSEC	FOSS	Consolidated
ASSETS			
Current Assets			
Cash and cash equivalents - Operating	\$ 375,797	\$ 11,592	\$ 387,389
Cash and cash equivalents - Capital Campaign	530	36,329	36,859
Cash and cash equivalents - Certificate of Deposit	75,375	-	75,375
United Way receivable	232,355	-	232,355
Grants receivable	221,784	-	221,784
Capital campaign pledges receivable, current portion, net	-	301,867	301,867
Accounts receivable - other	-	-	-
Prepaid expenses	13,909	5,769	19,678
Total Current Assets	919,750	355,557	1,275,307
Capital Campaign Pledges Receivable, less current portion, net	-	66,664	66,664
New Markets Tax Credits Note Receivable	-	2,720,800	2,720,800
New Markets Tax Credits Intangible Assets, net	187,727	-	187,727
Properties Held for Sale	-	-	-
Land, Building, and Equipment, net	4,291,173	-	4,291,173
TOTAL ASSETS	\$ 5,398,650	\$ 3,143,021	\$ 8,541,671
LIABILITIES AND NET ASSETS			
Current Liabilities			
Accounts payable	\$ 64,013	\$ -	\$ 64,013
Accrued expenses	62,086	-	62,086
Other liability	21,486	-	21,486
Notes payable - current portion	-	353,125	353,125
Total Current Liabilities	147,585	353,125	500,710
Notes Payable - Pledge Loan, Less Current Portion	-	-	-
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
NET ASSETS			
Unrestricted	(1,474,602)	2,786,807	1,312,205
Temporarily restricted	2,885,667	3,089	2,888,756
Total Net Assets	1,411,065	2,789,896	4,200,961
TOTAL LIABILITIES AND NET ASSETS	\$ 5,398,650	\$ 3,143,021	\$ 8,541,671

SOUTHSIDE EARLY CHILDHOOD CENTER AND SUBSIDIARY

Consolidating Statement of Activities

Year Ended December 31, 2014

(See Independent Auditor's Report)

	SSEC	FOSS	Consolidated
Change in unrestricted net assets:			
Unrestricted revenue, support, gains and losses:			
Contributions	\$ 285,007	\$ -	\$ 285,007
Contributions in-kind	12,636	-	12,636
Fees and grants from governmental agencies	813,239	-	813,239
Private foundations and grants	-	-	-
Program service fees	41,877	-	41,877
United Way of Greater St. Louis, Inc.	-	-	-
Special events, net of direct expenses of \$82,532	221,629	-	221,629
Capital campaign	-	-	-
Rental income	-	-	-
Other income	2,632	-	2,632
Net assets released from restrictions	860,042	-	860,042
Total unrestricted revenue and support	2,237,062	-	2,237,062
Unrestricted expenses:			
Program services	1,797,496	56	1,797,552
Management and general	182,830	8,427	191,257
Fundraising	221,101	-	221,101
Total unrestricted expenses	2,201,427	8,483	2,209,910
Impairment loss on property held for sale	-	-	-
New Markets Tax Credits amortization and other expenses	33,623	-	33,623
(Gain) Loss on disposition of building	(10,186)	-	(10,186)
Total impairment loss and NMTC Other	23,437	-	23,437
Change in unrestricted net assets	12,198	(8,483)	3,715
Change in temporarily restricted net assets			
Private foundations and grants	228,222	-	228,222
United Way of Greater St. Louis, Inc.	232,344	-	232,344
Capital campaign	10,177	11,456	21,633
Net assets released from restrictions	(860,042)	-	(860,042)
Change in temporarily restricted net assets	(389,299)	11,456	(377,843)
Change in net assets	(377,101)	2,973	(374,128)
Net assets, beginning of year	1,788,166	2,786,923	4,575,089
Net assets, end of year	\$ 1,411,065	\$ 2,789,896	\$ 4,200,961