# SouthSide Early Childhood Center and Subsidiary

Consolidated Financial Statements
With
Independent Auditor's Report

**December 31, 2015**

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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, 2015 and 2014, 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, 2015 and 2014 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
March 16, 2016

## SOUTHSIDE EARLY CHILDHOOD CENTER AND SUBSIDIARY

## Consolidated Statements of Financial Position
At December 31, 2015 and 2014

| | 2015 | 2014 |
|---|---|---|
| **ASSETS** | | |
| **Current Assets** | | |
| Cash and cash equivalents - Operating | **$ 500,746** | $ 387,389 |
| Cash and cash equivalents - Capital Campaign | **2,977** | 36,859 |
| Cash and cash equivalents - Certificate of Deposit | **75,564** | 75,375 |
| United Way receivable | **237,502** | 232,355 |
| Grants receivable | **156,966** | 221,784 |
| Capital campaign pledges receivable, current portion, net | **116,545** | 301,867 |
| Prepaid expenses | **10,865** | 19,678 |
| **Total Current Assets** | **1,101,165** | 1,275,307 |
| **Capital Campaign Pledges Receivable, less current portion, net** | **-** | 66,664 |
| **New Markets Tax Credits Note Receivable (Note K)** | **2,720,800** | 2,720,800 |
| **New Markets Tax Credits Intangible Assets, net (Note K)** | **154,104** | 187,727 |
| **Land, Building, and Equipment, net** | **4,195,326** | 4,291,173 |
| **TOTAL ASSETS** | **$ 8,171,395** | $ 8,541,671 |
| **LIABILITIES AND NET ASSETS** | | |
| **Current Liabilities** | | |
| Accounts payable | **9,229** | $ 64,013 |
| Accrued expenses | **64,198** | 62,086 |
| Other liability | **38,201** | 21,486 |
| Notes payable - current portion | **8,443** | 353,125 |
| **Total Current Liabilities** | **120,071** | 500,710 |
| **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 |
| **NET ASSETS** | | |
| Unrestricted | **1,274,464** | 1,301,260 |
| Temporarily restricted | **2,936,860** | 2,899,701 |
| **Total Net Assets** | **4,211,324** | 4,200,961 |
| **TOTAL LIABILITIES AND NET ASSETS** | **$ 8,171,395** | $ 8,541,671 |

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, 2015

| | Unrestricted | Temporarily Restricted | Total |
|---|---|---|---|
| **Support and Revenue:** | | | |
| Contributions | $ 275,097 | $ - | $ 275,097 |
| Contributions in-kind | 15,747 | - | 15,747 |
| Fees and grants from governmental agencies | 893,039 | - | 893,039 |
| Private foundations and grants | - | 418,680 | 418,680 |
| Program service fees | 187,540 | - | 187,540 |
| United Way of Greater St. Louis, Inc. | 5,075 | 237,502 | 242,577 |
| Special events, net of direct expenses of $87,231 | 214,445 | - | 214,445 |
| Capital campaign | - | 59,003 | 59,003 |
| Other income | 665 | - | 665 |
| Net assets released from restrictions | 678,026 | (678,026) | - |
| **Total support and revenue** | 2,269,634 | 37,159 | 2,306,793 |
| **Expenses and Losses:** | | | |
| Program services | 1,875,543 | - | 1,875,543 |
| Management and general | 174,881 | - | 174,881 |
| Fundraising | 212,383 | - | 212,383 |
| **Total expenses** | 2,262,807 | - | 2,262,807 |
| **Change in net assets before impairment loss and other expenses** | 6,827 | 37,159 | 43,986 |
| New Markets Tax Credits amortization and other expenses | 33,623 | - | 33,623 |
| Net gain on disposal of building and equipment | - | - | - |
| **Total impairment loss and NMTC other** | 33,623 | - | 33,623 |
| **CHANGE IN NET ASSETS** | (26,796) | - 37,159 | 10,363 |
| **Net assets at beginning of year** | 1,301,260 | 2,899,701 | 4,200,961 |
| **Net assets at end of year** | $ 1,274,464 | $ 2,936,860 | $ 4,211,324 |

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, 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 |
| 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) |
| 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 consolidated financial statements.

## SOUTHSIDE EARLY CHILDHOOD CENTER AND SUBSIDIARY

## Consolidated Statement of Functional Expenses
Year Ended December 31, 2015

| | | Supporting Services | | |
|---|---|---|---|---|
| | Program Services | Management And General | Fund-Raising | Total Expenses |
| Salaries | $ 986,958 | $ 118,131 | $ 115,334 | $ 1,220,423 |
| Employee benefits | 111,079 | 13,295 | 12,981 | 137,355 |
| Payroll taxes and workmen's compensation | 85,800 | 10,270 | 10,026 | 106,096 |
| Total salaries and related expenses | 1,183,837 | 141,696 | 138,341 | 1,463,874 |
| Program supplies | 139,243 | - | - | 139,243 |
| Professional fees | 186,720 | 7,364 | 24,175 | 218,259 |
| Supplies | 42,605 | 2,118 | 2,118 | 46,841 |
| Occupancy | 68,836 | 4,115 | 2,708 | 75,659 |
| Maintenance and repairs | 57,710 | 2,475 | 2,475 | 62,660 |
| Conferences, conventions, and meetings | 28,029 | 5,371 | - | 33,400 |
| Printing and publications | 6,550 | - | 19,793 | 26,343 |
| Fundraising | - | - | 13,053 | 13,053 |
| Miscellaneous | 28,930 | 4,787 | 3,103 | 36,820 |
| Interest | 18,189 | 904 | 904 | 19,997 |
| Non-recurring | - | 338 | - | 338 |
| Total expenses before depreciation and amortization | 1,760,649 | 169,168 | 206,670 | 2,136,487 |
| Depreciation and amortization | 114,894 | 5,713 | 5,713 | 126,320 |
| | $ 1,875,543 | $ 174,881 | $ 212,383 | $ 2,262,807 |

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, 2014

| | Program Services | Supporting Services: Management And General | Supporting Services: 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 |
| | $ 1,797,552 | $ 191,257 | $ 221,101 | $ 2,209,910 |

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, 2015 and 2014

| | 2015 | 2014 |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Change in net assets | $ 10,363 | $ (374,128) |
| Adjustments to reconcile change in net assets | | |
| to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 126,320 | 77,261 |
| New market tax credits amortization | 33,623 | 33,623 |
| Gain on sale of property held for sale | - | (34,699) |
| Net loss on disposal of property and equipment | - | 24,513 |
| Present value adjustment for promises to give | 11,782 | 24,821 |
| Allowance for doubtful pledges receivable | 51,128 | (10,346) |
| (Increase) decrease in operating assets: | | |
| Contributions restricted for long term purposes | (59,003) | (21,633) |
| Accounts receivable - other | - | 15,067 |
| United Way receivable | (5,147) | 17,485 |
| Grants receivable | 64,818 | (46,706) |
| Prepaid expenses | 8,813 | 21,156 |
| (Increase) decrease in operating liabilities: | | |
| Accounts payable | (54,784) | 52,605 |
| Accrued expenses | 2,112 | (317,693) |
| Other liability | 16,715 | (1,535) |
| **Net cash provided by (used in) operating activities** | 206,740 | (540,209) |
| **Cash flows from investing activities:** | | |
| Proceeds from sale of property | - | 124,699 |
| Payments for NMTC intangible assets | - | (10,875) |
| Payments for property and equipment | (30,473) | (2,447,712) |
| **Net cash used in investing activities** | (30,473) | (2,333,888) |
| **Cash flows from financing activities:** | | |
| Payments on notes payable | (344,682) | (337,600) |
| Proceeds from contributions restricted for long term purposes | 248,079 | 276,319 |
| **Net cash used in financing activities** | (96,603) | (61,281) |
| **INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | 79,664 | (2,935,378) |
| **Cash and cash equivalents at beginning of year** | 499,623 | 3,435,001 |
| **Cash and cash equivalents at end of year** | $ 579,287 | $ 499,623 |

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. In 2012 the Organization changed its name from "SSDN", which had been its legal name since the early 2000s.

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.

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 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 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 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, 2015 and 2014.

**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, 2015 and 2014.

### 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. The certificate of deposit is shown at cost which approximates fair market value and matures on June 11, 2016. (See Note E).

### 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, 2015 and 2014 is $1,186 and $36,426, respectively.

See Note K 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.

**Note B - Summary of Significant Accounting Policies (Continued)**

**Intangible Assets**

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

**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.

**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 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)**

**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:

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. There were no transfers between levels for the years ended December 31, 2015 and 2014.

During the years ended December 31, 2015 and 2014, there were no changes in the methods or assumptions utilized to derive the fair value of the Organization’s assets and liabilities.

**Note B - Summary of Significant Accounting Policies (Continued)**

**Fair Value Measurements (Continued)**

As of January 1, 2014, the Organization had $90,000 in properties held for sale with fair value determined using Level 2 methodologies. These properties were under contract and subsequently sold during 2014, resulting in a $0 balance as of December 31, 2014. No properties were held for sale during the year ended December 31, 2015.

**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, 2015 and 2014, the Organization received donated services and goods valued at $15,747 and $12,636, 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 $81,294 and $69,029 for the years ended December 31, 2015 and 2014, respectively.

**Subsequent Events**

The Organization evaluated all subsequent events through March 16, 2016, the date the consolidated financial statements were available to be issued.

**Note C - 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.

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

Promises to give consist of pledges related to the capital campaign. Balances at December 31, 2015 and 2014 are as follows:

| | **2015** | 2014 |
|---|---|---|
| Unconditional promises to give | | |
| Due in less than one year | **$ 131,958** | $ 363,375 |
| Due in one to five years | **-** | 83,479 |
| Unconditional promises to give | **131,958** | 446,854 |
| Less present value component | **(4,268)** | (16,050) |
| Less allowance for uncollectible pledges | **(11,145)** | (62,273) |
| Unconditional promises to give, net | **$ 116,545** | $ 368,531 |

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, 2015 and 2014, respectively.

**Note D - Property and Equipment**

Property and equipment consist of the following at December 31, 2015 and 2014:

| | **2015** | 2014 |
|---|---|---|
| Land | **$ 652,383** | $ 652,383 |
| Building and Playground | **3,510,051** | 3,510,051 |
| Construction In Process (playground shade) | **18,650** | - |
| Furniture, equipment | **250,507** | 238,684 |
| | **4,431,591** | 4,401,118 |
| Less accumulated depreciation and amortization | **(236,265)** | (109,945) |
| Property and equipment, net | **$4,195,326** | $4,291,173 |

Interest expense capitalized was $0 and $21,540 for the years ended December 31, 2015 and 2014, respectively. The accumulated capitalized interest was rolled into the new building account upon completion of construction in June 2014. Depreciation expense was $126,320 and $77,261 for the years ended December 31, 2015 and 2014, respectively.

**Note E - Line-of-Credit**

The Organization has a $75,000 line-of-credit available at Commerce Bank, which matures on June 17, 2016. 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, 2015). The note is collateralized by a certificate of deposit. At both December 31, 2015 and 2014, there was no balance outstanding on this line.

**Note F - Notes Payable**

The Organization has a note payable to Enterprise Bank and Trust with a balance of $8,443 and $353,125 for the years ended December 31, 2015 and 2014. All balances are considered current for the years ended December 31, 2015 and 2014. The note payable has a 4.71% fixed interest rate, and interest is due monthly with the principal balance due based on receipt of pledges. The note is collateralized by pledges receivable.

Maturities of long-term debt are as follows:

| Maturity Schedule | Enterprise | Note A | Note B | Total |
|---|---|---|---|---|
| 2016 | $ 8,443 | $ - | $ - | $ 8,443 |
| 2017 | - | - | - | - |
| 2018 | - | - | - | - |
| 2019 | - | - | - | - |
| 2020 | - | 2,720,800 | 1,119,200 | 3,840,000 |
| | $ 8,443 | $ 2,720,800 | $ 1,119,200 | $ 3,848,443 |

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, 2015 and 2014:

| | **2015** | 2014 |
|---|---|---|
| Time restrictions | **$ 237,512** | $ 232,354 |
| Program restrictions | **285,079** | 79,570 |
| Capital Campaign restrictions | **2,414,269** | 2,587,777 |
| | **$ 2,936,860** | $ 2,899,701 |

| | | |
|---|---|---|
| Net assets released as of December 31: | | |
| Time restrictions | **$ 232,355** | $ 249,830 |
| Program restrictions | **213,172** | 333,092 |
| Capital Campaign restrictions | **232,499** | 277,120 |
| Total net assets released | **$ 678,026** | $ 860,042 |

**Note H - Supplemental Disclosure of Cash Flow Information**

Interest paid during 2015 and 2014 amounted to $19,998 and $35,579, 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, 2015 and 2014.

**Note J - Concentration of Income Sources**

In 2015 and 2014, the Organization received approximately 42% and 29% of its total support and revenue from three 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 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, 2015 and December 31, 2014, the initial $1,500,000 pledge loan balance was $8,443 and $353,125 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.

**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 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 both of the years ending December 31, 2015 and 2014 was $33,623.

**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, 2015
(See Independent Auditor's Report)

| | SSEC | FOSS | Consolidated |
|---|---|---|---|
| **ASSETS** | | | |
| **Current Assets** | | | |
| Cash and cash equivalents - Operating | $ 472,026 | $ 28,720 | $ 500,746 |
| Cash and cash equivalents - Capital Campaign | 1,791 | 1,186 | 2,977 |
| Cash and cash equivalents - Certificate of Deposit | 75,564 | - | 75,564 |
| United Way receivable | 237,502 | - | 237,502 |
| Grants receivable | 156,966 | - | 156,966 |
| Capital campaign pledges receivable, current portion, net | - | 116,545 | 116,545 |
| Prepaid expenses | 10,865 | - | 10,865 |
| **Total Current Assets** | 954,714 | 146,451 | 1,101,165 |
| **New Markets Tax Credits Note Receivable** | - | 2,720,800 | 2,720,800 |
| **New Markets Tax Credits Intangible Assets, net** | 154,104 | - | 154,104 |
| **Land, Building, and Equipment, net** | 4,195,326 | - | 4,195,326 |
| **TOTAL ASSETS** | $ 5,304,144 | $ 2,867,251 | $ 8,171,395 |
| **LIABILITIES AND NET ASSETS** | | | |
| **Current Liabilities** | | | |
| Accounts payable | $ 8,580 | $ 649 | $ 9,229 |
| Accrued expenses | 64,198 | - | 64,198 |
| Other liability | 38,201 | - | 38,201 |
| Notes payable - current portion | - | 8,443 | 8,443 |
| **Total Current Liabilities** | 110,979 | 9,092 | 120,071 |
| **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 | (1,512,008) | 2,797,417 | 1,285,409 |
| Temporarily restricted | 2,865,173 | 60,742 | 2,925,915 |
| **Total Net Assets** | 1,353,165 | 2,858,159 | 4,211,324 |
| **TOTAL LIABILITIES AND NET ASSETS** | $ 5,304,144 | $ 2,867,251 | $ 8,171,395 |

## SOUTHSIDE EARLY CHILDHOOD CENTER AND SUBSIDIARY

### Consolidating Statement of Activities

Year Ended December 31, 2015
(See Independent Auditor's Report)

| | SSEC | FOSS | Consolidated |
|---|---|---|---|
| **Change in unrestricted net assets:** | | | |
| Unrestricted revenue, support, gains and losses: | | | |
| Contributions | $ 275,097 | $ - | $ 275,097 |
| Contributions in-kind | 15,747 | - | 15,747 |
| Fees and grants from governmental agencies | 893,039 | - | 893,039 |
| Program service fees | 187,540 | - | 187,540 |
| United Way of Greater St. Louis, Inc. | 5,075 | - | 5,075 |
| Special events, net of direct expenses of $87,231 | 214,445 | - | 214,445 |
| Other income | 665 | - | 665 |
| Net assets released from restrictions | 678,026 | - | 678,026 |
| **Total unrestricted revenue and support** | 2,269,634 | - | 2,269,634 |
| Unrestricted expenses: | | | |
| Program services | 1,892,756 | (17,213) | 1,875,543 |
| Management and general | 168,278 | 6,603 | 174,881 |
| Fundraising | 212,383 | - | 212,383 |
| **Total unrestricted expenses** | 2,273,417 | (10,610) | 2,262,807 |
| New Markets Tax Credits amortization and other expenses | 33,623 | - | 33,623 |
| **Total impairment loss and NMTC Other** | 33,623 | - | 33,623 |
| **Change in unrestricted net assets** | (37,406) | 10,610 | (26,796) |
| **Change in temporarily restricted net assets** | | | |
| Private foundations and grants | 418,680 | - | 418,680 |
| United Way of Greater St. Louis, Inc. | 237,502 | - | 237,502 |
| Capital campaign | 1,350 | 57,653 | 59,003 |
| Net assets released from restrictions | (678,026) | - | (678,026) |
| **Change in temporarily restricted net assets** | (20,494) | 57,653 | 37,159 |
| **Change in net assets** | (57,900) | 68,263 | 10,363 |
| **Net assets, beginning of year** | 1,411,065 | 2,789,896 | 4,200,961 |
| **Net assets, end of year** | $ 1,353,165 | $ 2,858,159 | $ 4,211,324 |