

**SOUTH SIDE EARLY CHILDHOOD CENTER
AND SUBSIDIARY**

CONSOLIDATED FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITOR'S REPORT

DECEMBER 31, 2016

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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, 2016 and 2015, 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, 2016 and 2015 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 15, 2017

SOUTHSIDE EARLY CHILDHOOD CENTER AND SUBSIDIARY

Consolidated Statements of Financial Position

At December 31, 2016 and 2015

	2016	2015
ASSETS		
Current Assets		
Cash and cash equivalents - Operating	\$ 505,309	\$ 500,746
Cash and cash equivalents - Capital Campaign	118,142	2,977
Cash and cash equivalents - Certificate of Deposit	-	75,564
United Way receivable	218,377	237,502
Grants receivable	180,048	156,966
Accounts receivable	32,133	-
Capital campaign pledges receivable, current portion, net	-	116,545
Prepaid expenses	9,888	10,865
Total Current Assets	1,063,897	1,101,165
New Markets Tax Credits Note Receivable (Note K)	2,720,800	2,720,800
Land, Building, and Equipment, net	4,111,794	4,195,326
TOTAL ASSETS	\$ 7,896,491	\$ 8,017,291
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	\$ 16,588	\$ 9,229
Accrued expenses	52,806	64,198
Other liability	24,203	38,201
Notes payable - current portion	-	8,443
Total Current Liabilities	93,597	120,071
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	120,482	154,104
	3,719,518	3,685,896
TOTAL LIABILITIES	3,813,115	3,805,967
NET ASSETS		
Unrestricted	1,314,862	1,274,464
Temporarily restricted	2,768,514	2,936,860
Total Net Assets	4,083,376	4,211,324
TOTAL LIABILITIES AND NET ASSETS	\$ 7,896,491	\$ 8,017,291

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	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	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 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 New Market Tax Credits interest expense	6,827	37,159	43,986
New Markets Tax Credits interest expense	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 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
	<u>\$ 2,189,432</u>	<u>\$ 206,474</u>	<u>\$ 171,215</u>	<u>\$ 2,567,121</u>

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	5,125	3,103	37,158
Interest	18,189	904	904	19,997
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
	<u>\$ 1,875,543</u>	<u>\$ 174,881</u>	<u>\$ 212,383</u>	<u>\$ 2,262,807</u>

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, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Change in net assets	\$ (127,948)	\$ 10,363
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	130,368	126,320
New market tax credits structuring fees	33,623	33,623
Present value adjustment for promises to give	11,941	11,782
Allowance for doubtful pledges receivable	-	51,128
(Increase) decrease in operating assets:		
Contributions restricted for long term purposes	-	(59,003)
Accounts receivable - other	(32,133)	-
United Way receivable	19,125	(5,147)
Grants receivable	(23,082)	64,818
Prepaid expenses	977	8,813
(Increase) decrease in operating liabilities:		
Accounts payable	7,359	(54,784)
Accrued expenses	(11,392)	2,112
Other liability	(13,998)	16,715
Net cash (used in) provided by operating activities	(5,160)	206,740
Cash flows from investing activities:		
Payments for property and equipment	(46,837)	(30,473)
Net cash used in investing activities	(46,837)	(30,473)
Cash flows from financing activities:		
Payments on notes payable	(8,443)	(344,682)
Proceeds from contributions restricted for long term purposes	104,604	248,079
Net cash provided by (used in) financing activities	96,161	(96,603)
INCREASE IN CASH AND CASH EQUIVALENTS	44,164	79,664
Cash and cash equivalents at beginning of year	579,287	499,623
Cash and cash equivalents at end of year	\$ 623,451	\$ 579,287

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

SOUTHSIDE EARLY CHILDHOOD CENTER AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2016

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 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 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 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.

SOUTHSIDE EARLY CHILDHOOD CENTER AND SUBSIDIARY

Notes to Consolidated Financial Statements - Continued

December 31, 2016

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. The Organization's Board had not designated any net assets at December 31, 2016 and 2015.

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, 2016 and 2015.

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.

SOUTHSIDE EARLY CHILDHOOD CENTER AND SUBSIDIARY

Notes to the Consolidated Financial Statements – Continued

December 31, 2016

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 matured on June 11, 2016.

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, 2016 and 2015 is \$0 and \$1,186, 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.

SOUTHSIDE EARLY CHILDHOOD CENTER AND SUBSIDIARY

Notes to the Consolidated Financial Statements – Continued

December 31, 2016

Note B - Summary of Significant Accounting Policies (Continued)

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. Previously, the Organization reflected unamortized structuring fees as deferred charges in the statement of financial position and has retroactively reclassified 2015 amounts to accord with the new debt deduction presentation. The reclassifications reduced total assets and debt at December 31, 2015 by \$154,104 with no effect on net assets. Similarly, New Market Tax Credits interest expense for 2015 has been increased and New Market Tax Credit amortization expense decreased by \$33,623 to accord with the new presentation as interest expense, with no effect on previously reported change in net assets. As of December 31, 2016, net carrying amount of structuring fees were \$120,482. Amortization expense was \$33,623 the year ended December 31, 2016.

SOUTHSIDE EARLY CHILDHOOD CENTER AND SUBSIDIARY

Notes to the Consolidated Financial Statements – Continued

December 31, 2016

Note B - Summary of Significant Accounting Policies (Continued)

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.

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, 2016 and 2015, the Organization received donated services and goods valued at \$27,423 and \$15,747, 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 \$99,135 and \$81,294 for the years ended December 31, 2016 and 2015, respectively.

Subsequent Events

The Organization evaluated all subsequent events through March 15, 2017, the date the consolidated financial statements were available to be issued.

SOUTHSIDE EARLY CHILDHOOD CENTER AND SUBSIDIARY

Notes to the Consolidated Financial Statements – Continued

December 31, 2016

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.

Promises to give consist at December 31, 2015 of pledges related to the capital campaign, all of which were due within one year as follows:

	<u>2015</u>
Unconditional promises to give	
Due in less than one year	\$ 131,958
Due in one to five years	<u>-</u>
Unconditional promises to give	131,958
Less present value component	(4,268)
Less allowance for uncollectible pledges	<u>(11,145)</u>
Unconditional promises to give, net	<u>\$ 116,545</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 year ended December 31, 2015. As of December 31, 2016, no amounts remained outstanding.

Note D - Property and Equipment

Property and equipment consist of the following at December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Land	\$ 652,383	\$ 652,383
Building and playground	3,529,330	3,510,051
Construction in process (playground shade)	-	18,650
Furniture, equipment	<u>296,711</u>	<u>250,507</u>
	4,478,427	4,431,591
Less accumulated depreciation and amortization	<u>(366,633)</u>	<u>(236,265)</u>
Property and equipment, net	<u>\$4,111,794</u>	<u>\$4,195,326</u>

Depreciation expense was \$130,368 and \$126,320 for the years ended December 31, 2016 and 2015, respectively.

SOUTHSIDE EARLY CHILDHOOD CENTER AND SUBSIDIARY

Notes to the Consolidated Financial Statements – Continued

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, 2017. When funds are drawn on this line, interest is payable monthly. The interest is subject to change with an initial rate of 3.5%. Any outstanding balance is payable at maturity. The note is collateralized by a money market account at the same financial institution. The Organization had a \$75,000 line-of-credit available at a local financial institution, which matured on June 17, 2016. At both December 31, 2016 and 2015, there was no balance outstanding on the line.

Note F - Notes Payable

The Organization had a note payable to Enterprise Bank and Trust with a balance of \$8,443 for the year ended December 31, 2015. The total amount was paid off during 2016.

Maturities of long-term debt are as follows:

<u>Maturity Schedule</u>	<u>Note A</u>	<u>Note B</u>	<u>Total</u>
2017	\$ -	\$ -	\$ -
2018	-	-	-
2019	-	-	-
2020	2,720,800	1,119,200	3,840,000
2021	-	-	-
	<u>\$ 2,720,800</u>	<u>\$ 1,119,200</u>	<u>\$ 3,840,000</u>

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

SOUTHSIDE EARLY CHILDHOOD CENTER AND SUBSIDIARY

Notes to the Consolidated Financial Statements – Continued

December 31, 2016

Note G - Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the following at December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Time restrictions	\$ 218,377	\$ 237,512
Program restrictions	299,050	285,079
Capital Campaign restrictions	<u>2,251,087</u>	<u>2,414,269</u>
	<u>\$ 2,768,514</u>	<u>\$ 2,936,860</u>
Net assets released as of December 31:		
Time restrictions	\$ 237,512	\$ 232,355
Program restrictions	313,028	213,172
Capital Campaign restrictions	<u>163,674</u>	<u>232,499</u>
Total net assets released	<u>\$ 714,214</u>	<u>\$ 678,026</u>

Note H - Supplemental Disclosure of Cash Flow Information

Interest paid during 2016 and 2015 amounted to \$10,059 and \$19,997, 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, 2016 and 2015.

Note J - Concentration of Income Sources

In 2016 and 2015, the Organization received approximately 45% and 42% of its total support and revenue from two sources.

SOUTHSIDE EARLY CHILDHOOD CENTER AND SUBSIDIARY

Notes to the Consolidated Financial Statements – Continued

December 31, 2016

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, 2016 and December 31, 2015, the initial \$1,500,000 pledge loan balance was \$0 and \$8,443 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 the Consolidated Financial Statements – Continued

December 31, 2016

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.

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, 2016

(See Independent Auditor's Report)

	SSEC	FOSS	Consolidated
ASSETS			
Current Assets			
Cash and cash equivalents - Operating	\$ 449,455	\$ 55,854	\$ 505,309
Cash and cash equivalents - Capital Campaign	2,043	116,099	118,142
United Way receivable	218,377	-	218,377
Grants receivable	180,048	-	180,048
Capital campaign pledges receivable, current portion, net	-	-	-
Accounts receivable - other	30,000	2,133	32,133
Prepaid expenses	9,888	-	9,888
Total Current Assets	889,811	174,086	1,063,897
New Markets Tax Credits Note Receivable	-	2,720,800	2,720,800
Land, Building, and Equipment, net	4,111,794	-	4,111,794
TOTAL ASSETS	\$ 5,001,605	\$ 2,894,886	\$ 7,896,491
LIABILITIES AND NET ASSETS			
Current Liabilities			
Accounts payable	\$ 16,588	\$ -	\$ 16,588
Accrued expenses	22,070	-	22,070
Other liability	54,939	-	54,939
Total Current Liabilities	93,597	-	93,597
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	120,482	-	120,482
	3,719,518		3,719,518
Total Liabilities	3,813,115	-	3,813,115
NET ASSETS			
Unrestricted	(1,508,337)	2,834,144	1,325,807
Temporarily restricted	2,696,827	60,742	2,757,569
Total Net Assets	1,188,490	2,894,886	4,083,376
TOTAL LIABILITIES AND NET ASSETS	\$ 5,001,605	\$ 2,894,886	\$ 7,896,491

SOUTHSIDE EARLY CHILDHOOD CENTER AND SUBSIDIARY

Consolidating Statement of Activities

Year Ended December 31, 2016

(See Independent Auditor's Report)

	SSEC	FOSS	Consolidated
Change in unrestricted net assets:			
Unrestricted revenue, support, gains and losses:			
Contributions	\$ 344,453	\$ 9,475	\$ 353,928
Contributions in-kind	27,423	-	27,423
Fees and grants from governmental agencies	976,027	-	976,027
Program service fees	290,709	50	290,759
Special events, net of direct expenses of \$107,684	278,111	-	278,111
Other income	591	89	680
Net assets released from restrictions	714,214	-	714,214
Total unrestricted revenue and support	2,631,528	9,614	2,641,142
Unrestricted expenses:			
Program services	2,216,584	(27,152)	2,189,432
Management and general	206,435	39	206,474
Fundraising	171,215	-	171,215
Total unrestricted expenses	2,594,234	(27,113)	2,567,121
New Markets Tax Credits interest expense	33,623	-	33,623
Change in unrestricted net assets	3,671	36,727	40,398
Change in temporarily restricted net assets			
Private foundations and grants	327,000	-	327,000
United Way of Greater St. Louis, Inc.	218,868	-	218,868
Net assets released from restrictions	(714,214)	-	(714,214)
Change in temporarily restricted net assets	(168,346)	-	(168,346)
Change in net assets	(164,675)	36,727	(127,948)
Net assets, beginning of year	1,353,165	2,858,159	4,211,324
Net assets, end of year	\$ 1,188,490	\$ 2,894,886	\$ 4,083,376