

**SOUTH SIDE EARLY CHILDHOOD CENTER
AND SUBSIDIARY**

CONSOLIDATED FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITOR'S REPORT

DECEMBER 31, 2013

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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, 2013 and 2012, 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, 2013 and 2012, 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, L.L.C.

St. Louis, Missouri
May 6, 2014

SOUTHSIDE EARLY CHILDHOOD CENTER AND SUBSIDIARY

Consolidated Statements of Financial Position

December 31, 2013 and 2012

| | 2013 | 2012 |
|--|---------------------|---------------------|
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents - Operating | \$ 520,064 | \$ 495,444 |
| Cash and cash equivalents - Capital Campaign | 2,839,937 | 1,192,921 |
| Cash and cash equivalents - Certificate of Deposit | 75,000 | - |
| United Way receivable | 249,840 | 244,884 |
| Grants receivable | 175,078 | 127,180 |
| Capital campaign pledges receivable, current portion | 313,277 | 925,588 |
| Accounts receivable - other | 15,067 | - |
| Prepaid expenses | 40,834 | 20,969 |
| Total Current Assets | 4,229,097 | 3,006,986 |
| Capital Campaign Pledges Receivable, less current portion | 324,415 | 575,764 |
| New Markets Tax Credits Note Receivable (Note O) | 2,720,800 | - |
| New Markets Tax Credits Intangible Assets, net (Note O) | 210,475 | - |
| Properties Held for Sale | 90,000 | 172,500 |
| Property and Equipment: | | |
| Land - new building | 574,509 | 574,509 |
| Property and equipment, net | 1,370,726 | 81,943 |
| Total Property and Equipment | 1,945,235 | 656,452 |
| TOTAL ASSETS | \$ 9,520,022 | \$ 4,411,702 |
| LIABILITIES AND NET ASSETS | | |
| Current Liabilities | | |
| Accounts payable | \$ 11,408 | \$ 12,203 |
| Accrued expenses | 379,779 | 30,182 |
| Other liability | 23,021 | 47,442 |
| Notes payable - current portion | 313,277 | - |
| Total Current Liabilities | 727,485 | 89,827 |
| Notes Payable - Pledge Loan, Less Current Portion | 377,448 | 418,952 |
| New Markets Tax Credits Note Payable A (Note O) | 2,720,800 | - |
| New Markets Tax Credits Note Payable B (Note O) | 1,119,200 | - |
| NET ASSETS | | |
| Unrestricted | 1,297,545 | 609,478 |
| Temporarily restricted | 3,277,544 | 3,293,445 |
| Total Net Assets | 4,575,089 | 3,902,923 |
| TOTAL LIABILITIES AND NET ASSETS | \$ 9,520,022 | \$ 4,411,702 |

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 |
| 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 Activities

Year ended December 31, 2012

| | Unrestricted | Temporarily Restricted | Total |
|---|-------------------|---------------------------|---------------------|
| Support and Revenue: | | | |
| Contributions | \$ 141,667 | \$ - | \$ 141,667 |
| Contributions in-kind | 40,518 | - | 40,518 |
| Fees and grants from governmental agencies | 567,347 | - | 567,347 |
| Private foundations and grants | 51,295 | 358,144 | 409,439 |
| Program service fees | 22,894 | - | 22,894 |
| United Way of Greater St. Louis, Inc. | 534 | 244,884 | 245,418 |
| Special events, net of direct expenses of \$81,689 | 203,147 | - | 203,147 |
| Capital Campaign | - | 1,666,705 | 1,666,705 |
| Rental income | 31,385 | - | 31,385 |
| Other income | 24,531 | - | 24,531 |
| Net assets released from restrictions | 599,125 | (599,125) | - |
| Total support and revenue | 1,682,443 | 1,670,608 | 3,353,051 |
| Expenses and Losses: | | | |
| Program services | 1,125,027 | - | 1,125,027 |
| Management and general | 239,175 | - | 239,175 |
| Fundraising | 277,546 | - | 277,546 |
| Total expenses | 1,641,748 | - | 1,641,748 |
| Change in net assets before impairment loss and other expenses | 40,695 | 1,670,608 | 1,711,303 |
| Impairment loss on property held for sale | 154,000 | - | 154,000 |
| New Markets Tax Credits amortization and other expenses | - | - | - |
| Total impairment loss and NMTC other | 154,000 | - | 154,000 |
| CHANGE IN NET ASSETS | (113,305) | 1,670,608 | 1,557,303 |
| Net assets at beginning of year | 722,783 | 1,622,837 | 2,345,620 |
| Net assets at end of year | \$ 609,478 | \$ 3,293,445 | \$ 3,902,923 |

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 comp | 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 |
| 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 |
| | \$ 1,412,897 | \$ 167,278 | \$ 199,512 | \$ 1,779,687 |

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, 2012

| | Program Services | Supporting Services Management And General | Fund- Raising | Total Expenses |
|---|---------------------|--|------------------|-------------------|
| Salaries | \$ 511,054 | \$ 71,226 | \$ 103,748 | \$ 686,028 |
| Employee benefits | 70,742 | 9,859 | 14,361 | 94,962 |
| Payroll taxes and workmen's comp | 47,614 | 6,636 | 9,666 | 63,916 |
| Total salaries and related expenses | 629,410 | 87,721 | 127,775 | 844,906 |
| Program supplies | 111,052 | - | - | 111,052 |
| Professional fees | 212,865 | 113,692 | 112,331 | 438,888 |
| Supplies | 16,238 | 1,613 | 605 | 18,456 |
| Occupancy | 55,601 | 1,298 | 2,258 | 59,157 |
| Maintenance and repairs | 57,073 | 2,888 | 1,687 | 61,648 |
| Conferences, conventions, and meetings | 9,504 | 3,460 | 926 | 13,890 |
| Printing and publications | 3,693 | 17,189 | 16,512 | 37,394 |
| Fundraising | - | - | 9,525 | 9,525 |
| Miscellaneous | 6,776 | 10,322 | 4,935 | 22,033 |
| Total expenses before depreciation and amortization | 1,102,212 | 238,183 | 276,554 | 1,616,949 |
| Depreciation and amortization | 22,815 | 992 | 992 | 24,799 |
| | \$ 1,125,027 | \$ 239,175 | \$ 277,546 | \$ 1,641,748 |

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, 2013 and 2012

| | 2013 | 2012 |
|--|---------------------|---------------------|
| Cash flows from operating activities: | | |
| Change in net assets | \$ 672,166 | \$ 1,557,303 |
| Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 17,383 | 24,799 |
| New market tax credits amortization | 13,321 | - |
| Impairment loss on property held for sale | 26,000 | 154,000 |
| Present value adjustment for promises to give | (51,927) | 39,352 |
| Allowance for doubtful pledges receivable | (58,073) | 110,000 |
| (Increase) decrease in operating assets: | | |
| Contributions restricted for long term purposes | (1,476,943) | (1,666,705) |
| Accounts receivable - other | (15,067) | 93,479 |
| United Way receivable | (4,956) | (3,055) |
| Grants receivable | (47,898) | (13,992) |
| Prepaid expenses | (19,865) | (8,597) |
| Decrease in operating liabilities: | | |
| Accounts payable | (795) | (31,939) |
| Accrued expenses | 349,597 | 32,383 |
| Other liability | (24,421) | 12,674 |
| Net cash provided by (used in) operating activities | (621,478) | 299,702 |
| Cash flows from investing activities: | | |
| Proceeds from sale of property | 56,500 | - |
| Payments for NMTC intangible assets | (223,796) | - |
| NMTC - note receivable made to SLDC | (2,720,800) | - |
| Payments for property and equipment | (1,306,166) | (22,942) |
| Net cash used in investing activities | (4,194,262) | (22,942) |
| Cash flows from financing activities: | | |
| Payments on notes payable | (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 | 2,450,603 | 589,527 |
| Net cash provided by financing activities | 6,562,376 | 589,527 |
| INCREASE IN CASH AND CASH EQUIVALENTS | 1,746,636 | 866,287 |
| Cash and cash equivalents at beginning of year | 1,688,365 | 822,078 |
| Cash and cash equivalents at end of year | \$ 3,435,001 | \$ 1,688,365 |

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

SOUTHSIDE EARLY CHILDHOOD CENTER AND SUBSIDIARY

Notes to Consolidated Financial Statements

December 31, 2013

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. The Organization recently 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 98 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 and guardians, including monthly support meetings, 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. Friends of SouthSide (“FOSS”) is a sole member organization controlled by SouthSide Early Childhood Center. See Note O for additional information on the NMTC.

SOUTHSIDE EARLY CHILDHOOD CENTER AND SUBSIDIARY

Notes to the Consolidated Financial Statements - Continued

December 31, 2013

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, 2013 and 2012.

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, 2013 and 2012.

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.

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 the Consolidated Financial Statements - Continued

December 31, 2013

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 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, 2014 (See Note H).

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, 2013 is \$2,701,899.

See Note O 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 the Consolidated Financial Statements - Continued

December 31, 2013

Note B - Summary of Significant Accounting Policies (Continued)

Property and Equipment

Purchases of property and equipment with a value of \$1,500 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 2009 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 the Consolidated Financial Statements - Continued

December 31, 2013

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, 2013 and 2012, 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, 2013 and 2012, the Organization received donated services and goods valued at \$11,687 and \$40,518, 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 \$63,099 and \$104,937 for the years ended December 31, 2013 and 2012, respectively.

SOUTHSIDE EARLY CHILDHOOD CENTER AND SUBSIDIARY

Notes to the Consolidated Financial Statements - Continued

December 31, 2013

Note B - Summary of Significant Accounting Policies (Continued)

Reclassifications

Certain reclassifications have been made to the 2012 financial statements to conform to the 2013 presentation.

Subsequent Events

The Organization evaluated all subsequent events through May 6, 2014, 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. As a result, no amount has been reflected in these financial statements for the conditional promise to give.

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>2013</u> | <u>2012</u> |
|---|-------------------|-------------------|
| Total Supporting Services | \$ 366,789 | \$ 526,797 |
| Less Foundation funded expenses | <u>(47,050)</u> | <u>(192,676)</u> |
| Total Supporting Services less Foundation funded expenses | <u>\$ 319,739</u> | <u>\$ 334,121</u> |

As a percentage of total expenses, Supporting Services, excluding Foundation funded expenses, as of December 31, 2013 and 2012 were 18.0% and 20.1%, respectively.

Note D - Capital Campaign

In February 2011, the Organization started a Capital Campaign for a new facility. The campaign goal is \$3.5 million for construction of a new facility. As of December 31, 2013, 100% has been achieved in cash receipts and pledges.

SOUTHSIDE EARLY CHILDHOOD CENTER AND SUBSIDIARY

Notes to the Consolidated Financial Statements - Continued

December 31, 2013

Note E - 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 of pledges related to the capital campaign. Balances at December 31, 2013 and 2012 are as follows:

| | <u>2013</u> | <u>2012</u> |
|--|-------------------|--------------------|
| Unconditional promises to give | | |
| Due in less than one year | \$ 313,277 | \$ 925,588 |
| Due in one to five years | <u>417,213</u> | <u>778,562</u> |
| Unconditional promises to give | 730,490 | 1,704,150 |
| Less present value component | (40,871) | (92,798) |
| Less allowance for uncollectible pledges | <u>(51,927)</u> | <u>(110,000)</u> |
| Unconditional promises to give, net | <u>\$ 637,692</u> | <u>\$1,501,352</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, 2013 and 2012, respectively.

Note F - Properties Held for Sale

Assets and liabilities reported at fair value include of 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, 2013 and 2012:

SOUTHSIDE EARLY CHILDHOOD CENTER AND SUBSIDIARY

Notes to the Consolidated Financial Statements - Continued

December 31, 2013

Note F - 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 |
| Additions | - | - | - | - |
| Sales | (56,500) | - | (56,500) | - |
| Transfers | - | - | 123,000 | (123,000) |
| Write-offs | (26,000) | - | (26,000) | - |
| Ending Balance | \$ 90,000 | \$ - | \$ 90,000 | \$ - |

Properties Held for Sale at Fair Value As of December 31, 2012

| | Total | Level 1 | Level 2 | Level 3 |
|-------------------|------------|---------|-----------|------------|
| Beginning Balance | \$ 326,500 | \$ - | \$ - | \$ 326,500 |
| Additions | - | - | - | - |
| Transfers | - | - | 109,500 | (109,500) |
| Write-offs | (154,000) | - | (60,000) | (94,000) |
| Ending Balance | \$ 172,500 | \$ - | \$ 49,500 | \$ 123,000 |

SouthSide received two offers of similar value to purchase the 2930-3012 Iowa properties. The Board of Directors voted to accept one of the offers in February 2014. The sale is expected to close in July 2014. The properties being sold are currently valued at \$90,000 as December 31, 2013. The offer price is in excess of that amount.

SOUTHSIDE EARLY CHILDHOOD CENTER AND SUBSIDIARY

Notes to the Consolidated Financial Statements - Continued

December 31, 2013

Note G - Property and Equipment

Property and equipment consist of the following at December 31, 2013 and 2012:

| | <u>2013</u> | <u>2012</u> |
|--|--------------------|-------------------|
| Land | \$ 574,509 | \$ 574,509 |
| Capitalized Interest | 62,394 | 26,012 |
| Construction In Process (new building) | 1,267,605 | - |
| Furniture, equipment and vehicles | <u>579,564</u> | <u>577,384</u> |
| | 2,484,072 | 1,177,905 |
| Less accumulated depreciation and amortization | <u>(538,837)</u> | <u>(521,453)</u> |
| Property and equipment, net | <u>\$1,945,235</u> | <u>\$ 656,452</u> |

Interest expense capitalized was \$36,382 and \$21,247 for the years ended December 31, 2013 and 2012, respectively. Depreciation expense was \$17,383 and \$24,799 for the years ended December 31, 2013 and 2012, respectively.

Note H - Line-of-Credit

The Organization has a \$75,000 line-of-credit available at Commerce Bank, which matures on June 17, 2014. 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, 2013). The note is collateralized by a certificate of deposit. During 2013, the \$75,000 line-of-credit at Parkside Bank was closed. At both December 31, 2013 and 2012, there was no balance outstanding on this line.

Note I - Notes Payable

| | <u>2013</u> | <u>2012</u> |
|--|-------------------|-------------------|
| 4.17% 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. | \$ 690,725 | \$ - |
| 5.50% note payable to IFF; interest due monthly with the principal balance due September 2014; collateralized by Jefferson property. | <u>-</u> | <u>418,952</u> |
| | 690,725 | 418,952 |
| Less current portion | <u>313,277</u> | <u>-</u> |
| Total notes payable, less current portion | <u>\$ 377,448</u> | <u>\$ 418,952</u> |

SOUTHSIDE EARLY CHILDHOOD CENTER AND SUBSIDIARY

Notes to the Consolidated Financial Statements - Continued

December 31, 2013

Note I - Notes Payable (Continued)

| <u>Maturity Schedule</u> | <u>Enterprise</u> | <u>Note A</u> | <u>Note B</u> | <u>Total</u> |
|--------------------------|-------------------|---------------------|---------------------|---------------------|
| 2014 | \$ 313,277 | \$ - | \$ - | \$ 313,277 |
| 2015 | 324,209 | - | - | 324,209 |
| 2016 | 53,239 | - | - | 53,239 |
| 2017 | - | - | - | - |
| 2018 | - | - | - | - |
| Thereafter | <u>-</u> | <u>2,720,800</u> | <u>1,119,200</u> | <u>3,840,000</u> |
| | <u>\$ 690,725</u> | <u>\$ 2,720,800</u> | <u>\$ 1,119,200</u> | <u>\$ 4,530,725</u> |

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

Note J - Contingency

In August 2011, the Organization signed a promissory note 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 note is expected to be forgiven upon the development of a new facility at that location.

Note K - Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the following at December 31, 2013 and 2012:

| | <u>2013</u> | <u>2012</u> |
|--|---------------------|--------------------|
| Time restrictions | \$ 249,840 | \$ 244,884 |
| Program restrictions | 183,653 | 207,107 |
| Capital Campaign restrictions | <u>2,844,051</u> | <u>2,841,454</u> |
| | <u>\$3,277,544</u> | <u>\$3,293,445</u> |
| Net assets released as of December 31: | | |
| Time restrictions | \$ 244,884 | \$ 241,829 |
| Program restrictions | 299,422 | 357,296 |
| Capital Campaign restrictions | <u>593,942</u> | <u>-</u> |
| Total net assets released | <u>\$ 1,138,248</u> | <u>\$ 599,125</u> |

SOUTHSIDE EARLY CHILDHOOD CENTER AND SUBSIDIARY

Notes to the Consolidated Financial Statements - Continued

December 31, 2013

Note L - Supplemental Disclosure of Cash Flow Information

Interest paid during 2013 and 2012 amounted to \$36,382 and \$21,247, respectively.

During the year ended December 31, 2012, the Organization had the following non-cash transactions:

- Pursuant to the purchase of land, the Organization financed \$76,180 under notes payable.

Note M - 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, 2013 and 2012.

Note N - Concentration of Income Sources

In 2013 and 2012, the Organization received approximately 31% and 22% of its total support and revenue from two sources.

Note O - 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.

SOUTHSIDE EARLY CHILDHOOD CENTER AND SUBSIDIARY

Notes to the Consolidated Financial Statements - Continued

December 31, 2013

Note O - New Markets Tax Credits Transaction (Continued)

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, 2013 the initial \$1,500,000 pledge loan balance was \$690,725.

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.

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 \$223,796 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 year ended December 31, 2013 was \$13,321.

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.

SOUTHSIDE EARLY CHILDHOOD CENTER AND SUBSIDIARY

Notes to the Consolidated Financial Statements - Continued

December 31, 2013

Note O - New Markets Tax Credits Transaction (Continued)

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, 2013

(See Independent Auditor's Report)

| | SSEC | FOSS | Consolidated |
|--|---------------------|---------------------|---------------------|
| ASSETS | | | |
| Current Assets | | | |
| Cash and cash equivalents - Operating | \$ 509,567 | \$ 10,497 | \$ 520,064 |
| Cash and cash equivalents - Capital Campaign | 2,683,614 | 156,323 | 2,839,937 |
| Cash and cash equivalents - Certificate of Deposit | 75,000 | - | 75,000 |
| United Way receivable | 249,840 | - | 249,840 |
| Grants receivable | 175,078 | - | 175,078 |
| Capital campaign pledges receivable, current portion | - | 313,277 | 313,277 |
| Accounts receivable - other | 15,067 | - | 15,067 |
| Due to/from | 47,664 | (47,664) | - |
| Prepaid expenses | 40,834 | - | 40,834 |
| Total Current Assets | 3,796,664 | 432,433 | 4,229,097 |
| Capital Campaign Pledges Receivable, less current portion | - | 324,415 | 324,415 |
| New Markets Tax Credits Note Receivable | - | 2,720,800 | 2,720,800 |
| New Markets Tax Credits Intangible Assets, net | 210,475 | - | 210,475 |
| Properties Held for Sale | 90,000 | - | 90,000 |
| Property and Equipment: | | | |
| Land - new building | 574,509 | - | 574,509 |
| Property and equipment, net | 1,370,726 | - | 1,370,726 |
| Total Property and Equipment | 1,945,235 | - | 1,945,235 |
| TOTAL ASSETS | \$ 6,042,374 | \$ 3,477,648 | \$ 9,520,022 |
| LIABILITIES AND NET ASSETS | | | |
| Current Liabilities | | | |
| Accounts payable | \$ 11,408 | \$ - | \$ 11,408 |
| Accrued expenses | 379,779 | - | 379,779 |
| Other liability | 23,021 | - | 23,021 |
| Notes payable - current portion | - | 313,277 | 313,277 |
| Total Current Liabilities | 414,208 | 313,277 | 727,485 |
| Notes Payable - Pledge Loan, Less Current Portion | - | 377,448 | 377,448 |
| 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 | (1,486,289) | 2,783,834 | 1,297,545 |
| Temporarily restricted | 3,274,455 | 3,089 | 3,277,544 |
| Total Net Assets | 1,788,166 | 2,786,923 | 4,575,089 |
| TOTAL LIABILITIES AND NET ASSETS | \$ 6,042,374 | \$ 3,477,648 | \$ 9,520,022 |

SOUTHSIDE EARLY CHILDHOOD CENTER AND SUBSIDIARY

Consolidating Statement of Activities

Year Ended December 31, 2013

(See Independent Auditor's Report)

| | SSEC | FOSS * | Consolidated |
|---|---------------------|---------------------|---------------------|
| Change in unrestricted net assets: | | | |
| Unrestricted revenue, support, gains and losses: | | | |
| 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 | - | 102,943 |
| Program service fees | 18,237 | - | 18,237 |
| Special events, net of direct expenses of \$79,939 | 189,581 | - | 189,581 |
| Rental income | 13,741 | - | 13,741 |
| Other income | 5,159 | - | 5,159 |
| Net assets released from restrictions | 1,118,815 | 19,433 | 1,138,248 |
| Total unrestricted revenue and support | 2,502,642 | 19,433 | 2,522,075 |
| Unrestricted expenses: | | | |
| Program services | 1,412,897 | - | 1,412,897 |
| Management and general | 147,845 | 19,433 | 167,278 |
| Fundraising | 199,512 | - | 199,512 |
| Total unrestricted expenses | 1,760,254 | 19,433 | 1,779,687 |
| Impairment loss on property held for sale | 26,000 | - | 26,000 |
| New Markets Tax Credits amortization and other expenses | 28,321 | - | 28,321 |
| Change in unrestricted net assets | 688,067 | - | 688,067 |
| Change in temporarily restricted net assets | | | |
| Private foundations and grants | 275,968 | - | 275,968 |
| United Way of Greater St. Louis, Inc. | 249,840 | - | 249,840 |
| Capital campaign | 574,017 | 22,522 | 596,539 |
| Net assets released from restrictions | (1,118,815) | (19,433) | (1,138,248) |
| Change in temporarily restricted net assets | (18,990) | 3,089 | (15,901) |
| Transfer of net assets | (2,783,834) | 2,783,834 | - |
| Change in net assets | (2,114,757) | 2,786,923 | 672,166 |
| Net assets, beginning of year | 3,902,923 | - | 3,902,923 |
| Net assets, end of year | \$ 1,788,166 | \$ 2,786,923 | \$ 4,575,089 |

* For period July 17, 2013 through December 31, 2013