



RANDLE & ASSOCIATES, LLC
Certified Public Accountants

DEACONESS CENTER FOR CHILD WELL-BEING
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
FOR THE YEARS ENDED
DECEMBER 31, 2018 AND 2017

Deaconess Center for Child Well-Being

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RANDLE & ASSOCIATES, LLC, CPAs

Certified Public Accountants

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Florissant, MO 63033**

Independent Auditors' Report

Board of Directors
Deaconess Center for Child Well-Being
St. Louis, Missouri

We have audited the accompanying financial statements of Deaconess Center for Child Well-Being which comprise the statement of financial position as of December 31, 2018, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 entity'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 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 financial statements referred to above present fairly, in all material respects, the financial position of Deaconess Center for Child Well-Being as of December 31, 2018, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The financial statements of Deaconess Center for Child Well-Being as of December 31, 2017, were audited by other auditors whose report dated June 12, 2018, expressed an unmodified opinion on those statements.

Randall & Associates, LLC, CPAs

Florissant, Missouri
June 4, 2019

FINANCIAL STATEMENTS

Deaconess Center for Child Well-Being
STATEMENTS OF FINANCIAL POSITION
December 31, 2018 and 2017

ASSETS		December 31,	
		2018	2017
ASSETS			
Cash and cash equivalents	\$	857,264	\$ 3,895,546
Accounts receivable		100,816	-
Land		454,153	454,154
Property and equipment, net		7,405,122	-
Construction in progress		-	6,685,426
Total assets	\$	<u>8,817,355</u>	<u>\$ 11,035,126</u>
LIABILITIES AND NET ASSETS			
LIABILITIES			
Accounts payable and accrued expenses	\$	163,289	\$ 2,202,998
New Market Tax Credit notes payable		5,581,550	5,543,012
Note payable		<u>1,250,000</u>	<u>1,250,000</u>
Total liabilities		<u>6,994,839</u>	<u>8,996,010</u>
NET ASSETS			
Without donor restrictions		<u>1,822,516</u>	<u>2,039,116</u>
Total net assets		<u>1,822,516</u>	<u>2,039,116</u>
Total Liabilities and Net Assets	\$	<u>8,817,355</u>	<u>\$ 11,035,126</u>

See accompanying notes to financial statements

Deaconess Center for Child Well-Being
STATEMENTS OF ACTIVITIES

	Years Ended December 31,	
	2018	2017
SUPPORT, REVENUES, AND GAINS		
Lease income	\$ 288,750	\$ -
Facility shared services	162,695	-
Donations	60	-
Other program fees	440	-
New Market Tax Credit contribution revenue	-	2,039,116
	<u>451,945</u>	<u>2,039,116</u>
Total support, revenues, and gains		
	<u>451,945</u>	<u>2,039,116</u>
EXPENSES		
Program services:		
Facility operations and management	<u>668,545</u>	<u>-</u>
Total program services	<u>668,545</u>	<u>-</u>
Total Expenses	<u>668,545</u>	<u>-</u>
CHANGE IN NET ASSETS	(216,600)	2,039,116
NET ASSETS, Beginning of year	<u>2,039,116</u>	<u>-</u>
NET ASSETS, End of year	<u>\$ 1,822,516</u>	<u>\$ 2,039,116</u>

See accompanying notes to financial statements

Deaconess Center for Child Well-Being
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2018 and 2017

	Years Ended December 31,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (216,600)	\$ 2,039,116
Adjustments to reconcile change in net assets to net change in cash and cash equivalents from operating activities:		
Depreciation	218,858	-
(Increase) decrease in assets:		
Accounts receivable	(100,816)	-
Adjustments to reconcile change in net assets to net change in cash and cash equivalents from operating activities:		
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(2,039,709)	2,202,998
Net change in cash and cash equivalents from operating activities	(2,138,267)	4,242,114
CASH FLOWS FROM INVESTING ACTIVITIES		
Amortization of debt issuance costs	38,538	
Purchases of land	-	(454,153)
Purchases of property and equipment	(7,623,980)	
Net change in cash and cash equivalents from investing activities	(900,015)	(7,139,580)
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowings on New Market Tax Credit notes payable	-	5,800,000
Additions to debt issuance costs	-	(256,988)
Borrowings on note payable	-	1,250,000
Net change in cash and cash equivalents from financing activities	-	6,793,012
NET CHANGE IN CASH AND CASH EQUIVALENTS	(3,038,282)	3,895,546
CASH AND CASH EQUIVALENTS, Beginning of year	<u>3,895,546</u>	<u>-</u>
CASH AND CASH EQUIVALENTS, End of year	<u>\$ 857,264</u>	<u>\$ 3,895,546</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Amounts paid for:		
Interest	<u>\$ 77,147</u>	<u>\$ 21,725</u>

See accompanying notes to financial statements

Deaconess Center for Child Well-Being
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2018

	<u>Program Services</u>
	<u>Facility Operations and Management</u>
EXPENSES	
Facility management	\$ 117,704
Facility operations	78,033
Professional services	121,520
Insurance	16,746
Interest expense	77,147
Depreciation and amortization	<u>257,395</u>
Total functional expenses	<u>\$ 668,545</u>

Deaconess Center for Child Well-Being
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017

A. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Organization

Deaconess Center for Child Well-Being (“Center”) was established as a single purpose not-for-profit entity by the Deaconess Foundation (the “Foundation”) to facilitate New Market Tax Credit (NMTC) transactions. As a community action tank, the Center’s sole purpose is to provide financial and operational support for the construction and operation of offices and community convening space leased to the Foundation to further its mission to build power to advance child well-being in the St. Louis region. The property will be operated in such a way that it qualifies as a Qualified Active Low-Income Community Business under the definition of the NMTC Program under Internal Revenue Code (IRC) Section 45(d). The Center’s Board of Directors consists of three members and the Foundation has the sole authority to appoint the members of the Board of Directors.

Basis of Presentation

The financial statements of the Center have been prepared on the accrual basis and in accordance with U.S. generally accepted accounting principles (“US GAAP”), which require the Center to report information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of the Center’s management and the Board of Directors (“Board”). From time to time, the Board may designate a portion of net assets for specified purposes which make them unavailable for use at management’s discretion.

Net assets with donor restrictions: Net assets that are subject to donor and grantor-imposed restrictions. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Center or by the passage of time. Other donor restrictions will never lapse, thus requiring that the funds be retained permanently.

Use of Estimates

The preparation of 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. Actual results could differ from these estimates.

Deaconess Center for Child Well-Being
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017
(Continued)

A. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Center considers all highly liquid investments purchased with a maturity date of three months or less to be cash equivalents. At December 31, 2018 and 2017, the Center had credit risk arising from cash deposits in excess of federally insured limits of \$250,000. The Center has not incurred any loss resulting from these excess cash balances during the periods under audit.

The Center's NMTC funds are held under the control of the investor bank to the NMTC financing transaction (Note B) and are restricted for use toward construction of the office building and convening space to be leased to the Foundation.

Accounts Receivable

Accounts receivable of \$100,816 at December 31, 2018 are considered by the Center's management to be fully collectible and accordingly, elects not to establish an allowance against the accounts.

Property and Equipment

Property and equipment are recorded at cost, if purchased, or at estimated fair market value on the date of receipt, if donated. Expenditures greater than \$1,000 are reviewed for capitalization. Expenditures for repairs and maintenance are charged to expense as incurred, and additions and improvements that significantly extend the lives of assets are capitalized.

Construction in Progress

Construction in progress relates to construction of the office building and convening space to be leased to the Foundation, which was completed and placed in service on January 1, 2018.

Deferred Financing Costs

The Center incurred legal and accounting costs associated with its NMTC transactions (Note B) of \$256,988 during the year ended December 31, 2017. This amount was included as an offset to New Market Tax Credit notes payable on the accompanying statement of financial position and is being amortized to expense on the straight line method over the life of the related notes payable.

Deaconess Center for Child Well-Being
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017
(Continued)

A. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Revenue Recognition

Contributions are recognized when the donor makes a promise to give to the Center, that is, in substance, unconditional. Contributions restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restriction. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

Income Taxes

The Center was established as a qualified low-income community business (QALICB) under NMTC guidelines. It operates as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and as a supporting organization under Section 509(a)(3) of the Code and, therefore, is exempt from federal, state, and local income taxes. The Center is not required to file an information return, IRS Form 990.

The Center follows the provisions of ASC 740-10-25 requiring disclosure of uncertain tax positions. There has been no interest or penalties recognized in the Statement of Activities or in the Statement of Financial Position related to uncertain tax positions. In addition, no tax positions exist for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly increase or decrease within the next 12 months. The Center evaluates its uncertain tax positions, if any, on a continual basis through review of its policies and procedures and discussions with outside experts.

Accounting Pronouncements Adopted

The Center adopted the requirements of the Financial Accounting Standards Board's Accounting Standards Update No. 2016-14 – *Not-for-Profit Entities (topic 958): Presentation of Financial Statements of Not-for-Profit Entities* (ASU 2016-14). This Update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return between not-for-profit entities. A key change required by ASU 2016-14 is the net asset classes used in these financial statements. Amounts previously reported as unrestricted net assets are now reported as net assets without donor restrictions and amounts previously reported as temporarily restricted net assets and permanently restricted net assets are now reported as net assets with donor restrictions. New disclosure on liquidity and availability of resources has also been included (Note B).

The accompanying information from the 2017 financial statements has been restated to conform to the 2018 presentation and disclosure requirements of ASU 2016-14. As a result, the changes had no impact on the previously stated net asset balance.

Deaconess Center for Child Well-Being
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017
(Continued)

A. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Recent Accounting Pronouncements

Revenue Recognition – In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This standard supersedes the revenue recognition requirements in ASC Topic 605, *Revenue Recognition*. This standard applies to most contracts with customers and prescribes a five-step framework in accounting for revenues from contracts, including (a) identification of the contract, (b) identification of the performance obligation under the contract, (c) determination of the transaction price, (d) allocation of the transaction price to the identified performance obligation and (e) recognition of revenue as the identified performance obligation is satisfied. This standard also prescribes additional disclosures and financial statement presentations. This standard is effective for fiscal years beginning after December 15, 2018, and early adoption is permitted. The Center is currently evaluating the effect that the updated standard will have on the financial statements and related disclosures.

Functional Allocation of Expenses

The costs of providing the various programs and activities and supporting services have been summarized on a functional basis in the Statements of Activities. The Statement of Functional Expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Use of Estimates

The preparation of 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. Actual results could differ from these estimates.

Reclassifications

Certain 2017 amounts have been reclassified to conform to 2018 presentation.

Subsequent Events

In accordance with ASC 855, the Center has evaluated subsequent events through June 4, 2019, the date the financial statements were available to be issued.

Deaconess Center for Child Well-Being
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017
(Continued)

B. LIQUIDITY AND AVAILABILITY OF RESOURCES

As of December 31, 2018, financial assets available within one year of the balance sheet date for general expenditure are as follows:

	<u>2018</u>
Cash and cash equivalents	\$ 857,264
Accounts receivable	<u>100,816</u>
Total financial assets available within one year	<u>\$ 958,080</u>

The Center regularly monitors liquidity to meet its operating needs and other contractual commitments.

C. NEW MARKET TAX CREDIT FINANCING

During the year ended December 31, 2017, the Center entered into several debt transactions to access funds through the New Market Tax Credit (NMTC) Program. These funds were used to construct the new office and community convening space on Vandeventer Avenue in St. Louis, Missouri to be leased to the Foundation. The NMTC Program permits taxpayers to claim federal tax credits for making Qualified Equity Investments (QEI) in designated Community Development Entities (CDEs). These CDEs must use substantially all of the proceeds (87%) to make Qualified Low-Income Community Investments (QLICIs). The investor is provided with a tax credit, which is claimed over a seven-year period. The Center partnered with an investor, Capital One, N.A., to utilize the NMTC Program.

Capital One, N.A. established a special purpose entity, COCRF Investor 98, LLC, to raise capital for the transaction. COCRF, LLC was funded with \$2,035,800 from Capital One, N.A. and a \$3,964,200 loan from the Foundation.

The capital raised by COCRF Investor 98, LLC was used to make a \$1,000,000 QEI in the CDE, COCRF SubCDE, LLC and a \$5,000,000 QEI in the CDE, St. Louis New Markets Tax Credit Fund, LLC. These proceeds were used by the CDEs to make loans in the aggregate of \$5,800,000 to the Center. These loans bear interest at 1.1146% and require interest only payments through August 2024, at which time payments increase to fully amortize the note over 23 years, with final maturity in June 2047. The Center is using the loan proceeds to fund the construction of the offices and community convening space to be leased to the Foundation. This capital asset serves as collateral to the financing arrangement. The loans are classified as New Market Tax Credit notes payable on the accompanying statement of financial position, net of deferred financing costs of \$256,988 (as described in Note A and below).

Deaconess Center for Child Well-Being
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017
(Continued)

C. **NEW MARKET TAX CREDIT FINANCING** (Continued)

Interest expense related to the NMTC financing for the year ended December 31, 2017 was \$21,726 and has been capitalized as construction in progress in the accompanying statement of financial position, as such amount was incurred during the construction phase of the office and community convening space to be leased to the Foundation.

Notes payable related to the NMTC financing reflected on the statements of financial position as of December 31, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
QLICI Loan A1	\$ 660,700	\$ 660,700
QLICI Loan A2	339,300	339,300
QLICI Loan B1	3,303,500	3,303,500
QLICI Loan B2	1,496,500	1,496,500
Less: Debt Issuance Costs	<u>(218,450)</u>	<u>(256,988)</u>
	<u>\$ 5,581,550</u>	<u>\$ 5,543,012</u>

As part of the financing arrangements, the Foundation and the Center have provided certain guarantees to COCRF SubCDE, LLC, St. Louis New Markets Tax Credit Fund, LLC and COCRF Investor 98, LLC.

In addition, the tax credits associated with the transaction are contingent on the Center maintaining compliance with applicable provisions of section 42 of the IRC. Failure to maintain compliance could result in recapture of previously claimed tax credits, including interest and penalties. As of December 31, 2018, no such events have occurred.

The seven year compliance period for the NMTC financing will end in August 2024, at which time Capital One, N.A. may exit the transaction through the exercise of a call/put agreement which it has entered into with the Center. Under the agreement, Capital One, N.A. may “put” its interest in COCRF Investor 98, LLC to the Center for a purchase price of \$1,000. In the event that Capital One, N.A. has not exercised this put option, the Center has 180 days to exercise its call option to purchase Capital One, N.A.’s entire interest in COCRF Investor 98, LLC for a purchase price equal to the appraised value of Capital One, N.A.’s interest. To exercise the call option, the Center must be current on all payments under the four notes payable. The Center will realize its savings from the NMTC transactions through the exercise of this put or call option, at which time it will control COCRF Investor 98, LLC and can effectively forgive the remaining QLICI loans. No amounts have been recorded in the accompanying financial statements related to these put and call options.

Deaconess Center for Child Well-Being
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017
(Continued)

D. NOTE PAYABLE

In conjunction with the NMTC financing described in Note B, during the year ended December 31, 2018 and 2017, the Center entered into a \$1,250,000 note payable agreement with the Foundation. Interest is payable quarterly at 1% through August 2024. In September 2024, the Center will make principal and interest payments of \$12,070 through August 2047, at which time the entire balance of principal and interest is due.

Interest expense related to the note payable for the years ended December 31, 2018 and 2017 was \$12,500 and \$4,201, respectively. The \$4,201 for the year ended December 31, 2017 has been capitalized as construction in progress in the accompanying statement of financial position, as such amount was incurred during the construction phase of the office and community convening space to be leased to the Foundation.

E. RELATED PARTY TRANSACTIONS

As described in Note B to the financial statements, COCRF SubCDE, LLC and St. Louis New Markets Tax Credit Fund, LLC received funding through transactions involving the Foundation and COCRF Investor 98, LLC, whose sole member is Capital One, N.A. All of these entities are considered related parties.

In addition to the note payable described in Note C above, the Foundation contributed \$1,460,800 of cash and \$578,316 of construction in progress costs to the Center during the year ended December 31, 2017.

The Foundation provides management and oversight to the Center. The Center incurred \$56,000 in professional fees from the Foundation related to the services provided for the year ended December 31, 2018.

F. EXPENSES BY NATURE AND FUNCTION

The statement of activities report expenses by function as program services or support services. The Center's sole purpose is to provide financial and operational support for the construction and operation of offices and community convening space. Expenses associated with the operations were as follows for the year ending December 31, 2018:

Facility management	\$ 117,704
Facility operations	78,033
Professional services	121,520
Insurance	16,746
Interest expense	77,147
Depreciation and amortization	<u>257,395</u>
Total program service expenses	<u>\$ 668,545</u>

Deaconess Center for Child Well-Being
NOTES TO FINANCIAL STATEMENTS
December 31, 2018 and 2017
(Continued)

G. LEASE AGREEMENT

The Center entered into a lease agreement with the Foundation for a term of thirty years to pay monthly rent commencing on or about the construction completion date, estimated to be January 2018. Future minimum lease payments under the agreement are as follows:

<u>Year ending December 31,</u>	
2019	\$ 315,000
2020	321,300
2021	327,726
2022	334,281
2023	340,966
2024 - 2028	1,809,889
2029 - 2033	1,998,264
2034 - 2038	2,206,246
2039 - 2043	2,435,873
2044 - 2047	<u>2,130,010</u>
Total	<u>\$ 12,219,555</u>