



RANDLE & ASSOCIATES, LLC
Certified Public Accountants

***DEACONESS CENTER
FOR CHILD WELL-BEING
FINANCIAL STATEMENTS
DECEMBER 31, 2019***

Contents

	Page
Independent Auditors' Report	1 - 2
 Financial Statements	
Statement Of Financial Position	3
Statement Of Activities.....	4
Statement Of Cash Flows	5
Notes To Financial Statements	6 - 14



RANDLE & ASSOCIATES, LLC, CPAs

Certified Public Accountants

(314) 731-8085

www.randlecpa.com

70 Black Jack Ct.
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, 2019 and 2018, and the related statements of activities and cash flows for the years 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 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 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, 2019 and 2018, 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.

Rennold & Associates, LLC, CPAs

Florissant, Missouri
May 5, 2020

DEACONESS CENTER FOR CHILD WELL-BEING

STATEMENT OF FINANCIAL POSITION

Assets		
	December 31,	
	2019	2018
Assets		
Cash, cash equivalents and restricted cash	\$ 783,258	\$ 857,264
Accounts receivable	116,255	100,816
Land	454,153	454,153
Property and equipment, net	7,166,122	7,405,122
Total Assets	\$ 8,519,788	\$ 8,817,355
Liabilities And Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 60,273	\$ 163,289
New Markets Tax Credit notes payable	5,620,087	5,581,550
Note payable	1,250,000	1,250,000
Total Liabilities	6,930,360	6,994,839
Net Assets		
Without donor restrictions	1,589,428	1,822,516
Total Liabilities And Net Assets	\$ 8,519,788	\$ 8,817,355

DEACONESS CENTER FOR CHILD WELL-BEING

STATEMENT OF ACTIVITIES

	For The Years Ended December 31,	
	2019	2018
Net Assets Without Donor Restrictions		
Support, Revenues, And Gains		
Lease income	\$ 315,000	\$ 288,750
Facility shared services	178,928	162,695
Donations	610	60
Other program fees	—	440
Total Support, Revenues, And Gains	494,538	451,945
Expenses		
Program services:		
Facility operations and management	621,231	668,545
General and administrative	106,395	—
Total Expenses	727,626	668,545
Change In Net Assets Without Donor Restrictions	(233,088)	(216,600)
Net Assets Without Donor Restrictions - Beginning Of Year	1,822,516	2,039,116
Net Assets Without Donor Restrictions - End Of Year	\$ 1,589,428	\$ 1,822,516

DEACONESS CENTER FOR CHILD WELL-BEING

STATEMENT OF CASH FLOWS

	For The Years Ended December 31,	
	2019	2018
Cash Flows From Operating Activities		
Change in net assets	\$ (233,088)	\$ (216,600)
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Depreciation	239,000	218,858
Amortization of debt issuance costs	38,537	38,538
Changes in assets and liabilities:		
Accounts receivable	(15,439)	(100,816)
Accounts payable and accrued expenses	(103,016)	(2,039,709)
Net Cash Flows Used In Operating Activities	(74,006)	(2,099,729)
Cash Flows Used In Investing Activities		
Purchases of property and equipment	—	(7,623,980)
Net Change In Cash, Cash Equivalents And Restricted Cash	(74,006)	(3,038,282)
Cash, Cash Equivalents And Restricted Cash - Beginning Of Year	857,264	3,895,546
Cash, Cash Equivalents And Restricted Cash - End Of Year	\$ 783,258	\$ 857,264
Supplemental Cash Flow Information		
Amounts paid for:		
Interest	\$ 77,147	\$ 77,147

DEACONESS CENTER FOR CHILD WELL-BEING

NOTES TO FINANCIAL STATEMENTS

December 31, 2019 And 2018

1. Summary Of Significant Accounting Policies

Organization

Deaconess Center for Child Well-Being (the “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 (“U.S. GAAP”), the Center reports 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 Center. 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 (*Continued*)

Cash, Cash Equivalents And Restricted Cash

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, 2019 and 2018, 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 of \$151,667 and \$183,667 at December 31, 2019 and 2018, respectively, are held under the control of the investor bank to the NMTC financing transaction (Note 3) 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 \$116,255 and \$100,816 at December 31, 2019 and 2018, respectively, are considered by the Center's management to be fully collectible and accordingly, the Center 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, less accumulated depreciation computed using the straight-line method over their estimated service lives, which range from 5 to 39 years. 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.

Debt Issuance Costs

The Center incurred legal and accounting costs associated with its NMTC transactions (Note 3) of \$256,988 during the year ended December 31, 2017. This amount is included as an offset to New Markets Tax Credit notes payable on the accompanying statement of financial position and is being amortized on the straight line method over the life of the related notes payable. Amortization expense is included in interest expense in Note 6.

DEACONESS CENTER FOR CHILD WELL-BEING

Notes To Financial Statements (*Continued*)

Revenue Recognition

Unconditional contributions are recognized when the donor makes a promise to give to the Center. 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.

Lease income and facility shared services are recognized as revenue in the period when the use of facilities and shared services are provided by the Center.

Income Taxes

The Center was established as a qualified active 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 on related, exempt income. 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.

Recent Accounting Pronouncements

Revenue Recognition - In May 2014, the Financial Accounting Standards Board (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. There was no material impact to the Center's financial statements as a result of adoption.

DEACONESS CENTER FOR CHILD WELL-BEING

Notes To Financial Statements (*Continued*)

Contributions Received and Contributions Made - In June 2018, the FASB issued ASU No. 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which provides enhanced guidance to assist entities evaluating whether transactions should be accounted for as contributions or reciprocal transactions. The implementation did not have a material impact on the Center's financial statements.

Restricted Cash – In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. The objective of this change is to reduce diversity that exists in the classification and presentation of changes in restricted cash on the statement of cash flows. This amendment requires that amounts generally described as restricted cash be included with cash when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The implementation did not have a material impact on the Center's financial statements.

Expenses By Functional Classes

The costs of providing the various programs and activities and supporting services have been summarized on a functional basis in the statement of activities. Note 6 presents the natural classification detail of expenses by function. All of the Center's expenses are charged directly as program services and general and administrative expenses.

Reclassifications

Certain amounts in the 2018 financial statements were reclassified, where appropriate, to conform to the presentation used in the 2019 financial statements.

2. Liquidity And Availability Of Resources

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

	2019	2018
Cash and cash equivalents	\$ 631,591	\$ 673,597
Accounts receivable	116,255	100,816
Total financial assets available within one year	\$ 747,846	\$ 774,413

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

DEACONESS CENTER FOR CHILD WELL-BEING

Notes To Financial Statements (*Continued*)

3. New Markets Tax Credit Financing

During the year ended December 31, 2017, the Center entered into several debt transactions to access funds through the New Markets 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 (QLICs). 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 Markets Tax Credit notes payable on the accompanying statement of financial position, net of debt issuance costs of \$256,988 (as described in Note 1 and below).

Interest incurred related to the NMTC financing for the year ended December 31, 2017 of \$21,726 has been capitalized as property and equipment 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.

DEACONESS CENTER FOR CHILD WELL-BEING

Notes To Financial Statements *(Continued)*

Notes payable related to the NMTC financing reflected on the statement of financial position as of December 31 are as follows:

	2019	2018
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	(179,913)	(218,450)
	<u>\$ 5,620,087</u>	<u>\$ 5,581,550</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, 2019, 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 (*Continued*)

4. **Note Payable**

In conjunction with the NMTC financing described in Note 3, during the year ended December 31, 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, 2019 and 2018 was \$12,500. For the year ended December 31, 2017, \$4,201 was capitalized as property and equipment 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.

5. **Related Party Transactions**

As described in Note 3 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 4 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 \$68,000 and \$56,000 in professional fees from the Foundation related to the services provided for the years ended December 31, 2019 and 2018.

DEACONESS CENTER FOR CHILD WELL-BEING

Notes To Financial Statements (Continued)**6. Expenses By Nature And Function**

The statement of activities reports expenses by function as program services and general and administrative. The Center's sole purpose is to provide financial and operational support for the construction and operation of offices and community convening space. The Center's expenses by nature and function for the years ending December 31, 2019 and 2018 are as follows:

	2019			2018
	Program Services	General And Administrative	Total	Total
Facility management	\$ 177,596	\$ —	\$ 177,596	\$ 117,704
Facility operations	72,147	—	72,147	78,033
Professional services	—	106,395	106,395	121,520
Insurance	16,804	—	16,804	16,746
Interest expense	115,684	—	115,684	115,685
Depreciation and amortization	239,000	—	239,000	218,857
	<u>\$ 621,231</u>	<u>\$ 106,395</u>	<u>\$ 727,626</u>	<u>\$ 668,545</u>

7. Lease Agreement

The Center entered into a lease agreement as of August 30, 2017 with the Foundation for a term of thirty years to pay monthly rent commencing January 2018. Future minimum lease payments under the agreement are as follows:

<u>Year ending December 31,</u>	<u>Amount</u>
2020	\$ 321,300
2021	327,726
2022	334,281
2023	340,966
2024	347,785
2025 - 2029	1,846,087
2030 - 2034	2,038,230
2035 - 2039	2,250,370
2040 - 2044	2,484,591
2045 - 2047	1,613,219
<u>Total</u>	<u>\$ 11,904,555</u>

8. Subsequent Event

During March and April 2020, the Center's operations were affected, as a result of the Coronavirus (COVID-19) outbreak experienced throughout the world. COVID-19 resulted in the Center limiting the services offered. The overall impact and implications on the Center are unknown at the date of the financial statements availability and cannot be predicted at this time.

Management evaluates subsequent events through the date the financial statements are available for issuance, which is the date of the Independent Auditors' Report.