DEACONESS CENTER FOR CHILD WELL-BEING

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
FOR THE YEAR ENDED
DECEMBER 31, 2017

Deaconess Center for Child Well-Being

CONTENTS

SCHMERSAHL TRELOAR & CO.
Certified Public Accountants

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, 2017, 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 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 audits 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.

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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, 2017, 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.

Schmersahl Treloar + Co., PC

St. Louis, Missouri
June 12, 2018

FINANCIAL STATEMENTS

Deaconess Center for Child Well-Being
STATEMENT OF FINANCIAL POSITION
Year Ended December 31, 2017

ASSETS

ASSETS		
Restricted cash and cash equivalents	$	3,895,546
Land		454,154
Construction in progress		6,685,426
Total Assets	$	11,035,126

LIABILITIES AND NET ASSETS

LIABILITIES		
Accounts payable and accrued expenses	$	2,202,998
New Market Tax Credit notes payable		5,543,012
Note payable		1,250,000
Total Liabilities		8,996,010
NET ASSETS		
Unrestricted		
Available for general use		2,039,116
Total Net Assets		2,039,116
Total Liabilities and Net Assets	$	11,035,126

See accompanying notes to financial statements

Deaconess Center for Child Well-Being
STATEMENT OF ACTIVITIES
Year Ended December 31, 2017

SUPPORT, REVENUES, AND GAINS	
New Market Tax Credit contribution revenue	$ 2,039,116
Total Support, Revenues, and Gains	2,039,116
EXPENSES	
Total Expenses	-
CHANGE IN NET ASSETS	2,039,116
NET ASSETS, Beginning of year	-
NET ASSETS, End of year	$ 2,039,116

See accompanying notes to financial statements

Deaconess Center for Child Well-Being
STATEMENT OF CASH FLOWS
Year Ended December 31, 2017

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	$ 2,039,116
Adjustments to reconcile change in net assets to net change in restricted cash and cash equivalents from operating activities:	
In-kind contribution of construction in progress	(578,316)
Increase (decrease) in liabilities:	
Accounts payable and accrued expenses	2,202,998
Net Change in Restricted Cash and Cash Equivalents from Operating Activities	3,663,798
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of land	(454,154)
Construction in progress	(6,107,110)
Net Change in Restricted Cash and Cash Equivalents from Investing Activities	(6,561,264)
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 Restricted Cash and Cash Equivalents from Financing Activities	6,793,012
NET CHANGE IN RESTRICTED CASH AND CASH EQUIVALENTS	3,895,546
RESTRICTED CASH AND CASH EQUIVALENTS, Beginning of year	-
RESTRICTED CASH AND CASH EQUIVALENTS, End of year	$ 3,895,546
SUPPLEMENTAL CASH FLOW INFORMATION	
Amounts paid for:	
Interest	$ 21,725

See accompanying notes to financial statements

A. 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 ("Deaconess") 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 Deaconess 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 Deaconess has the sole authority to appoint the members of the Board of Directors.

Basis of Presentation

The Center follows accounting standards set by the Financial Accounting Standards Board (FASB).

The accompanying financial statements of the Center have been prepared on the accrual basis of accounting. Financial statement presentation follows the recommendations of the FASB Accounting Standards Codification (ASC) 958-205. Under ASC 958-205, the Center is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The Center has only unrestricted net assets at December 31, 2017.

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.

Restricted 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, 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 Deaconess.

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

Construction in Progress

Construction in progress relates to construction of the office building and convening space to be leased to Deaconess, which was completed 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 is included as an offset to New Market Tax Credit notes payable on the accompanying statement of financial position. This amount will be amortized to expense by the straight line method over the life of the related notes payable.

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 unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

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 required to file an information return, IRS Form 990, beginning with the tax year ended December 31, 2017.

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.

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

New Accounting Pronouncements

Not-for-Profit Entities – In August 2016, the FASB issued Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. This update, which amends the requirements for financial statements and notes in *Topic 958, Not-for-Profit Entities*, require a Not-for-Profit (NFP) to:

- Present on the face of the statement of financial position amounts for two classes of net assets as "net assets with donor restrictions" and "net assets without donor restrictions," rather than for the currently required three classes.
- Present on the face of the statement of activities the amount of the change in each of the two classes of net assets (noted above) rather than that of the currently required three classes.
- Continue to present on the face of the statement of cash flows the net amount of operating cash flows using either the direct or indirect method of reporting, but no longer require the presentation or disclosure of the indirect method (reconciliation) if using the direct method.
- Provide enhanced disclosures about (1) amounts and purposes of governing board designations that result in self-imposed limits on the use of resources without donor-imposed restrictions (2) composition of net assets with donor restrictions at the end of the period and how the restrictions affect the use of resources (3) qualitative information that communicates how a NFP manages its liquid resources available to meet cash needs for general expenditures within one year of the statement of financial position date (4) quantitative information, either on the face of the statement of financial position or in the notes, and additional qualitative information in the notes that communicates the availability of a NFP's financial assets at the statement of financial position date to meet cash needs for general expenditures within one year of the statement of financial position date (5) amounts of expenses by both their natural classification and their functional classification (6) report investment return net of external and direct internal investment expenses, and no longer require disclosure of those netted expenses (7) use, in absence of explicit donor stipulations, the placed-in-service approach for reporting expirations of restrictions on gifts of cash or other assets to be used to acquire or construct a long-lived asset and reclassify any amounts from net assets with donor restrictions to net assets without donor restrictions for such long-lived assets that have been placed in service as of the beginning of the period of adoption.

This standard is effective for fiscal years beginning after December 15, 2017. The Center is evaluating the impact that this updated standard will have on the financial statements and related notes to the financial statements.

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

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.

Subsequent Events

In accordance with ASC 855, the Center has evaluated subsequent events through June 12, 2018 which is the date the financial statements were available to be issued.

B. 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 Deaconess. 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 Investor 98, LLC was funded with $2,035,800 from Capital One, N.A. and a $3,964,200 loan from Deaconess.

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

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 Deaconess. 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).

Interest expense related to the NMTC financing for the year ended December 31, 2017 was $21,725 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 Deaconess.

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

	2017
QLICI Loan A1	$ 660,700
QLICI Loan B1	339,300
QLICI Loan A2	3,303,500
QLICI Loan B2	1,496,500
Less: Debt Issuance Costs	(256,988)
	$ 5,543,012

As part of the financing arrangements, Deaconess 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, 2017, no such events have occurred.

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

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.

C. NOTE PAYABLE

In conjunction with the NMTC financing described in Note B, during the year ended December 31, 2017, the Center entered into a $1,250,000 note payable agreement with Deaconess. 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 year ended December 31, 2017 was $4,201 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 Deaconess.

D. 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 Deaconess 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, Deaconess contributed $1,460,800 of cash and $578,316 of construction in progress costs to the Center during the year ended December 31, 2017.

E. LEASE AGREEMENT

The Center entered into a lease agreement with Deaconess 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:

Year ending December 31,	
2018	$ 288,750
2019	315,000
2020	321,300
2021	327,726
2022	334,281
Therafter	10,921,248
Total	$ 12,508,305