

Midlands Housing Trust Fund

Report on Financial Statements

For the years ended June 30, 2015 and 2014

Midlands Housing Trust Fund

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Independent Auditor's Report

The Board of Directors
Midlands Housing Trust Fund
Columbia, South Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of Midlands Housing Trust Fund (the Fund) which comprise the statement of financial position as of June 30, 2015, and the related statements of activities, functional expenses 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.

Auditor's 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 auditor's 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 Fund'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 Fund'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 the Fund as of June 30, 2015, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

2014 Financial Statements

The financial statements of Midlands Housing Trust Fund, as of and for the year ended June 30, 2014 were audited by other auditors whose report dated November 20, 2014 expressed an unmodified opinion on those statements.

A handwritten signature in black ink that reads "Elliott Davis Decosimo, LLC". The signature is written in a cursive, flowing style.

Columbia, South Carolina
October 20, 2015

Midlands Housing Trust Fund

Statements of Financial Position

As of June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 105,243	\$ 32,469
Restricted cash	183,600	-
Contributions and grants receivable	18,220	69,000
Loans receivable, net	69,642	5,802
Other receivable	-	3,917
Prepaid expenses	2,163	1,142
Other current assets	500	500
Total current assets	<u>379,368</u>	<u>112,830</u>
Other assets		
Property and equipment	1,919	-
Loans receivable, net of allowance for loan losses and current portion	345,138	130,690
Total other assets	<u>347,057</u>	<u>130,690</u>
Total assets	<u>\$ 726,425</u>	<u>\$ 243,520</u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 20,809	\$ -
Accrued expenses	2,614	2,907
Notes payable, current portion	4,450	-
Total current liabilities	<u>27,873</u>	<u>2,907</u>
Other liabilities		
Notes payable	120,550	-
Total other liabilities	<u>120,550</u>	<u>-</u>
Total liabilities	<u>148,423</u>	<u>2,907</u>
Net assets		
Unrestricted		
Undesignated	327,254	176,203
Board designated	67,148	-
Temporarily restricted	183,600	64,410
Total net assets	<u>578,002</u>	<u>240,613</u>
Total liabilities and net assets	<u>\$ 726,425</u>	<u>\$ 243,520</u>

See Notes to Financial Statements.

Midlands Housing Trust Fund

Statement of Activities

For the year ended June 30, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue			
Grants	\$ 279,956	\$ 259,040	\$ 538,996
Contributions	2,553	-	2,553
Program service fees	8,317	-	8,317
Miscellaneous revenue	347	-	347
Net assets released from restriction	139,850	(139,850)	-
Total revenues	<u>431,023</u>	<u>119,190</u>	<u>550,213</u>
Expenses			
Program services	156,477	-	156,477
Management and general	47,332	-	47,332
Fundraising	9,015	-	9,015
Total expenses	<u>212,824</u>	<u>-</u>	<u>212,824</u>
Change in net assets	218,199	119,190	337,389
Net assets, beginning of year	<u>176,203</u>	<u>64,410</u>	<u>240,613</u>
Net assets, end of year	<u>\$ 394,402</u>	<u>\$ 183,600</u>	<u>\$ 578,002</u>

See Notes to Financial Statements.

Midlands Housing Trust Fund

Statement of Activities

For the year ended June 30, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue			
Grants	\$ 15,000	\$ 225,000	\$ 240,000
Contributions	15,402	-	15,402
Program service fees	1,798	-	1,798
Miscellaneous revenue	1,123	-	1,123
Net assets released from restriction	213,303	(213,303)	-
Total revenues	<u>246,626</u>	<u>11,697</u>	<u>258,323</u>
Expenses			
Program services	122,720	-	122,720
Management and general	28,954	-	28,954
Fundraising	7,411	-	7,411
Total expenses	<u>159,085</u>	<u>-</u>	<u>159,085</u>
Change in net assets	87,541	11,697	99,238
Net assets, beginning of year	88,662	52,713	141,375
Net assets, end of year	<u>\$ 176,203</u>	<u>\$ 64,410</u>	<u>\$ 240,613</u>

See Notes to Financial Statements.

Midlands Housing Trust Fund

Statement of Functional Expenses

For the year ended June 30, 2015

Functional Expenses	Program Services	Management and General	Fundraising	Total Expenses
Salaries	\$ 73,483	\$ 6,484	\$ 6,484	\$ 86,451
Payroll taxes	5,621	496	496	6,613
Employee benefits	6,233	550	550	7,333
Total personnel	<u>85,337</u>	<u>7,530</u>	<u>7,530</u>	<u>100,397</u>
Accounting	-	1,136	-	1,136
Bank service charge	-	180	-	180
Communication	2,418	213	213	2,844
Community events	450	-	-	450
Consulting	46,982	-	-	46,982
Depreciation	102	-	-	102
Dues and subscriptions	-	3,619	-	3,619
Equipment	985	1,567	265	2,817
Insurance	-	2,845	-	2,845
Loan loss reserve	-	14,628	-	14,628
Meetings	164	-	-	164
Occupancy	5,100	450	450	6,000
Other expenses	-	2,536	-	2,536
Postage	208	18	18	244
Printing	957	84	84	1,125
Professional fees	3,696	12,071	-	15,767
Public relations	1,816	160	160	2,136
Staff development	4,916	-	-	4,916
Supplies	1,267	112	112	1,491
Travel	2,079	183	183	2,445
Total functional expenses	<u>\$ 156,477</u>	<u>\$ 47,332</u>	<u>\$ 9,015</u>	<u>\$ 212,824</u>

See Notes to Financial Statements.

Midlands Housing Trust Fund

Statement of Functional Expenses

For the year ended June 30, 2014

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total Expenses</u>
Functional Expenses				
Salaries	\$ 59,500	\$ 5,250	\$ 5,250	\$ 70,000
Payroll taxes	4,782	422	422	5,626
Employee benefits	6,146	542	542	7,230
Total personnel	<u>70,428</u>	<u>6,214</u>	<u>6,214</u>	<u>82,856</u>
Accounting	-	308	-	308
Bank service charge	-	301	-	301
Communication	-	1,103	-	1,103
Community assistance grant projects	30,000	-	-	30,000
Community events	250	250	-	500
Consulting	7,460	454	-	7,914
Dues and subscriptions	-	500	-	500
Equipment	-	2,742	-	2,742
Insurance	-	2,162	-	2,162
Loan loss reserve	-	7,184	-	7,184
Meetings	1,014	89	89	1,192
Occupancy	-	3,000	-	3,000
Other expenses	-	2,084	-	2,084
Postage	116	10	10	136
Printing	5,279	466	466	6,211
Professional fees	1,000	1,455	-	2,455
Staff development	3,404	300	300	4,004
Supplies	2,019	178	178	2,375
Travel	1,750	154	154	2,058
Total functional expenses	<u>\$ 122,720</u>	<u>\$ 28,954</u>	<u>\$ 7,411</u>	<u>\$ 159,085</u>

See Notes to Financial Statements.

Midlands Housing Trust Fund
Statements of Cash Flows
For the years ended June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
<i>Cash flows from operating activities</i>		
Change in net assets	\$ 337,389	\$ 99,238
Adjustments to reconcile the change in net assets to net cash provided by operating activities:		
Depreciation	102	-
Allowance for loan losses	14,628	7,184
Changes in:		
Contributions and grants receivable	50,780	(64,000)
Other receivable	3,917	-
Prepaid expenses	(1,021)	(441)
Other current assets	-	(500)
Accounts payable and accrued expenses	20,516	2,907
Net cash provided by operating activities	<u>426,311</u>	<u>44,388</u>
<i>Cash flows from investing activities</i>		
Community development loans made	(378,500)	(152,284)
Proceeds from repayment of loans receivable	85,584	1,424
Purchase of property and equipment	(2,021)	-
Net cash used for investing activities	<u>(294,937)</u>	<u>(150,860)</u>
<i>Cash flows from financing activities</i>		
Proceeds from notes payable	125,000	-
Net cash provided by financing activities	<u>125,000</u>	<u>-</u>
Net change in cash and cash equivalents	256,374	(106,472)
<i>Cash and cash equivalents, beginning of year</i>	<u>32,469</u>	<u>138,941</u>
<i>Cash and cash equivalents, end of year</i>	<u>\$ 288,843</u>	<u>\$ 32,469</u>

See Notes to Financial Statements.

Midlands Housing Trust Fund

Notes to Financial Statements

June 30, 2015 and 2014

Note 1. Nature of Organization and Summary of Significant Accounting Policies

Nature of activities:

Midlands Housing Trust Fund (the Fund), a nonprofit community development loan fund, was organized under the laws of the state of South Carolina and originally incorporated on October 29, 2010. The Fund's purpose is to provide financing, technical assistance, and advocacy for the construction, rehabilitation, and preservation of affordable housing in central South Carolina. The Fund is a revolving loan fund that lends to housing developers for creation of affordable housing for households earning less than 80% of area median income in a seven-county area of central South Carolina.

Basis of accounting:

The financial statements of the Fund have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities.

Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Financial statement presentation:

The Fund is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted. The three categories are defined as follows:

Unrestricted net assets - Net assets that are not subject to external stipulations, and therefore are expendable for operating purposes.

Temporarily restricted net assets - Net assets subject to external or donor-imposed stipulations, which are met by either actions of the Fund and/or the passage of time. When a donor-imposed restriction expires, that is, when the stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently restricted net assets - Net assets resulting from contributions and other inflows of assets whose use by the Fund is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Fund. As of June 30, 2015, the Fund did not have any permanently restricted net assets.

Cash and cash equivalents:

The Fund considers all highly liquid investments with an original maturity of three months or less from the date of purchase to be cash equivalents.

Midlands Housing Trust Fund

Notes to Financial Statements

June 30, 2015 and 2014

Note 1. Nature of Organization and Summary of Significant Accounting Policies, Continued

Property and equipment:

The Fund capitalizes, at cost, all expenditures for property and equipment in excess of \$2,000. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method generally as follows:

Computer equipment	3 - 7 years
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Revenue recognition:

The Fund recognizes grants and contributions of cash or other assets as restricted support if they are received with grantor or donor stipulations that limit the use of the asset. When a grantor or donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Restrictions that are met in the same year in which the revenue is received are classified as unrestricted.

Contributions receivable:

Unconditional promises to give to the Fund are recognized as revenues and contributions receivable when made and reported at fair value based upon estimated future cash flows. The Fund has not established any allowance for uncollectible accounts because, based upon past experience, all amounts are considered collectible.

Loans receivable:

Loans are stated at the principal amount outstanding, net of the allowance for loan losses. Interest income on loans is accrued at the loan's stated interest rate on the principal balance outstanding.

It is the policy of the Fund to discontinue the accrual of interest when the loan payments are delinquent for 90 days, and, in management's opinion, the timely collection of interest or principal becomes uncertain, unless the loan principal and interest are determined by management to be fully collateralized and in the process of collection. Interest on these loans is recognized when paid by the borrower only if collection of principal is likely to occur. A non-accrual loan may be reinstated to an accrual status when contractual principal and interest payments are current and collection is reasonably assured.

Allowance for loan losses:

The allowance for loan losses is established through a provision for loan losses charged to expense. Loans are charged-off against the allowance when management determines that the loan is uncollectible. Subsequent recoveries of amounts previously charged-off are credited to the allowance. The allowance for loan losses is maintained at a level believed adequate by management to absorb estimated losses after considering various factors, including prevailing and anticipated economic conditions, diversification and size of the loan portfolio, current financial status and credit standing of the borrowers, the status and level of non-performing assets, past and expected loan loss experience, adequacy of collateral, and specific impaired loans.

Midlands Housing Trust Fund

Notes to Financial Statements

June 30, 2015 and 2014

Note 1. Nature of Organization and Summary of Significant Accounting Policies, Continued

Functional allocation of expenses:

The cost of providing various programs and supporting services have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Income taxes:

The Fund is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code (the Code) and comparable State Law, and contributions to it are tax deductible within the limitations prescribed by the Code. Therefore, no provision for income taxes has been made in the accompanying financial statements. The Fund is not a private foundation under Section 509(a) of the Code.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Center and recognize a tax liability (or asset) if the Fund has taken an uncertain position that more likely than not would not be substantiated upon examination by the Internal Revenue Service. Management has analyzed the tax positions taken by the Fund, and has concluded that as of June 30, 2015, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The Fund is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Management believes it is no longer subject to income tax examinations for the years prior to 2011.

Board designated reserves:

The Board of Directors has designated net assets for the following purposes:

Operations reserve - Designated to ensure the ability to continue the operations of the Fund.

Loan loss reserve - The Board has required that an amount equal to 5%, 7%, or 10% of gross loans outstanding, depending on loan risk rating of 1, 2, or 3, be held from its permanent loan capital.

Reclassifications:

Certain reclassifications have been made to the prior year financial statements in order for them to be in conformity with the current year presentation.

Subsequent events:

In preparing these financial statements, management has evaluated events and transactions for potential recognition or disclosure through October 20, 2015, the date the financial statements were available for issue.

Midlands Housing Trust Fund

Notes to Financial Statements

June 30, 2015 and 2014

Note 2. Restricted Cash

Restricted cash consists of the following as of June 30:

	<u>2015</u>	<u>2014</u>
Temporarily restricted net assets	\$ 183,600	\$ -
	<u>\$ 183,600</u>	<u>\$ -</u>

Note 3. Property and Equipment

The Fund's property and equipment consist of the following at June 30:

	<u>2015</u>	<u>2014</u>
Computer Equipment	\$ 2,021	\$ -
Less accumulated depreciation	102	-
	<u>\$ 1,919</u>	<u>\$ -</u>

Depreciation expense during 2015 and 2014 was \$102 and \$ 0, respectively.

Note 4. Loans Receivable

The Fund's loans receivable consist of the following at June 30:

	<u>2015</u>	<u>2014</u>
Gross mortgage loans receivable	\$ 436,592	\$ 143,676
Less allowance for loan losses	21,812	7,184
	414,780	136,492
Less current portion	69,642	5,802
	<u>\$ 345,138</u>	<u>\$ 130,690</u>

Maturities of principal amounts due from the borrowers for the next five years and thereafter are as follows:

2016	\$ 69,642
2017	320,040
2018	6,338
2019	6,527
2020	6,723
Thereafter	27,322
	<u>\$ 436,592</u>

Midlands Housing Trust Fund

Notes to Financial Statements

June 30, 2015 and 2014

Note 5. Operating Leases

The Fund has an operating lease for their office facilities which began on January 1, 2015 and expires in December 2015. The monthly lease payment is \$500. Rent expense for the year ended June 30, 2015 was \$6,000.

Note 6. Notes Payable

Notes payable as of June 30, 2015 consists of the following:

Note payable, bearing interest of 2%, due in 12 quarterly interest only payments beginning on November 15, 2014 and ending with one balloon payment of \$50,000 with all accrued but unpaid interest thereon, due on August 15, 2017. \$ 50,000

Note payable, bearing interest of 3%, due in semi-annual payments of accrued interest of \$1,125 until April 1, 2016 followed by 8 payments of accrued interest and principal of \$5,575 with a balloon payment of \$37,474 due on April 1, 2019. 75,000

Less portion due within one year 4,450
Long-term portion \$ 120,550

Annual maturities of debt outstanding as of June 30, 2015, are as follows:

2016	\$ 4,450
2017	9,101
2018	9,376
2019	9,660
2020	<u>92,413</u>
	<u>\$ 125,000</u>

Interest expense for the years ended June 30, 2015 and 2014 was \$1,886 and \$0, respectively.

Note 7. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at June 30:

	<u>2015</u>	<u>2014</u>
Operations	\$ 4,725	\$ 43,470
Lending	<u>178,875</u>	<u>20,940</u>
	<u>\$ 183,600</u>	<u>\$ 64,410</u>

Midlands Housing Trust Fund

Notes to Financial Statements

June 30, 2015 and 2014

Note 8. Unrestricted Board Designated Net Assets

Certain unrestricted net assets have been designated by the Fund's Board and consist of the following:

	<u>Balance June 30, 2014</u>	<u>Net Change</u>	<u>Balance June 30, 2015</u>
Loan loss reserve	\$ -	\$ 21,812	\$ 21,812
Operations reserve	-	45,336	45,336
Total	<u>\$ -</u>	<u>\$ 67,148</u>	<u>\$ 67,148</u>

Note 9. Related Party Transactions

A Board member of the Fund is also the Chief Executive Officer of a company that received two mortgage loans during the year ended June 30, 2014. An employee of the Fund was an external consultant for a company that received one mortgage loan during the year ended June 30, 2015.

Note 10. Concentrations

The Fund received over 98% and 93% of its revenue for the years ended June 30, 2015 and 2014, respectively, from federal, state, and local grants. These revenues are utilized to provide community development loans to qualified affordable housing. Loss of these funding sources could have a material impact on the financial statements.

Note 11. Subsequent Event

The Fund received notification in September 2015 from the Community Development Financial Institutions (CDFI) program that it will receive \$125,000 in funding for the year ended June 30, 2016.