Midlands Housing Trust Fund

Report on Financial Statements

For the years ended June 30, 2018 and 2017

elliott davis

Independent Auditor's Report

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

We have audited the accompanying financial statements of Midlands Housing Trust Fund (the Fund) which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities, functional expenses 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.

Auditor's 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 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, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Elliott Davis, LLC

Columbia, South Carolina
December 12, 2018

Midlands Housing Trust Fund

Statements of Financial Position

As of June 30, 2018 and 2017

	2018	2017
Assets		
Current assets		
Cash and cash equivalents	$ 674,401	$ 440,582
Restricted cash	4,725	19,756
Contributions and grants receivable	104,589	-
Loans receivable, net	26,585	278,365
Construction note receivable	-	53,739
Prepaid expenses	1,760	2,246
Other current assets	500	500
Total current assets	812,560	795,188
Other assets		
Property and equipment, net	1,129	1,773
Loans receivable, net of allowance for loan losses and current portion	460,899	442,964
Total other assets	462,028	444,737
Total assets	$ 1,274,588	$ 1,239,925
Liabilities and Net assets		
Current liabilities		
Accounts payable	$ 714	$ -
Accrued expenses	-	1,378
Notes payable, current portion	13,884	63,610
Total current liabilities	14,598	64,988
Other liabilities		
Notes payable	267,923	286,390
Total other liabilities	267,923	286,390
Total liabilities	282,521	351,378
Net assets		
Unrestricted		
Undesignated	912,891	781,831
Board designated	74,451	86,960
Temporarily restricted	4,725	19,756
Total net assets	992,067	888,547
Total liabilities and net assets	$ 1,274,588	$ 1,239,925

See Notes to Financial Statements

Midlands Housing Trust Fund

Statement of Activities

For the year ended June 30, 2018

	Unrestricted	Temporarily Restricted	Total
Revenue			
Grants	$ 29,000	$ 96,539	$ 125,539
Contributions	690	-	690
Program service fees	81,248	-	81,248
Miscellaneous revenue	1,234	-	1,234
Net assets released from restriction	111,570	(111,570)	-
Total revenues	223,742	(15,031)	208,711
Expenses			
Program services	43,720	-	43,720
Management and general	59,403	-	59,403
Fundraising	2,068	-	2,068
Total expenses	105,191	-	105,191
Change in net assets	118,551	(15,031)	103,520
Net assets, beginning of year	868,791	19,756	888,547
Net assets, end of year	$ 987,342	$ 4,725	$ 992,067

See Notes to Financial Statements

Midlands Housing Trust Fund

Statement of Activities

For the year ended June 30, 2017

	Unrestricted	Temporarily Restricted	Total
Revenue			
Grants	$ 111,000	$ 140,000	$ 251,000
Contributions	9,210	-	9,210
Program service fees	29,025	-	29,025
Miscellaneous revenue	756	-	756
Net assets released from restriction	360,191	(360,191)	-
Total revenues	510,182	(220,191)	289,991
Expenses			
Program services	158,880	-	158,880
Management and general	69,196	-	69,196
Fundraising	7,851	-	7,851
Total expenses	235,927	-	235,927
Change in net assets	274,255	(220,191)	54,064
Net assets, beginning of year	594,536	239,947	834,483
Net assets, end of year	$ 868,791	$ 19,756	$ 888,547

See Notes to Financial Statements

Midlands Housing Trust Fund

Statement of Functional Expenses

For the year ended June 30, 2018

	Program Services	Management and General	Fundraising	Total Expenses
Functional Expenses				
Salaries	$ 28,495	$ 7,599	$ 1,900	$ 37,994
Payroll taxes	1,782	475	119	2,376
Employee benefits	730	195	49	974
Total personnel	31,007	8,269	2,068	41,344
Accounting	681	681	-	1,362
Bad debts	-	7,714	-	7,714
Bank service charges	48	42	-	90
Communication	1,991	1,273	-	3,264
Consulting	4,000	6,429	-	10,429
Depreciation	-	644	-	644
Dues and subscriptions	356	356	-	712
Equipment	1,231	1,231	-	2,462
Insurance	-	6,896	-	6,896
Interest	-	1,964	-	1,964
Meetings	30	-	-	30
Occupancy	3,306	3,306	-	6,612
Other expenses	-	336	-	336
Postage	-	65	-	65
Printing	205	205	-	410
Professional fees	-	19,635	-	19,635
Staff development	667	-	-	667
Supplies	198	357	-	555
Total functional expenses	$ 43,720	$ 59,403	$ 2,068	$ 105,191

See Notes to Financial Statements

Midlands Housing Trust Fund

Statement of Functional Expenses

For the year ended June 30, 2017

	Program Services	Management and General	Fundraising	Total Expenses
Functional Expenses				
Salaries	$ 83,052	$ 22,541	$ 5,007	$ 110,600
Payroll taxes	6,392	1,866	389	8,647
Employee benefits	15,068	4,031	1,037	20,136
Total personnel	104,512	28,438	6,433	139,383
Accounting	-	1,169	-	1,169
Bank service charges	-	281	-	281
Communication	2,307	615	154	3,076
Consulting	9,823	-	-	9,823
Depreciation	-	644	-	644
Dues and subscriptions	2,692	718	180	3,590
Equipment	2,751	734	183	3,668
Insurance	-	2,157	-	2,157
Interest	-	6,276	-	6,276
Loan loss reserve	13,703	-	-	13,703
Meetings	6,757	-	-	6,757
Occupancy	4,725	1,260	315	6,300
Other expenses	-	7,064	-	7,064
Postage	253	67	17	337
Printing	1,497	399	100	1,996
Professional fees	1,400	17,500	-	18,900
Public relations	1,432	-	-	1,432
Staff development	2,151	574	143	2,868
Supplies	2,319	618	155	3,092
Travel	2,558	682	171	3,411
Total functional expenses	$ 158,880	$ 69,196	$ 7,851	$ 235,927

See Notes to Financial Statements

Midlands Housing Trust Fund

Statements of Cash Flows

For the years ended June 30, 2018 and 2017

	2018	2017
Cash flows from operating activities		
Change in net assets	$ 103,520	$ 54,064
Adjustments to reconcile the change in net assets to net cash provided by operating activities:		
Depreciation	644	644
Change in allowance for loan losses	(12,509)	13,703
Changes in:		
Contributions and grants receivable	(104,589)	120,000
Construction note receivable	53,739	(53,739)
Prepaid expenses	486	(1,050)
Accounts payable and accrued expenses	(664)	(2,305)
Net cash provided by operating activities	40,627	131,317
Cash flows from investing activities		
Community development loans made	(73,500)	(292,500)
Proceeds from repayment of loans receivable	319,854	15,962
Net cash provided by (used for) investing activities	246,354	(276,538)
Cash flows from financing activities		
Payment of note payable	(68,193)	-
Net cash used for financing activities	(68,193)	-
Net change in cash and cash equivalents	218,788	(145,221)
Cash and cash equivalents, beginning of year	460,338	605,559
Cash and cash equivalents, end of year	$ 679,126	$ 460,338
Cash and cash equivalents	$ 674,401	$ 440,582
Restricted cash	4,725	19,756
Total	$ 679,126	$ 460,338
Supplemental disclosures		
Cash paid for interest	$ 6,896	$ 6,276

See Notes to Financial Statements

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 23-county area of 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, 2018 and 2017, 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.

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	5 years

Revenue recognition:

Contributions are recognized when received or at the time a promise to give is made and is, in substance, unconditional. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and the promises become unconditional. Contributions are recorded as temporarily or permanently restricted contributions based on their purpose and/or implied time restrictions.

In accordance with industry guidance on prevailing industry practices, the Fund recognizes revenue from lending program grants as revenue and support when the funds are received. As a result, expenditures under these programs could occur in fiscal years subsequent to recognition of the related revenue.

All grant or donor restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a 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 Statements 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 and grants 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.

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

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.

Functional allocation of expenses:

The cost of providing various programs and supporting services have been summarized on a functional basis in the Statements of Functional Expenses and Statements of Activities. 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 Fund 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. The Fund is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

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 a loan risk rating of 1, 2, or 3, be held from its permanent loan capital.

Recently issued accounting pronouncements:

In August 2016, the Financial Accounting Standards Board (FASB) issued guidance to make targeted improvements to the not-for-profit financial reporting model, including changes in how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance, and cash flows. The amendments will be effective for the Fund for fiscal years beginning after December 15, 2017. The Fund is currently evaluating the effect that implementation of the new standard will have on its financial statements.

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

Subsequent events:

In preparing these financial statements, management has evaluated events and transactions for potential recognition or disclosure through December 12, 2018, the date the financial statements were available for issue.

Note 2. Restricted Cash

Restricted cash consists of the following as of June 30:

	2018	2017
Temporarily restricted net assets	$ 4,725	$ 19,756
	$ 4,725	$ 19,756

Note 3. Contributions and Grants Receivable

The Fund's contributions and grants receivable, consist of the following at June 30:

	2018	2017
Richland County Grant	$ 88,050	$ -
CDFI Grant	16,539	-
	$ 104,589	$ -

Note 4. Property and Equipment, net

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

	2018	2017
Computer equipment	$ 3,222	$ 3,222
Less accumulated depreciation	2,093	1,449
	$ 1,129	$ 1,773

Depreciation expense was $644 for the years ended June 30, 2018 and 2017.

Note 5. Loans Receivable, net

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

	2018	2017
Gross mortgage loans receivable	$ 516,599	$ 762,953
Less allowance for loan losses	29,115	41,624
	487,484	721,329
Less current portion	26,585	278,365
	$ 460,899	$ 442,964

Note 5. Loans Receivable, net, Continued

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

2019	$ 26,585
2020	27,987
2021	162,451
2022	19,758
2023	219,830
Thereafter	59,988
	$ 516,599

Note 6. Notes Payable

Notes payable consists of the following at June 30:	**2018**	**2017**
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 2%, due in 20 quarterly interest only payments beginning on September 15, 2016 and ending with one balloon payment of $150,000 with all accrued but unpaid interest thereon, due June 15, 2021.	150,000	150,000
Note payable, bearing interest of 2%, due in quarterly payments of accrued interest of $750 until October 1, 2017 followed by 16 payments of accrued interest and principal of $5,264 with a balloon payment of $75,000 due on July 1, 2021.	131,807	150,000
	281,807	350,000
Less portion due within one year	13,884	63,610
Long-term portion	$ 267,923	$ 286,390

Annual maturities of debt outstanding as of June 30, 2018, are as follows:

2019	$ 13,884
2020	18,839
2021	169,219
2022	79,865
	$ 281,807

Interest expense for the years ended June 30, 2018 and 2017 was $6,896 and $6,276, respectively.

A financial institution provided the Fund a $500,000 Multiple Advance Term Note during fiscal year 2017 with a term of five years. As of June 30, 2018, the Fund had not made any draws against this note.

Note 7. Operating Lease

The Fund has an operating lease for its office facility which began on March 1, 2016 and expired on March 1, 2017, at which point the Fund continued to lease the facility on a month-to-month basis for $525 monthly. On January 1, 2018 the Fund renewed this lease for a period of two years with a monthly lease payment of $577. Rent expense for the years ended June 30, 2018 and 2017 was $6,612 and $6,300, respectively. Minimum annual lease commitments under this agreement are as follows at June 30:

2019	$ 6,924
2020	3,462
	$ 10,386

Note 8. Temporarily Restricted Net Assets

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

	2018	2017
Operations	$ 4,725	$ 4,725
Lending	-	15,031
	$ 4,725	$ 19,756

Note 9. Unrestricted Board Designated Net Assets

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

	Balance June 30, 2017	Net Change	Balance June 30, 2018
Loan loss reserve	$ 41,624	$ (12,509)	$ 29,115
Operations reserve	45,336	-	45,336
Total	$ 86,960	$ (12,510)	$ 74,451

Note 10. Related Party Transactions

A board member of the Fund is also the Chief Executive Officer of a company that had two mortgage loans outstanding as of June 30, 2018. The board member was not involved in the review, underwriting, consideration, or voting related to these loans.

A board member of the Fund is employed by a financial institution used by the Fund during fiscal years 2017 and 2018. The board member was not involved in any transactions with this financial institution.

Note 11. Concentrations

The Fund received over 64% and 86% of its operating revenue for the years ended June 30, 2018 and 2017, 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 operations of the Fund.