Midlands Housing Trust Fund

Report on Financial Statements

For the years ended June 30, 2019 and 2018

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, 2019 and 2018, 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 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 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, 2019 and 2018, 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.

Adoption of a New Accounting Standard

As discussed in Note 1, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-14, *Not for Profit Entities: Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses presentation of net asset classifications for consistency and understandability, provides information about liquidity and availability of resources, and allows consistency in information provided about expenses and investment return. The Fund adopted ASU 2016-14 during the year ended June 30, 2019, and it was applied retrospectively. The adoption of this standard did not have any impact on the Fund's net assets or changes in net assets. Our opinion is not modified with respect to this matter.

Elliott Davis, LLC

Columbia, South Carolina
December 20, 2019

Midlands Housing Trust Fund

Statements of Financial Position
As of June 30, 2019 and 2018

	2019	2018
Assets		
Current assets		
Cash and cash equivalents	$ 239,348	$ 674,401
Restricted cash	-	4,725
Contributions and grants receivable	21,539	104,589
Loans receivable, net	129,896	26,585
Accrued interest	6,641	-
Prepaid expenses	-	1,760
Other current assets	500	500
Total current assets	397,924	812,560
Other assets		
Property and equipment, net	5,000	1,129
Loans receivable, net of allowance for loan losses and current portion	829,911	460,899
Total other assets	834,911	462,028
Total assets	$ 1,232,835	$ 1,274,588
Liabilities and Net assets		
Current liabilities		
Accounts payable	$ -	$ 714
Notes payable, current portion	18,839	13,884
Total current liabilities	18,839	14,598
Other liabilities		
Notes payable	249,084	267,923
Total other liabilities	249,084	267,923
Total liabilities	267,923	282,521
Net assets		
Without donor restrictions	964,912	987,342
With donor restrictions	-	4,725
Total net assets	964,912	992,067
Total liabilities and net assets	$ 1,232,835	$ 1,274,588

See Notes to Financial Statements

Midlands Housing Trust Fund

Statement of Activities

For the year ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue			
Grants	$ 35,000	$ 45,000	$ 80,000
Contributions	4,471	-	4,471
Program service fees	44,999	-	44,999
Miscellaneous revenue	1,899	-	1,899
Net assets released from restriction	49,725	(49,725)	-
Total revenues	136,094	(4,725)	131,369
Expenses			
Program services	115,966	-	115,966
Management and general	39,259	-	39,259
Fundraising	3,299	-	3,299
Total expenses	158,524	-	158,524
Change in net assets	(22,430)	(4,725)	(27,155)
Net assets, beginning of year	987,342	4,725	992,067
Net assets, end of year	$ 964,912	$ -	$ 964,912

See Notes to Financial Statements

Midlands Housing Trust Fund

Statement of Activities

For the year ended June 30, 2018

	Without Donor Restrictions	With Donor Restrictions	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 Functional Expenses

For the year ended June 30, 2019

	Program Services	Management and General	Fundraising	Total Expenses
Functional Expenses				
Accounting	$ 702	$ 187	$ 47	$ 936
Bad debts	45,000	-	-	45,000
Bank service charges	-	110	-	110
Communication	1,929	516	129	2,574
Consulting	30,818	8,218	2,055	41,091
Depreciation	-	1,129	-	1,129
Dues and subscriptions	563	150	38	751
Equipment	2,213	590	148	2,951
Insurance	2,660	710	177	3,547
Interest	-	4,908	-	4,908
Licenses and fees	-	951	-	951
Loan loss reserve	21,441	-	-	21,441
Meetings	60	-	-	60
Occupancy	5,193	1,385	346	6,924
Other expenses	-	58	-	58
Postage	-	10	-	10
Printing	1,139	304	76	1,519
Professional fees	-	18,900	-	18,900
Public relations	3,710	989	247	4,946
Staff development	128	34	9	171
Supplies	246	66	16	328
Travel	164	44	11	219
Total functional expenses	$ 115,966	$ 39,259	$ 3,299	$ 158,524

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				
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
Employee benefits	730	195	49	974
Equipment	1,231	1,231	-	2,462
Insurance	-	1,964	-	1,964
Interest	-	6,896	-	6,896
Meetings	30	-	-	30
Occupancy	3,306	3,306	-	6,612
Other expenses	-	336	-	336
Payroll taxes	1,782	475	119	2,376
Postage	-	65	-	65
Printing	205	205	-	410
Professional fees	-	19,635	-	19,635
Salaries	28,495	7,599	1,900	37,994
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

Statements of Cash Flows

For the years ended June 30, 2019 and 2018

	2019	2018
Cash flows from operating activities		
Change in net assets	$ (27,155)	$ 103,520
Adjustments to reconcile the change in net assets to net cash provided by operating activities:		
Depreciation	1,129	644
Change in allowance for loan losses	21,441	(12,509)
Changes in:		
Contributions and grants receivable	83,050	(104,589)
Construction note receivable	-	53,739
Accrued interest	(6,641)	-
Prepaid expenses	1,760	486
Accounts payable and accrued expenses	(714)	(664)
Net cash provided by operating activities	72,870	40,627
Cash flows from investing activities		
Community development loans made	(614,768)	(73,500)
Purchase of property and equipment	(5,000)	-
Proceeds from repayment of loans receivable	121,004	319,854
Net cash provided by (used for) investing activities	(498,764)	246,354
Cash flows from financing activities		
Payment of note payable	(13,884)	(68,193)
Net cash used for financing activities	(13,884)	(68,193)
Net change in cash and cash equivalents	(439,778)	218,788
Cash and cash equivalents, beginning of year	679,126	460,338
Cash and cash equivalents, end of year	$ 239,348	$ 679,126
Cash and cash equivalents	$ 239,348	$ 674,401
Restricted cash	-	4,725
Total	$ 239,348	$ 679,126
Supplemental disclosures		
Cash paid for interest	$ 4,908	$ 6,896

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 percent 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.

Net assets:

The Fund's net assets are classified as follows:

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 Fund's management and the board of directors.

Net assets with donor restrictions: Net assets that are subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Fund or by the passage of time (that is, when a stipulated time restriction ends or purpose restriction is accomplished). Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

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.

Concentration of credit risks:

The Fund places its cash and cash equivalents with high quality financial institutions. At times, deposits with financial institutions may exceed Federal Deposit Insurance Corporation (FDIC) insurance limits.

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

Availability of funds for general expenditures:

The Fund has certain net assets that are available for general expenditures within one year of June 30, 2019 based on conducting the normal activities of its programs in the coming year. Accordingly, the related resources have been included in the quantitative information detailing the financial assets available to meet general expenditures within one year (see Note 2).

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 received are recorded as support without donor restrictions or support with donor restrictions, depending on the existence and/or nature of any donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statements of Activities as net assets released from restrictions.

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.

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% of gross loans outstanding be held from its permanent loan capital.

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

Expense allocation:

The costs of providing various programs and activities have been summarized on a functional basis in the Statements of Activities and Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Expenses of the Fund include:

Program services expenses - Program expenses include expenses incurred to operate the center's primary objective of providing financing, technical assistance, and advocacy for the construction, rehabilitation, and preservation of affordable housing in central South Carolina.

Management and general expenses - Management and general expenses include the general, administrative, and operating costs of the Fund.

Fundraising expenses - These expenses include direct and indirect activities undertaken to solicit contributions from donors.

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated and the method of allocation include:

Expense Type	Method of Allocation
Accounting	Based on consulting allocation
Bad debts	Direct costs to programs
Bank service charges	Direct costs to management/general
Communication	Based on consulting allocation
	Time and effort from Executive Director, which is allocated 75% to program services, 20% to management and general, and 5% to fundraising
Depreciation	Direct costs to management/general
Dues and subscriptions	Based on consulting allocation
Equipment	Based on consulting allocation
Insurance	Based on consulting allocation
Interest	Direct costs to management/general
Licenses and fees	Direct costs to management/general
Loan loss reserve expense	Direct costs to management/general
Meetings	Direct costs to programs
Occupancy	Based on consulting allocation
Other expenses	Direct costs to management/general
Postage	Direct costs to management/general
Printing	Based on consulting allocation
Professional fees	Direct costs to management/general
Public relations	Based on consulting allocation
Staff development	Based on consulting allocation
Supplies	Based on consulting allocation
Travel	Based on consulting allocation

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

New accounting pronouncements:

The Financial Accounting Standards Board ("FASB"), on August 18, 2016, published ASU ("Accounting Standards Update") No. 2016-14, *Not for Profit Entities: Presentation of Financial Statements of Not-for-Profit Entities*. The standard changes how not-for-profit organizations classify their net assets, with groups required to categorize assets as either those with donor restrictions or without. The standard also requires new information about an organization's liquidity and an analysis of expenses by nature and function. The update aims to help charities, universities, foundations, and other not-for-profit groups better convey how they spend and manage their resources. The Fund has adopted this standard for the year ended June 30, 2019 and has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented. As allowed under the standard, the liquidity footnote disclosure (see Note 2) has not been presented for the year ended June 30, 2018.

In May 2014, the FASB issued guidance to change the recognition of revenue from contracts with customers. The core principle of the new guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive. In August 2015, the FASB deferred the effective date of ASU 2014-09, *Revenue from Contracts with Customers*. As a result of the deferral, the guidance in ASU 2014-09 will be effective for the Fund for reporting periods beginning after December 15, 2018. The Fund is currently evaluating the impact of this new guidance on its financial statements.

In February 2016, the FASB amended the Leases topic of the Accounting Standards Codification to revise certain aspects of recognition, measurement, presentation, and disclosure of leasing transactions. The amendments will be effective for fiscal years beginning after December 15, 2020. The Fund is currently evaluating the effect that implementation of the new standard will have on its financial statements.

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made,* an update to clarify and improve the scope and the accounting guidance for contributions received and contributions made. The clarifying guidance will be effective for annual periods beginning after December 15, 2019. Early adoption is permitted. The Fund is currently in the process of evaluating the impact of adoption of this guidance on the financial statements.

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies are not expected to have a material impact on the Fund's net assets or changes in net assets.

Subsequent events:

In preparing these financial statements, the Fund has evaluated events and transactions for potential recognition or disclosure through December 20, 2019, the date the financial statements were available to be issued.

Note 2. Availability and Liquidity

Financial assets available for general expenditure, that are without donor or other restrictions limiting their use within one year of the Statement of Financial Position date of June 30, 2019, are comprised of the following at June 30, 2019:

Assets at year end	$	1,232,835
Less amounts not available to be used within one year due to illiquidity:		
Property and equipment, net		5,000
		1,227,835
Less amounts not available to be used within one year due to:		
Contractual or donor imposed restrictions:		
Loans receivable, long-term portion, net of allowance for loan losses		829,911
Financial assets available to meet cash needs for general expenditures within one year	$	397,924

As part of its liquidity plan, the Fund has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations become due.

Note 3. Restricted Cash

Restricted cash consists of the following as of June 30:

	2019	2018
Net assets with donor restrictions	$ -	$ 4,725
	$ -	$ 4,725

Note 4. Contributions and Grants Receivable

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

	2019	2018
Richland County Grant	$ -	$ 88,050
United Way Grant	5,000	-
CDFI Grant	16,539	16,539
	$ 21,539	$ 104,589

Note 5. Property and Equipment, net

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

	2019	2018
Computer equipment	$ -	$ 3,222
Website	5,000	-
Less accumulated depreciation	-	2,093
	$ 5,000	$ 1,129

Depreciation expense for the years ended June 30, 2019 and 2018 was $1,129 and $644, respectively.

Note 6. Loans Receivable, net

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

	2019	2018
Gross mortgage loans receivable	$ 1,010,363	$ 516,599
Less allowance for loan losses	50,556	29,115
	959,807	487,484
Less current portion	129,896	26,585
	$ 829,911	$ 460,899

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

2020	$ 129,896
2021	366,667
2022	162,241
2023	223,295
2024	43,535
Thereafter	84,729
	$ 1,010,363

Note 7. Notes Payable

Notes payable consists of the following at June 30:	2019	2018
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.	117,923	131,807
	267,923	281,807
Less portion due within one year	18,839	13,884
Long-term portion	$ 249,084	$ 267,923

Annual maturities of debt outstanding as of June 30, 2019, are as follows:

2020	$ 18,839
2021	169,219
2022	79,865
	$ 267,923

Interest expense for the years ended June 30, 2019 and 2018 was $4,908 and $6,896, 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, 2019, the Fund had not made any draws against this note.

The Fund also has a $100,000 line of credit with a financial institution that matures in February 2020. As of June 30, 2019, the Fund had not made any draws against the line of credit.

Note 8. 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, 2019 and 2018 was $6,924 and $6,612, respectively. Minimum annual lease commitments under this agreement are as follows at June 30:

2020	$ 3,462
	$ 3,462

Note 9. Net Assets with Donor Restrictions

Net assets with donor restrictions are available for the following purposes at June 30:

	2019	2018
Operations	$ -	$ 4,725
	$ -	$ 4,725

Note 10. 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, 2018	Net Change	Balance June 30, 2019
Loan loss reserve	$ 29,115	$ 21,441	$ 50,556
Operations reserve	45,336	(21,441)	23,895
Total	$ 74,451	$ -	$ 74,451

Note 11. 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, 2019. 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 2018 and 2019. The board member was not involved in any transactions with this financial institution.

Note 12. Concentrations

The Fund received over 61% and 60% of its operating revenue for the years ended June 30, 2019 and 2018, 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.