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Financial Statements

Midlands Housing Trust Fund

*Years Ended June 30, 2020 and 2019  
with Report of Independent Auditors*

Midlands Housing Trust Fund  
Financial Statements  
Years Ended June 30, 2020 and 2019

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## Report of Independent Auditors

Board of Directors  
Midlands Housing Trust Fund

We have audited the accompanying financial statements of Midlands Housing Trust Fund, which comprise the statement of financial position as of June 30, 2020, 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; 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider 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.



Board of Directors  
Midlands Housing Trust Fund

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Midlands Housing Trust Fund as of June 30, 2020, 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.

**Prior Period Financial Statements**

The financial statements of Midlands Housing Trust Fund as of and for the year ended June 30, 2019 were audited by other auditors whose report dated December 20, 2019 expressed an unmodified opinion on those statements.

*Bauhnighe Pietras & Stomen, P.A.*

November 11, 2020

Midlands Housing Trust Fund  
Statements of Financial Position

	June 30,	
	2020	2019
<b>Assets</b>		
Cash and cash equivalents	\$ 440,589	\$ 239,348
Contributions and grants receivable	--	21,539
Accrued interest receivable	8,644	6,641
Prepaid expenses and other assets	1,231	500
Loans receivable, net	888,059	959,807
Property and equipment, net of accumulated depreciation of \$1,000 and \$0 at June 30, 2020 and 2019, respectively	4,000	5,000
<b>Total assets</b>	<b>\$ 1,342,523</b>	<b>\$ 1,232,835</b>
<b>Liabilities and Net Assets</b>		
Notes payable	\$ 249,084	\$ 267,923
<b>Total liabilities</b>	<b>249,084</b>	<b>267,923</b>
Net assets:		
Without donor restrictions:		
Board designated	65,601	74,451
Undesignated	1,027,838	890,461
<b>Total without donor restrictions</b>	<b>1,093,439</b>	<b>964,912</b>
<b>Total liabilities and net assets</b>	<b>\$ 1,342,523</b>	<b>\$ 1,232,835</b>

*See accompanying notes.*

Midlands Housing Trust Fund  
Statement of Activities  
Year Ended June 30, 2020

	<b>Without Donor Restrictions</b>		<b>With Donor Restrictions</b>		<b>Total</b>
<b>Revenues, grants, contributions, and other support:</b>					
Grants	163,126	\$	--	\$	163,126
Contributions	3,019		--		3,019
Program service fees	72,992		--		72,992
Miscellaneous revenue	714		--		714
Total revenues and other support	239,851		--		239,851
Net assets released from restriction	--		--		--
Total revenues, grants, contributions, and other support	239,851		--		239,851
<b>Expenses:</b>					
Program services	52,918		--		52,918
Management and general	52,759		--		52,759
Fundraising	5,647		--		5,647
Total expenses	111,324		--		111,324
Change in net assets	128,527		--		128,527
Net assets, beginning of year	964,912		--		964,912
Net assets, end of year	\$ 1,093,439	\$	--	\$	1,093,439

*See accompanying notes.*

Midlands Housing Trust Fund  
Statement of Activities  
Year Ended June 30, 2019

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
<b>Revenues, grants, contributions, and other support:</b>			
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
Total revenues and other support			
Net assets released from restriction	49,725	(49,725)	--
Total revenues, grants, contributions, and other support	136,094	(4,725)	131,369
<b>Expenses:</b>			
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 accompanying notes.



Midlands Housing Trust Fund  
Statement of Functional Expenses  
Year Ended June 30, 2020

	<b>Program Services</b>	<b>Management and General</b>	<b>Fundraising</b>	<b>Total</b>
Accounting	\$ 1,029	\$ 274	\$ 69	\$ 1,372
Bank service charges	--	692	--	692
Communication	1,360	363	91	1,814
Consulting	40,889	20,334	4,550	65,773
Depreciation	--	1,000	--	1,000
Dues and subscriptions	235	63	16	314
Equipment	5,182	1,382	345	6,909
Insurance	1,247	332	83	1,662
Interest	--	5,517	--	5,517
Licenses and fees	--	391	--	391
Loan loss reserve	(3,810)	--	--	(3,810)
Occupancy	5,193	1,385	346	6,924
Other expenses	--	--	41	41
Postage	--	17	--	17
Professional fees	--	20,585	--	20,585
Public relations	785	209	52	1,046
Staff development	169	45	11	225
Supplies	511	136	34	681
Travel	128	34	9	171
<b>Total</b>	<b>\$ 52,918</b>	<b>\$ 52,759</b>	<b>\$ 5,647</b>	<b>\$ 111,324</b>

*See accompanying notes.*

Midlands Housing Trust Fund  
Statement of Functional Expenses  
Year Ended June 30, 2019

	<b>Program Services</b>	<b>Management and General</b>	<b>Fundraising</b>	<b>Total</b>
Accounting	\$ 702	\$ 187	\$ 47	\$ 936
Bad debt	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
Meeting	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
<b>Total</b>	<b>\$ 115,966</b>	<b>\$ 39,259</b>	<b>\$ 3,299</b>	<b>\$ 158,524</b>

*See accompanying notes.*

Midlands Housing Trust Fund  
Statements of Cash Flows

	<b>Years Ended June 30,</b>	
	<b>2020</b>	<b>2019</b>
<b>Operating activities:</b>		
Change in net assets	\$ 128,527	\$ (27,155)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,000	1,129
Change in allowance for loan losses	(3,810)	21,441
Change in operating assets and liabilities:		
Pledges receivable, net	--	83,050
Contributions and grants receivable	21,539	--
Accrued interest receivable	(2,003)	(6,641)
Prepaid expenses and other assets	(731)	1,760
Accounts payable and accrued expenses	--	(714)
Net cash provided by operating activities	<u>144,522</u>	<u>72,870</u>
<b>Investing activities:</b>		
Community development loans made	(549,269)	(614,768)
Purchases of property and equipment	--	(5,000)
Proceeds from repayment of loans receivable	624,827	121,004
Net cash provided by (used in) investing activities	<u>75,558</u>	<u>(498,764)</u>
<b>Financing activities:</b>		
Principal payments on notes payable	(18,839)	(13,884)
Net cash used in financing activities	<u>(18,839)</u>	<u>(13,884)</u>
Net change in cash and cash equivalents	201,241	(439,778)
Cash and cash equivalents, beginning of year	<u>239,348</u>	<u>679,126</u>
Total cash and cash equivalents, end of year	<u>\$ 440,589</u>	<u>\$ 239,348</u>

*See accompanying notes.*

Midlands Housing Trust Fund  
Notes to Financial Statements  
June 30, 2020 and 2019

**1. Nature of Activities and Summary of Significant Accounting Policies**

Midlands Housing Trust Fund (the "Fund") is a non-profit community development loan fund organized under the laws of the state of South Carolina. The Fund is a revolving loan fund that provides financing, technical assistance, and advocacy for the construction, rehabilitation, and preservation of affordable housing for households earning less than 80 percent of area median income in South Carolina.

**Basis of Accounting**

The accompanying financial statements are prepared in accordance with accounting principles generally accepted in the United States ("US GAAP").

**Financial Statement Presentation**

The Fund reports information regarding its financial position and activities according to two classes of net assets: net assets with donor restrictions and net assets without donor restrictions.

**Estimates**

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Revenue Recognition**

Grants and contributions received are recorded with donor restrictions or without donor restrictions, depending upon the existence and/or nature of any donor restrictions. Donor-restricted grants or contributions, whose restrictions are met in the same reporting period in which they are recognized, are reported as increases in net assets without donor restrictions. All other donor-restricted grants and contributions are reported as increases in donor restricted net assets. Donor restricted net assets are reclassified to net assets without donor restrictions and reported in the statements of activities as "net assets released from restrictions" when donor restrictions are met. All other support that is not received with donor stipulations is considered available for unrestricted use.

Program service fees include revenue from loan origination fees and interest earned on the loans receivable. Revenue for these items is recognized when the services are provided.

Midlands Housing Trust Fund  
Notes to Financial Statements  
June 30, 2020 and 2019

**1. Nature of Activities and Summary of Significant Accounting Policies (continued)**

**Loans Receivable**

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

The Fund discontinues the accrual of interest when 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 the 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 Uncollectible Loans Receivable**

The allowance for uncollectible loans receivable is based on 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, historical loss experience, adequacy of collateral, and specific impaired loans.

**Concentrations of Credit Risk**

The Fund maintains its cash and cash equivalents with high-quality financial institutions. At times, such balances may be in excess of federally insured limits; however, the Fund has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on its cash and cash equivalents.

During the years ended June 30, 2020 and 2019, approximately 68% and 61% of the Fund's revenue, respectively, came from local grants. A reduction in grant revenue awarded in the future could have a significant adverse impact on the Fund's operations.

The Fund's loans receivable are due from a small number of borrowers. The loans are collateralized by real property, however, failure of any borrower to repay the loan could significantly impact the Fund's financial statements.

**Cash and Cash Equivalents**

The Fund considers all short-term, highly-liquid investments with an original maturity date of three months or less to be cash equivalents.

Midlands Housing Trust Fund  
Notes to Financial Statements  
June 30, 2020 and 2019

**1. Description of Business and Summary of Significant Accounting Policies (continued)**

**Property and Equipment**

Property and equipment are stated at cost. Depreciation is calculated using the straight-line method over the estimated useful lives of the related assets.

**Income Taxes**

The Fund is a not-for-profit entity that is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and is classified by the Internal Revenue Service as other than a private foundation. However, the Fund is subject to income taxes for certain unrelated business income. The Fund had no unrelated business income for the years ended June 30, 2020 and 2019. Accordingly, no provision for income taxes has been recorded in the accompanying financial statements. Management annually reviews its tax positions and has determined that there are no material uncertain tax positions that require recognition in the financial statements. As a result, the Fund did not have a liability for unrecognized tax benefits, interest, or penalties at June 30, 2020 and 2019.

The Fund is no longer subject to federal or state income tax examinations by the tax authorities where the Fund filed returns for years fiscal years before 2017.

**Board Designated Net Assets**

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 – Designated 5% of gross loans outstanding held from the Fund’s permanent loan capital for uncollectible loans.

**Functional Allocation of Expenses**

The costs of providing various programs and other activities have been summarized on a functional basis in the statements of functional expenses. Accordingly, certain costs have been allocated among program, management and general, and fundraising expenses based on estimates made by management.

**Reclassifications**

Certain prior year amounts have been reclassified in order to conform to the current year presentation.

Midlands Housing Trust Fund  
Notes to Financial Statements  
June 30, 2020 and 2019

**1. Description of Business and Summary of Significant Accounting Policies (continued)**

**Recent Accounting Pronouncement**

In February 2016, the Financial Accounting Standards Board issued Accounting Standards Update No. 2016-02 “Leases,” which addresses enhanced accounting for and reporting of leases for lessees and lessors. The main provisions include lessees recognizing the assets and liabilities arising from leases on the statement of financial position. Lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The standard is effective for fiscal years beginning after December 15, 2021 for non-public entities, with early adoption allowed. The Fund has not yet determined whether this standard will materially affect its financial statements.

**2. Loans Receivable**

The Fund’s loans receivable are as follows:

	<b>June 30,</b>	
	<b>2020</b>	<b>2019</b>
Gross mortgage loans receivable	<b>\$ 934,805</b>	\$ 1,010,363
Less: allowance for uncollectible loans	<b>(46,746)</b>	(50,556)
Total loans receivable, net	<b>\$ 888,059</b>	\$ 959,807

All of the loans receivable are collateralized by real property and personally guaranteed by the borrowers. The interest rates on the Fund’s loans receivable vary from 3.5% to 8.0%. The loans are payable in monthly installments of principal and interest, or interest only with a balloon payment at the end of the loan. The loans mature during 2021- 2037.

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

2021	\$ 411,569
2022	123,760
2023	251,585
2024	43,070
2025	44,074
Thereafter	60,747
	<b>\$ 934,805</b>

Midlands Housing Trust Fund  
Notes to Financial Statements  
June 30, 2020 and 2019

**3. Debt**

Notes payable consist of the following:

	June 30,	
	2020	2019
Unsecured note payable, bearing interest at 2%, payable in quarterly interest payments and one balloon payment of \$150,000 due on June 15, 2021.	\$ 150,000	150,000
Note payable, bearing interest at 2%, payable in quarterly installments of principal and interest of \$5,264 and one balloon payment of \$75,000 due July 1, 2021.	99,084	117,923
Total notes payable	\$ 249,084	\$ 267,923

Principal maturities of notes payable subsequent to June 30, 2020 are as follows:

2021	\$ 169,219
2022	79,865
Total	\$ 249,084

The Fund has an unsecured revolving line of credit in the amount of \$100,000 that matures in February 2021. Interest is payable monthly at the Wall Street Journal's prime rate adjusted as the prime rate changes, with a floor of 5.25%. The amount outstanding on the revolving line of credit was \$0 as of June 30, 2020 and 2019.

The Fund has a \$500,000 line of credit that expired on May 26, 2020. Interest was payable monthly at a rate of 2.75%. Any notes or mortgages of the Fund that were funded with this line were pledged as collateral for the debt. The amount outstanding on the revolving line of credit was \$0 as of June 30, 2020 and 2019. Management is negotiating options to renew this line of credit with the financial institution.

**4. Lease**

The Fund leases office space under a month-to-month operating lease agreement. Total rent expense under the agreement was approximately \$7,000 annually for the years ended June 30, 2020 and 2019, respectively.



Midlands Housing Trust Fund  
Notes to Financial Statements  
June 30, 2020 and 2019

**5. Board Designated Net Assets**

The Fund's Board of Directors has designated net assets as follows:

	June 30,	
	2020	2019
Loan loss reserve	\$ 46,746	\$ 50,556
Operations reserve	18,855	23,895
Total	<u>\$ 65,601</u>	<u>\$ 74,451</u>

**6. Related Parties**

A board member of the Fund is also the chief executive officer of a company that had several mortgage loans outstanding as of June 30, 2020 and 2019. The total loan balances outstanding as of June 30, 2020 and 2019 totaled approximately \$272,000 and \$237,000, respectively.

A board member of the Fund is employed by a financial institution used by the Fund during the years ended June 30, 2020 and 2019.

**7. Contingencies**

The Fund receives funding under grant agreements that are subject to examination by the grantor. Management believes the Fund has complied with all grant agreements and any return of grant funding would be insignificant.

**8. Liquidity**

The Fund has approximately \$692,000 of financial assets available within one year of the statement of financial position date, including approximately \$441,000 of cash. None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the statement of financial position date. The Fund's normal annual operating expenses, on average, are approximately \$111,000. The Fund, therefore, has enough liquid financial assets to maintain operations for approximately 6 years and 3 months.

**9. Subsequent Events**

The Fund evaluated events and transactions after June 30, 2020 through November 11, 2020, the date the financial statements were available to be issued, and determined there were no subsequent events to report during that period.