

**THE LOWCOUNTRY HOUSING TRUST, INC.**

**REPORT ON FINANCIAL STATEMENTS**

**YEAR ENDED DECEMBER 31, 2011**

THE LOWCOUNTRY HOUSING TRUST, INC.

CONTENTS

	<u>PAGE</u>
<b>INDEPENDENT AUDITORS' REPORT</b>	1 - 2
<b>FINANCIAL STATEMENTS</b>	
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
<b>NOTES TO FINANCIAL STATEMENTS</b>	7 - 17
<b>REPORTING UNDER <i>GOVERNMENT AUDITING STANDARDS</i></b>	
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	18 - 19
<b>REPORTING UNDER <i>OMB CIRCULAR A-133</i></b>	
Report on Compliance with Requirements applicable to each Major Program and on Internal Control over Compliance in Accordance with <i>OMB Circular A-133</i>	20 - 21
Schedule of Expenditures of Federal Awards	22
Notes to Schedule of Expenditures of Federal Awards	23
Schedule of Findings and Questioned Costs	24 - 25



## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Lowcountry Housing Trust, Inc.  
North Charleston, South Carolina

We have audited the accompanying statement of financial position of Lowcountry Housing Trust, Inc. (the Trust) as of December 31, 2011 and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of Trust's management. 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Trust as of December 31, 2011, and the results of its operations, changes in its net assets and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 13, the Trust changed its method for recognizing revenue for certain grant funds in 2011.

In accordance with *Government Auditing Standards*, we have also issued our report, dated March 29, 2012 on our consideration of the Trust's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the Trust taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements.

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Elliott Davis, LLC*

Charleston, South Carolina  
March 29, 2012

**THE LOWCOUNTRY HOUSING TRUST, INC.**  
**STATEMENT OF FINANCIAL POSITION**

	<b>December 31, 2011</b>
<b>ASSETS</b>	
<b>CURRENT ASSETS</b>	
Cash and cash equivalents	\$ 4,305,335
Accounts receivable	19,808
Promises to give, current portion	100,000
Other current assets	4,308
Loans receivable, current portion	382,975
Total current assets	4,812,426
<b>NON-CURRENT ASSETS</b>	
Property and equipment, net	23,926
Promise to give, net of current portion	49,020
Loans receivable, net of allowance for loan loss and current portion	734,960
Total non-current assets	807,906
Total assets	<b>\$ 5,620,332</b>
<b>LIABILITIES AND NET ASSETS</b>	
<b>CURRENT LIABILITIES</b>	
Accounts payable	\$ 5,341
Accrued expenses	15,142
Deferred revenue	2,263,642
Refundable advances	79,236
Total current liabilities	2,363,361
<b>OTHER LIABILITIES</b>	
Other liabilities - program related investments	475,000
Other liabilities - equity equivalent investments	592,000
Total other liabilities	1,067,000
<b>NET ASSETS</b>	
Unrestricted	
Undesignated	1,464,170
Board designated	527,200
Temporarily restricted	198,601
Total net assets	2,189,971
Total liabilities and net assets	<b>\$ 5,620,332</b>

See notes to financial statements which are an integral part of these financial statements.

**THE LOWCOUNTRY HOUSING TRUST, INC.**  
**STATEMENT OF ACTIVITIES**

	<b>For the year ended December 31, 2011</b>		
	Unrestricted	Temporarily Restricted	Total
<b>PUBLIC SUPPORT AND REVENUE</b>			
Public Support			
Federal grants	\$ 1,496,699	\$ -	\$ 1,496,699
Local grants	119,753	2,581	122,334
Foundation grants	53,000	171,020	224,020
Individual contributions	9,054	-	9,054
Financial institution contributions	16,000	-	16,000
Total public support	1,694,506	173,601	1,868,107
Revenue			
Investment income	2,331	-	2,331
Special events, net of expenses	6,258	-	6,258
Program service revenue	129,399	-	129,399
Loss on disposal of assets	(2,004)	-	(2,004)
Other income	6,491	-	6,491
Total revenue	142,475	-	142,475
Net assets released from restrictions	-	-	-
Total Public Support and Revenue	1,836,981	173,601	2,010,582
Expenses			
Program services	1,361,946	-	1,361,946
Management and general	39,085	-	39,085
Fundraising	52,085	-	52,085
Total expenses	1,453,116	-	1,453,116
Change in net assets	383,865	173,601	557,466
<b>NET ASSETS, BEGINNING OF YEAR</b>	1,771,039	737,500	2,508,539
<b>Cumulative effect of change in accounting policy (Note 13)</b>	(163,534)	(712,500)	(876,034)
<b>NET ASSETS, BEGINNING OF YEAR (ADJUSTED)</b>	1,607,505	25,000	1,632,505
<b>NET ASSETS, END OF YEAR</b>	\$ 1,991,370	\$ 198,601	\$ 2,189,971

See notes to financial statements which are an integral part of these financial statements.

**THE LOWCOUNTRY HOUSING TRUST, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**

	<b>For the year ended December 31, 2011</b>			
	Program Services	Management and General	Fundraising	Total Expenses
<b>EXPENSES</b>				
Salaries and wages	\$ 170,885	\$ 11,628	\$ 7,752	\$ 190,265
Payroll taxes and employment benefits	16,943	1,153	769	18,865
Total personnel	187,828	12,781	8,521	209,130
Advertising	8,967	-	-	8,967
Communication and utilities	6,093	2,031	-	8,124
Conferences and meetings	9,572	3,191	-	12,763
Dues and subscriptions	3,175	1,115	-	4,290
Insurance	3,750	1,250	-	5,000
Interest expense	15,751	-	-	15,751
Miscellaneous	891	-	-	891
Office expenses	4,266	1,422	-	5,688
Postage, shipping, and delivery	2,177	726	-	2,903
Professional development	694	-	-	694
Professional fees and contracted services	41,423	8,187	43,564	93,174
Program related	1,591	-	-	1,591
Rent	24,372	8,124	-	32,496
Repairs and maintenance	776	258	-	1,034
Travel	8,090	-	-	8,090
Total expenses before affordable housing, provision for loan loss and depreciation	319,416	39,085	52,085	410,586
Affordable housing subsidy (Note 1)	984,307	-	-	984,307
Provision for loan loss (Note 3)	49,953	-	-	49,953
Depreciation	8,270	-	-	8,270
<b>Total expenses</b>	<b>\$ 1,361,946</b>	<b>\$ 39,085</b>	<b>\$ 52,085</b>	<b>\$ 1,453,116</b>

See notes to financial statements which are an integral part of these financial statements.

**THE LOWCOUNTRY HOUSING TRUST, INC.**  
**STATEMENT OF CASH FLOWS**

	<u>For the year ended December 31, 2011</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Change in net assets	\$ 557,466
Adjustments to reconcile the change in net assets to net cash provided by operating activities:	
Depreciation	8,270
Provision for loan losses	49,953
Loss on disposal of assets	2,004
Changes in:	
Accounts receivable	6,117
Promises to give	(149,020)
Other current assets	129
Accounts payable and accrued expenses	(39,725)
Deferred revenue	1,387,608
Refundable advances	79,236
Net cash provided by operating activities	<u>1,902,038</u>
<b>INVESTING ACTIVITIES</b>	
Purchases of property and equipment	(10,831)
Community development loans made	(741,101)
Net proceeds from repayment of note receivable principal	459,182
Net cash used for investing activities	<u>(292,750)</u>
<b>FINANCING ACTIVITIES</b>	
Proceeds from program related investments	225,000
Proceeds from equity equivalent investments	392,000
Net cash provided by financing activities	<u>617,000</u>
Net increase in cash and cash equivalents	2,226,288
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>2,079,047</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u><u>\$ 4,305,335</u></u>
<b>SUPPLEMENTAL DISCLOSURES</b>	
Cash paid for interest	<u><u>\$ 15,751</u></u>

See notes to financial statements which are an integral part of these financial statements.



**THE LOWCOUNTRY HOUSING TRUST, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The summary of significant accounting policies of the Lowcountry Housing Trust, Inc. (the Trust) is presented to assist in understanding the Trust's financial statements. The financial statements and notes are representations of the Trust's management who is responsible for the integrity and objectivity of the financial statements. These accounting policies conform to generally accepted accounting principles and have been consistently applied in the preparation of the financial statements, unless otherwise noted.

**Nature of Activities**

The Lowcountry Housing Trust, Inc. is a 501(c)(3) corporation created as a local source of funding to increase the inventory of affordable homeownership, rental and transitional housing in Berkeley, Charleston and Dorchester Counties. The Trust's mission is to build vibrant, sustainable communities by increasing the availability of affordable housing and to act as a catalyst to meet the fundamental needs of underserved neighborhoods. To accomplish this mission, the Trust raises and pools funds from public and private sources and awards them to developers who are addressing recognized community needs and have the capacity to produce or rehabilitate affordable housing.

**Programs**

The Lowcountry Housing Trust actively promotes policies that reduce unnecessary regulatory barriers to such production; supports experienced affordable housing developers; and works to increase the capacity of newcomers. Financial and technical assistance is available to affordable housing developers and municipalities through a variety of loan, incentive, and development programs.

**Revolving Loan Fund**

The Revolving Loan Fund (RLF) finances the production of new affordable housing units, both for-sale and rental, through new construction, substantial rehabilitation of vacant units or conversion of non-residential buildings to residential use. The Trust provides project-specific loans to nonprofit and for profit developers to construct new units or rehabilitate vacant housing units for sale or rent to low and moderate income households. Funds can be used for construction loans, bridge loans, lines of credit, and permanent financing.

**Affordable Housing Subsidy**

The Affordable Housing Subsidy Program (AHS) subsidizes the production of new affordable housing units, both for-sale and rental, through new construction, substantial rehabilitation of vacant units or conversion of nonresidential buildings to residential use. The Trust provides project-specific forgivable loans to nonprofit and for profit developers to construct new units or rehabilitate vacant housing units for sale or rent to low and moderate income households. Funds can be used for acquisition, predevelopment, infrastructure, or construction costs. Affordable Housing Subsidies ("subsidy") are zero percent, non-amortizing, deferred loans. As AHS loans are forgivable over time, loans are recognized as an expense in the Statement of Activity when closed.

**Homebuyer Assistance**

The Homebuyer Assistance Program (HBA) provides non amortizing subordinate mortgage loans to lower the purchase price of a home for qualified persons on a first come, first ready basis. Applications are accepted and evaluated continually throughout the year. Funding is limited. Applications for HBA loans are accepted from nonprofit developers, for profit developers, government entities, nonprofit/for profit developer partnerships, and current Trust lending partners. Applications are not taken from individual homebuyers.

*(Continued)*

**NOTE 1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

**Healthy Food Financing Initiative**

The Healthy Food Financing Program (HFFI) provides capital to commercial sellers of healthy foods including, but not limited to, a grocery store, mobile food retailer, farmers market, cooperative, corner store, bodega or a store that sells other food and non-food items along with a full range of healthy foods. The Trust finances the production, distribution, sale or consumption of healthy foods in distressed geographic areas in South Carolina where residents have limited access to a supermarket or large grocery store.

**Small Business Loan Fund**

The Small Business Lending Fund (SBLF), enacted into law as part of the Small Business Jobs Act of 2010 (the Jobs Act), is a dedicated investment fund that encourages lending to small businesses by providing capital to qualified community banks and community development loan funds (CDLFs) with assets of less than \$10 billion. Through the SBLF, participating lenders and small businesses can work together to help create jobs and promote economic growth in local communities across the nation. For CDLFs, the SBLF is structured to encourage small business lending through access to low-cost capital. These non-profit loan funds play a critical role in distressed communities across the country that lack access to mainstream financial services. CDLFs engage in activities ranging from offering microloans to entrepreneurs, providing mezzanine debt to growing small businesses, and financing community facilities like charter schools and health clinics.

**Community Development Financial Institutions Certifications**

The Community Development Financial Institutions (CDFI) program is established by the Reigle Community Development and Regulatory Improvement Act of 1994 to use federal resources to invest in and build the capacity of CDFI's to serve low-income people and communities lacking adequate access to affordable financial products and services. Since its inception, the Fund has made more than \$500 million in awards to loan funds, banks, credit unions, and community development venture capital funds. The Fund provides monetary awards for Financial Assistance (FA) and Technical Assistance (TA) through the CDFI Program. CDFI's use FA awards to further goals such as:

- Economic development (job creation, business development, and commercial real estate development)
- Affordable housing (housing development and homeownership)
- Community development financial services (provision of basic banking services to underserved communities, financial literacy training, and predatory lending alternatives)

A Certified Community Development Financial Institution (CDFI) is a specialized financial institution that works in market niches that are underserved by traditional financial institutions. CDFI's provide a unique range of financial products and services in economically distressed target markets, such as mortgage financing for low-income and first-time homebuyers and not-for-profit developers, flexible underwriting and risk capital for needed community facilities, and technical assistance, commercial loans and investment to small start-up or expanding businesses in low-income areas. CDFI's include regulated institutions such as community development banks and credit unions, and non-regulated institutions such as loan and venture capital funds.

CDFI certification is a designation conferred by the CDFI Fund (through the US Treasury Department) and indicates that a financial institution provides financial products and services in defined underserved and economically distressed target markets. CDFI certification enables non traditional financial institutions (like a loan fund) to raise capital from bank investors as well as from non-bank financial companies, foundations, religious institutions, individuals and government entities. CDFI Certification is a requirement for accessing financial and technical award assistance from the CDFI Fund through the CDFI Program to support an organization's established community development financing programs. The Lowcountry Housing Trust received CDFI status in April 2007. *(Continued)*

**NOTE 1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

**Charleston Water Affordable Housing Incentive Program**

Charleston Water, with technical assistance from the Trust, has devised a program of regulatory and financial incentives for private and public sector builders to produce affordable housing within the utility's service area. This program will lower barriers to affordable housing production by deferring and reducing the payment of water and wastewater impact fees. For each residential unit certified by the Trust as affordable to low income households, Charleston Water will: 1) reduce the engineering services portion of the water impact fee by \$500; 2) reduce the engineering services portion of the wastewater impact fee by \$500; and 3) defer payment of the water and/or wastewater impact fees until construction is complete.

**Neighborhood Stabilization Program**

HUD's new Neighborhood Stabilization Program will provide emergency assistance to state and local governments to acquire and redevelop foreclosed properties that might otherwise become sources of abandonment and blight within their communities. The Neighborhood Stabilization Program (NSP) provides grants to every state and certain local communities to purchase foreclosed or abandoned homes and to rehabilitate, resell, or redevelop these homes in order to stabilize neighborhoods and stem the decline of house values of neighboring homes. The program is authorized under Title III of the Housing and Economic Recovery Act of 2008. The program is targeted to households with incomes at or below 120 percent (120%) of the area median income with a portion of the funds targeted to households at or below 50 percent (50%) of the area median income.

Administered in South Carolina by the South Carolina State Housing Finance and Development Authority, funds are targeted to areas of the state demonstrating the highest need. In accordance with HUD standards, funds were available to the 20 counties in the state with the highest foreclosure rates and targeted areas with high levels of subprime mortgages, mortgage defaults and delinquencies. Funds are used to purchase foreclosed homes at a discount and rehabilitate, redevelop or demolish them. Neighborhoods across the region negatively impacted by foreclosed properties have seen stabilization of home values through a \$7.4 million dollar infusion from the US Housing and Urban Development's Neighborhood Stabilization Program (NSP). The Trust, acting as a lead entity for the tri-county, administers this program in partnership with the South Carolina State Housing Finance and Development Authority. The tri-county's NSP award is the result of collaboration between the Trust, BCDCOG, Berkeley, Charleston, and Dorchester counties, the cities of Charleston and North Charleston, the Town of Mount Pleasant, and the Town of James Island. Proposals for the implementation of the program are evaluated and selected from non profit and for profit developers and government entities who demonstrated the capacity to meet NSP guidelines and comply with federal Community Development Block Grant (CDBG) requirements in a timely and effective manner.

**Technical and Development Services**

With the goal of expanding the production of high quality housing in the tri-county region, the Trust provides consulting and technical services to non profit and for profit developers. The Trust also encourages and assists municipalities to plan and zone to accommodate quality affordable housing that meets the needs of a diverse workforce.

**Budgets**

The budget for the Trust is prepared in October for the following calendar year, based on estimated revenues and expenses for the various fiscal year grants and management operations.

Budgetary control is also achieved through the grant contracts which run on various fiscal years.

*(Continued)*

**NOTE 1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

**Use of estimates and assumptions**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect 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 results of operations during the reporting period. Actual results could differ from those estimates and assumptions.

**Cash and cash equivalents**

For purposes of the financial statements, the Trust considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents. NSP requires that all funds granted to the Trust must be deposited in a non interest bearing account. Additionally, NSP stipulated that any income generated from an activity associated with NSP must be deposited in an interest bearing account. The Trust did not have any of these funds at December 31, 2011.

**Loans Receivable**

Loans are stated at the principal amount outstanding. The allowance for loan losses is netted with loans receivable. Interest income on loans is accrued at the loan's stated interest rate on the principal balance outstanding.

It is the policy of the Loan Fund to discontinue the accrual of interest when the loan payments are delinquent for 90 days based on contractual terms, 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 nonaccrual loan may be reinstated to an accrual status when contractual principal and interest payments are current and collection is reasonably assured.

**Below Market Interest Loans**

Generally accepted account principles (GAAP) generally require that loans with below market interest rates be restated for financial reporting purposes as amounts that reflect the expected cash flows discounted at market rates. The Trust both receives and makes loans with stated rates of interest that vary from the prevailing market rates for commercial loans. The Trust believes there is no material difference between community development finance market rates and the stated rates of loans in their portfolios. The Trust accounts for these loans at the stated rates.

**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 nonperforming assets, past and expected loan loss experience, adequacy of collateral, and specific impaired loans.

*(Continued)*

**NOTE 1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

**Property and Equipment**

Property and equipment are carried at cost or, if donated, at the approximated fair value at the date of donation. Depreciation is computed using the straight-line method. The Trust capitalizes all expenditures for property and equipment in excess of \$500, unless required to do otherwise under grant conditions. The depreciation method is designed to amortize the cost of the assets over their estimated lives as follows:

Leasehold improvements	15 years
Furniture and equipment	3 - 5 years
Software	5 years

**Donated Assets**

Non-cash donations are recorded as contributions at their estimated fair values at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Trust reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Trust reclassifies temporarily restricted net assets to unrestricted net assets at that time.

**Promises to Give**

Promises to give are recorded as contributions at the time the promises to give are made and are, 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. Promises to give are recorded as temporarily or permanently restricted contributions based on their purpose and/or implied time restrictions. When the purpose and/or time restrictions are met, the amounts are recorded in the Statement of Activities as releases from restrictions. Promises to give expected to be collected within one year are recorded at their net realizable values. Promises to give expected to be collected in future years are recorded at the present value of their estimated future cash flows (i.e., net of a present value discount, using a discount rate of 2%). There was no bad debt expense related to uncollectible promises to give in 2011.

**Basis of presentation**

In accordance with GAAP, the Trust reports information regarding its financial position and activities according to the three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

Accordingly, net assets of the Trust and changes therein are classified and reported as follows:

Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Trust and/or the passage of time.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Trust. Generally, the donors of these assets permit the use of all or part of the income earned on related investments for general or specific purposes.

*(Continued)*

**NOTE 1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other 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 Statement of Activities as net assets released from restrictions.

**Revenue Recognition and Deferred Revenue**

Contributions and other support received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. 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.

Grant revenue is recognized based upon work performed at the reporting date as the performance goals of the grant are satisfied. Amounts received in advance of revenue recognition are deferred as liabilities on the balance sheet. See Note 13.

**Sources of Revenue**

The Trust receives over 80% of its revenue through various Federal, State and Local grants.

**Functional Allocations of Expenses**

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

Management and general includes the functions necessary to maintain an equitable employment program; ensure an adequate working environment; provide coordination and articulation of the Trust's program strategy; secure proper administrative functioning of the Board of Directors; maintain competent legal services for the program administration of the Trust; and manage the financial and budgetary responsibilities of the Trust.

Fundraising costs provides the structure necessary to encourage and secure private financial support from individuals, foundations, and corporations.

**Equity Equivalent investments**

The Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation have supported a bank capital product named Equity Equivalent Investments (also referred to as EQ2). It is a financial tool that encourages banks and others to invest in CDFI's, such as the Trust. The purpose of equity equivalent investments is to promote stronger capital structures at the CDFI, leverage additional debt capital and increase lending and investing in economically disadvantages communities. The equity equivalent investment is carried on the bank or foundation's balance sheet as an investment and on the Trust's balance sheet as debt. Equity equivalent investments are not secured by any of the Trust's assets and are fully subordinated to the right of repayments of all of the Trust's other creditors.

*(Continued)*

**NOTE 1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

**Board Designated Reserves**

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

Operating reserve – The Board has designated these net assets to ensure the ability to continue the operations of the Trust.

Investor liquidity reserve – The Board has required that an amount equal to 10% of borrowed capital or six months of anticipated repayments of borrowed loan capital, whichever is greater.

Borrower reserve – The Board has required that an amount equal to 10% of gross loans outstanding be held for loan restructurings, refinancing and other lending related cash requirements.

**Income Taxes**

The Trust is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code as a charitable organization whereby only unrelated business income, if any, as defined by the Code, is subject to federal income tax. The Trust is classified by the Internal Revenue Service as other than a private foundation.

Management has evaluated the tax positions of the Trust and does not believe that any uncertain tax positions or unrecognized tax benefits exist for the year ended December 31, 2011. The Trust's policy is to report accrued interest related to unrecognized tax benefits, when applicable, as interest expense and to report penalties as other expense. With few exceptions, the Trust is no longer subject to income tax examinations by the U.S. federal, state, or local tax authorities for years before 2008.

**Subsequent Events**

In preparing these financial statements, the Trust evaluated events and transactions for potential recognition or disclosure through March 29, 2012, which is the date these financial statements were available to be issued.

**NOTE 2. PROPERTY AND EQUIPMENT**

Property and equipment is comprised of the following at December 31, 2011:

Furniture and equipment	\$	27,305
Software		14,022
		<u>41,327</u>
Less accumulated depreciation		<u>(17,401)</u>
Property and equipment, net	\$	<u><u>23,926</u></u>

Depreciation expense for the year ended December 31, 2011 was \$8,270.

**NOTE 3. LOANS RECEIVABLE**

Loans receivable is comprised of the following at December 31, 2011:

Loans receivable:

Interest rates from 1%-7.250%, secured by real estate and one receivable secured by developer fees	\$ 1,176,823
Less allowance for loan loss	<u>(58,888)</u>
	1,117,935
Less current portion	<u>(382,975)</u>
Total loans receivable, net of current portion	<u><u>\$ 734,960</u></u>

The amount of the loan loss is calculated based on a risk rating chart that considers the financial condition of the borrower, the payment history, the pre-sale condition and other similar factors in assigning a loan loss reserve of 5%-7%. Should a loan deteriorate after closing, the Trust can assign a loan loss reserve of up to 100% of the outstanding loan balance as deemed necessary by management. The Board maintains a separate bank account equal to the amount of loan loss to be used should loans not be repaid in full.

**NOTE 4. PROMISES TO GIVE**

Promises to give at December 31, 2011 are as follows:

Receivable in less than one year	\$ 100,000
Receivable in one to five years	<u>50,000</u>
	150,000
Less discount to net present value	<u>(980)</u>
Promises to give, net	<u><u>\$ 149,020</u></u>

Discount to net present value was calculated using a discount rate of 2%. There were no conditional promises to give at December 31, 2011.



**NOTE 5. OTHER LIABILITIES – PROGRAM RELATED INVESTMENTS**

The Trust has outstanding amounts under program related subordinated promissory note agreements. These notes are subordinated to all other debt. At December 31, 2011, the notes consisted of the following:

Mary Reynolds Babcock Foundation, 2% interest only payments, payable quarterly. Maturing December 2014; unsecured; subordinated with rolling maturity.	\$ 150,000
Mary Reynolds Babcock, 2% interest only payments, payable quarterly. Maturing June 2016; unsecured; subordinated with rolling maturity.	100,000
South Carolina Bank & Trust, Prime (3.25% at December 31, 2011) interest only payments, payable quarterly. Maturing December 2015; unsecured; subordinated with rolling maturity.	100,000
Bunnelle Foundation, 2% interest only payments, payable quarterly. Maturing December 2015; unsecured; subordinated with rolling maturity.	100,000
Architectural Associates, 2% interest only payments, payable quarterly. Maturing June 2016; unsecured; subordinated with rolling maturity.	25,000
Total program related investments	<u><u>\$ 475,000</u></u>

**NOTE 6. OTHER LIABILITIES – EQUITY EQUIVALENT INVESTMENTS**

The Trust has outstanding amounts under equity equivalent subordinated promissory note agreements. These notes are subordinated to all other debt. At December 31, 2011, the notes consisted of the following:

Heritage Trust, 2% interest only payments, payable quarterly. Maturing October 2019; unsecured; subordinated with rolling maturity.	\$ 100,000
Small Business Lending Fund of the Federal Government, 2% interest only payments, payable quarterly. Interest increases to 9% in year 8. Maturing September 2019; unsecured; subordinated with rolling maturity.	392,000
Bank of South Carolina, 2% interest only payments, payable quarterly. Maturing August 2020; unsecured; subordinated with rolling maturity.	100,000
Total equity equivalent investments	<u><u>\$ 592,000</u></u>

**NOTE 7. LINE OF CREDIT**

On October 16, 2009, the Trust signed a line of credit with Wells Fargo in the amount of \$150,000 and due upon demand. This line of credit was renewed on November 2, 2011. The line of credit bears interest at prime rate plus 1.85%. There were no outstanding borrowings under this line of credit at December 31, 2011.

**NOTE 8. CONCENTRATIONS**

The Trust received over 80% of its revenue for the year ended December 31, 2011 from federal, state, and local grants. These revenues are utilized to provide affordable housing loans to qualified consumers and developers.

**NOTE 9. OPERATING LEASES**

The Trust entered into a new operating lease in December 2010 for their facilities. The monthly lease payment is \$2,707, expiring November 2015. Payment increases 3% per year of the lease. The following are the future minimum lease payments at December 31:

2012	\$	33,459
2013		34,462
2014		35,496
2015		36,561
		<hr/>
	\$	<b>139,978</b>

**NOTE 10. TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets are available for the following purposes at December 31:

Geographic	\$	20,000
Affordable housing loans		29,581
Time restriction		149,020
		<hr/>
	\$	<b>198,601</b>

**NOTE 11. BOARD DESIGNATED RESERVES**

The Board of Directors has designated the following reserves for the year ended December 31:

Operating reserve	\$	250,000
Investor liquidity reserve		106,700
Borrower reserve		170,500
		<hr/>
Total reserves	\$	<b>527,200</b>

**NOTE 12. CREDIT RISK**

The Trust maintains its cash accounts at various financial institutions. The Federal Deposit Insurance Corporation (FDIC) increased coverage to fully insure all non-interest bearing accounts, and to insure up to \$250,000 for all interest bearing accounts. At December 31, 2011, the Trust had total bank balances of \$810,665 that were not covered by the FDIC.

**NOTE 13. CHANGE IN ACCOUNTING POLICY**

In 2011, the Trust changed its accounting policy related to revenue recognition for its CDFI funds and applied that policy retroactively. Previously, funds were recognized when received. The Trust has elected to defer revenue for CDFI funds until those funds are expended in order to more accurately match the revenue recognition with the related expenditures. Net assets at the beginning of 2011 have been adjusted for the change in accounting policy. The cumulative effect of the change in policy decreases beginning net assets for 2011 by \$876,034. The change in policy has resulted in \$2,263,642 of funds received by the Trust from CDFI being recorded as deferred revenue at December 31, 2011.

**NOTE 14. SUBSEQUENT EVENTS**

Subsequent to December 31, 2011, the Trust received additional program related investments from three donors totaling \$350,000.

Subsequent to December 31, 2011, the Trust received one additional equity equivalent investment of \$250,000.

**REPORTING UNDER GOVERNMENT AUDITING STANDARDS**



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT  
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Directors  
The Lowcountry Housing Trust, Inc.  
North Charleston, South Carolina

We have audited the financial statements of The Lowcountry Housing Trust, Inc. (the Trust) as of and for the year ended December 31, 2011, and have issued our report thereon dated March 29, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Trust's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Trust's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Trust's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Trust's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than the specified parties.

*Elliott Davis, LLC*

March 29, 2012

REPORTING UNDER *OMB CIRCULAR A-133*



**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE IN ACCORDANCE WITH *OMB CIRCULAR A-133***

To the Board of Directors  
The Lowcountry Housing Trust, Inc.  
North Charleston, South Carolina

Compliance

We have audited the compliance of the Lowcountry Housing Trust, Inc. (the Trust) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2011. The Trust's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Trust's management. Our responsibility is to express an opinion on the Trust's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Trust's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Trust's compliance with those requirements.

In our opinion, the Trust complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2011.

Internal Control Over Compliance

The management of the Trust is responsible for establishing and maintaining effective control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Trust's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Trust's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.



Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, others within the entity, the Board of Directors, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Elliott Davis, LLC*

March 29, 2012

**THE LOWCOUNTRY HOUSING TRUST, INC.**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED DECEMBER 31, 2011**

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Agency or Pass-through Number	Federal Expenditures
<b>U. S. Department of Housing and Urban Development</b>			
<b>Passed through South Carolina State Housing Finance and Development</b>			
Neighborhood Stabilization Program	14.228	08-NSP113	\$ 980,924
<b>Passed through City of Charleston, South Carolina</b>			
Community Development Block Grant	14.218	B-09-MC-45-0001	<u>37,164</u>
<b>Total U. S. Department of Housing and Urban Development</b>			<u>1,018,088</u>
<b>U. S. Department of the Treasury</b>			
<b>Direct</b>			
ARRA-Community Development Financial Institutions Program	21.020	091FA007797	3,966
Community Development Financial Institutions Program	21.020	101FA008658	<u>578,426</u>
<b>Total U. S. Department of the Treasury</b>			<u>582,392</u>
<b>Total Federal Expenditures</b>			<u><u>\$ 1,600,480</u></u>

**THE LOWCOUNTRY HOUSING TRUST, INC.**  
**NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED DECEMBER 31, 2011**

**NOTE 1. BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards includes the Federal contracts and grant activity of the Lowcountry Housing Trust, Inc. (the "Trust") and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133 *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in, the preparation of the basic financial statements.

**THE LOWCOUNTRY HOUSING TRUST, INC.**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED DECEMBER 31, 2011**

**SECTION I – SUMMARY OF AUDITORS' RESULTS**

**Financial Statements**

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weaknesses identified?	No
Significant deficiencies identified not considered to be material weaknesses?	No
Noncompliance material to financial statements noted?	No

**Federal Awards**

Internal control over major programs:	
Material weaknesses identified?	No
Significant deficiencies identified not considered to be material weaknesses?	No
Type of auditors' report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	No

Identification of major programs:

<b>CFDA Number(s)</b>	<b>Name of Federal Program or Cluster</b>
-----------------------	---

14.228	Neighborhood Stabilization Program
--------	------------------------------------

Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
--	-----------

Auditee qualified as low-risk auditee?	Yes
--	-----

**SECTION II – FINANCIAL STATEMENT FINDINGS**

None

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

None

**SECTION IV – SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS**

None