

The Lowcountry Housing Trust, Inc.

Report on Financial Statements

For the Years Ended December 31, 2012 and 2011

The Lowcountry Housing Trust, Inc.

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of Lowcountry Housing Trust, Inc. which comprise the statements of financial position as of December 31, 2012 and 2011 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 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 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 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lowcountry Housing Trust, Inc. as of December 31, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

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

In addition, the supplemental information presented in Schedule 1 and Schedule 2, which is the responsibility of management, is presented for the purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Governmental Auditing Standards*

In accordance with *Government Auditing Standards*, we have also included our report dated March 15, 2013 on our consideration of Lowcountry Housing 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Lowcountry Housing Trust's internal control over financial reporting and compliance.



Charleston, South Carolina
March 15, 2013

The Lowcountry Housing Trust, Inc.

Statements of Financial Position

As of December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Assets		
Current assets		
Cash	\$ 4,544,718	\$ 4,305,335
Accounts receivable	200,000	19,808
Promises to give, current portion	50,000	100,000
Other current assets	4,481	4,308
Loans receivable, current portion	<u>85,012</u>	<u>382,975</u>
Total current assets	<u>4,884,211</u>	<u>4,812,426</u>
Other assets		
Property and equipment, net	33,288	23,926
Promises to give, net of current portion	-	49,020
Loans receivable, net of allowance for loan loss and current portion	<u>2,237,976</u>	<u>734,960</u>
Total other assets	<u>2,271,264</u>	<u>807,906</u>
Total assets	<u>\$ 7,155,475</u>	<u>\$ 5,620,332</u>
Liabilities and Net Assets		
Current liabilities		
Accounts payable	\$ 5,061	\$ 5,341
Accrued expenses	17,513	15,142
Deferred revenue	1,405,961	2,263,642
NSP program income due to State	<u>42,413</u>	<u>79,236</u>
Total current liabilities	<u>1,470,948</u>	<u>2,363,361</u>
Other liabilities		
Other liabilities - program related investments	1,175,000	475,000
Other liabilities - equity equivalent investments	<u>842,000</u>	<u>592,000</u>
Total other liabilities	<u>2,017,000</u>	<u>1,067,000</u>
Total liabilities	<u>3,487,948</u>	<u>3,430,361</u>
Net assets		
Unrestricted		
Undesignated	2,675,635	1,405,288
Board designated	895,657	586,082
Temporarily restricted	<u>96,235</u>	<u>198,601</u>
Total net assets	<u>3,667,527</u>	<u>2,189,971</u>
Total liabilities and net assets	<u>\$ 7,155,475</u>	<u>\$ 5,620,332</u>

See Notes to Financial Statements.

The Lowcountry Housing Trust, Inc.**Statement of Activities****For the year ended December 31, 2012**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Public Support and Revenue			
Public Support			
Federal grants	\$ 1,808,100	\$ -	\$ 1,808,100
Local grants	70,000	-	70,000
Foundation grants	15,750	11,000	26,750
Individual contributions	12,700	35,480	48,180
Financial institution contributions	9,500	25,000	34,500
Total public support	<u>1,916,050</u>	<u>71,480</u>	<u>1,987,530</u>
Revenue			
Investment income	37	-	37
Special events, net of expenses	4,775	-	4,775
Program service revenue	<u>188,181</u>	<u>5,962</u>	<u>194,143</u>
Total revenue	<u>192,993</u>	<u>5,962</u>	<u>198,955</u>
Net assets released from restrictions	<u>179,808</u>	<u>(179,808)</u>	<u>-</u>
Total Public Support and Revenue	<u>2,288,851</u>	<u>(102,366)</u>	<u>2,186,485</u>
Expenses			
Program services	621,991	-	621,991
Management and general	50,901	-	50,901
Fundraising	<u>36,037</u>	<u>-</u>	<u>36,037</u>
Total expenses	<u>708,929</u>	<u>-</u>	<u>708,929</u>
Change in net assets	1,579,922	(102,366)	1,477,556
Net assets, beginning of year	1,991,370	198,601	2,189,971
Net assets, end of year	<u>\$ 3,571,292</u>	<u>\$ 96,235</u>	<u>\$ 3,667,527</u>

See Notes to Financial Statements.

The Lowcountry Housing Trust, Inc.

Statement of Activities

For the year ended December 31, 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Public Support and Revenue			
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	<u>1,694,506</u>	<u>173,601</u>	<u>1,868,107</u>
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	<u>142,475</u>	<u>-</u>	<u>142,475</u>
Net assets released from restrictions	<u>-</u>	<u>-</u>	<u>-</u>
Total Public Support and Revenue	<u>1,836,981</u>	<u>173,601</u>	<u>2,010,582</u>
Expenses			
Program services	1,361,946	-	1,361,946
Management and general	39,085	-	39,085
Fundraising	52,085	-	52,085
Total expenses	<u>1,453,116</u>	<u>-</u>	<u>1,453,116</u>
Change in net assets	<u>383,865</u>	<u>173,601</u>	<u>557,466</u>
Net assets, beginning of year	1,771,039	737,500	2,508,539
Cumulative effect of change in accounting policy (Note 13)	(163,534)	(712,500)	(876,034)
Net assets, beginning of year (adjusted)	<u>1,607,505</u>	<u>25,000</u>	<u>1,632,505</u>
Net assets, end of year	<u>\$ 1,991,370</u>	<u>\$ 198,601</u>	<u>\$ 2,189,971</u>

See Notes to Financial Statements.

The Lowcountry Housing Trust, Inc.**Statement of Functional Expenses****For the year ended December 31, 2012**

Expenses	Program Services	Management and General	Fundraising	Total Expenses
Salaries and wages	\$ 253,179	\$ 12,572	\$ 8,382	\$ 274,133
Payroll taxes and employment benefits	21,279	1,057	704	23,040
Total personnel	274,458	13,629	9,086	297,173
Advertising	13,078	-	-	13,078
Communication and utilities	6,894	2,298	-	9,192
Conferences and meetings	14,940	4,980	-	19,920
Dues and subscriptions	2,972	1,115	-	4,087
Insurance	3,696	1,232	-	4,928
Interest expense	31,676	-	-	31,676
Miscellaneous	2,096	-	-	2,096
Office expenses	10,553	3,518	-	14,071
Postage, shipping, and delivery	10,869	3,623	-	14,492
Professional development	19,262	-	-	19,262
Professional fees and contracted services	92,854	9,884	26,951	129,689
Program related	2,549	-	-	2,549
Rent	25,155	8,385	-	33,540
Repairs and maintenance	6,710	2,237	-	8,947
Travel	10,616	-	-	10,616
Total expenses before affordable housing subsidy, depreciation and provision for loan loss	528,378	50,901	36,037	615,316
Affordable housing subsidy (Note 1)	20,000	-	-	20,000
Depreciation	10,239	-	-	10,239
Provision for loan loss (Note 3)	63,374	-	-	63,374
Total expenses	\$ 621,991	\$ 50,901	\$ 36,037	\$ 708,929

See Notes to Financial Statements.

The Lowcountry Housing Trust, Inc.**Statement of Functional Expenses****For the year ended December 31, 2011**

Expenses	Program Services	Management and General	Fundraising	Total Expenses
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 subsidy, depreciation and provision for loan loss	319,416	39,085	52,085	410,586
Affordable housing subsidy (Note 1)	984,307	-	-	984,307
Depreciation	8,270	-	-	8,270
Provision for loan loss (Note 3)	49,953	-	-	49,953
Total expenses	<u>\$ 1,361,946</u>	<u>\$ 39,085</u>	<u>\$ 52,085</u>	<u>\$ 1,453,116</u>

See Notes to Financial Statements.

The Lowcountry Housing Trust, Inc.

Statements of Cash Flows

For the years ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
<i>Cash flows from operating activities</i>		
Change in net assets	\$ 1,477,556	\$ 557,466
Adjustments to reconcile the change in net assets to net cash provided by operating activities:		
Depreciation	10,239	8,270
Provision for loan loss	63,374	49,953
Loss on disposal of assets	-	2,004
Changes in:		
Accounts receivable	(180,192)	6,117
Promises to give	99,020	(149,020)
Other current assets	(173)	129
Accounts payable and accrued expenses	2,091	(39,725)
Deferred revenue	(857,681)	1,387,608
NSP program income due to State	(36,823)	79,236
Net cash provided by operating activities	<u>577,411</u>	<u>1,902,038</u>
<i>Investing activities</i>		
Purchases of property and equipment	(19,601)	(10,831)
Community development loans made	(1,905,112)	(741,101)
Net proceeds from repayment of loans receivable	636,685	459,182
Net cash used for investing activities	<u>(1,288,028)</u>	<u>(292,750)</u>
<i>Financing activities</i>		
Proceeds from program related investments	700,000	225,000
Proceeds from equity equivalent investments	250,000	392,000
Net cash provided by financing activities	<u>950,000</u>	<u>617,000</u>
Net increase in cash and cash equivalents	239,383	2,226,288
<i>Cash and cash equivalents, beginning of year</i>	4,305,335	2,079,047
<i>Cash and cash equivalents, end of year</i>	<u>\$ 4,544,718</u>	<u>\$ 4,305,335</u>
<i>Supplemental disclosures</i>		
Cash paid for interest	<u>\$ 31,676</u>	<u>\$ 15,751</u>

See Notes to Financial Statements.

The Lowcountry Housing Trust, Inc.

Notes to Financial Statements

December 31, 2012 and 2011

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., (LHT), a nonprofit community development loan fund, was certified by the United States Treasury CDFI Fund as a Community Development Financial Institution (CDFI) in 2007. The Trust is located in North Charleston, South Carolina and serves the state of South Carolina with a focus on counties that comprise the Charleston Metropolitan Statistical Area as well as the adjacent counties of Georgetown and Beaufort. LHT'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.

Community Development Financial Institution

A certified CDFI is a specialized financial institution that works in market niches that are underserved by traditional financial institutions. These financial institutions are focused on community development activities that rebuild distressed and neglected communities through a variety of lending, investment, social support and educational activities. 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.

According to the Riegle Community Development and Regulatory Improvement Act of 1994, CDFIs are specialized financial institutions that:

- Have a primary mission of promoting community development;
- Serve an investment area or targeted population;
- Provide development services and equity investments or loans;
- Maintain accountability to residents of its investment area or targeted population; and
- Are not a public agency or institution.

Programs and Services

LHT finances projects that: 1) provide affordable housing; 2) create access to food and essential services; 3) increase the quality and availability of neighborhood facilities; 4) create employment opportunities; 5) attract additional investment; and 6) strengthen the social and economic fabric of the community.

LHT provides loans up to \$500,000 to finance acquisition, predevelopment, infrastructure, construction, renovation, leasehold improvements, machinery and equipment, working capital, and permanent financing costs for affordable housing, healthy food, community facility, and community business development projects.

The Lowcountry Housing Trust, Inc.

Notes to Financial Statements

December 31, 2012 and 2011

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

Forgivable Loan Programs:

Affordable Housing Subsidy (AHS) Program

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, pre-development, 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 (HBA) Program

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. As HBA loans are forgivable over time, loans are recognized as an expense in the Statement of Activity when closed.

Neighborhood Stabilization Program (NSP)

The Neighborhood Stabilization Program (NSP) is used to assist local governmental agencies, for-profit, and nonprofit organizations to purchase and rehabilitate foreclosed properties that would otherwise remain abandoned. The overall goal of this program is to help reduce/ameliorate the decline (both physical and pecuniary) of local communities as a result of foreclosed and abandoned properties. The project targets assistance in providing activities that address the stabilization of foreclosed upon homes and residential properties that will be used to house individuals or families whose income is at or below 120% of area median income. Program funds are used to purchase foreclosed homes at a discount (at least 1% discount) and rehabilitate, redevelop, or demolish them. As NSP loans are forgivable over time, loans are recognized as an expense in the Statement of Activity when closed.

Revolving Loan Programs:

Affordable Housing (AH)

The Trust provides affordable housing loans up to \$500,000 to finance acquisition, predevelopment, infrastructure, construction, rehabilitation, and permanent financing development costs. The Trust finances the construction, rehabilitation, or redevelopment of homeownership and rental units affordable to low to moderate income families living in coastal South Carolina. The Trust finances Low Income Housing Tax Credit (LIHTC) projects throughout the State.

The Lowcountry Housing Trust, Inc.

Notes to Financial Statements

December 31, 2012 and 2011

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

Revolving Loan Programs, continued

Community Business (CB)

The Trust provides community business loans up to \$500,000 to finance acquisition, predevelopment, infrastructure, construction, renovation, leasehold improvements, machinery and equipment, working capital, and permanent financing business costs. The Trust finances the capital needs of community businesses serving and employing low to moderate income individuals located in underserved coastal South Carolina communities.

Community Facility (CF)

The Trust provides community facility loans up to \$500,000 to finance acquisition, pre-development, infrastructure, construction, rehabilitation, and permanent financing development costs. The Trust finances the construction and renovation of community facilities including, but not limited to, recreation centers, day care centers, health care centers, senior centers, homeless shelters, and transitional housing in underserved South Carolina communities.

Healthy Food (HF)

LHT provides healthy food retail loans up to \$500,000 to finance acquisition, predevelopment, infrastructure, construction, renovation, leasehold improvement, machinery and equipment, working capital, and permanent financing business costs. LHT finances the construction and renovation of retail and wholesale outlets including, but not limited to, grocery stores, corner stores, farmer's markets, food hubs, and mobile markets selling healthy food in underserved South Carolina communities.

Incentive Program:

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.

The Lowcountry Housing Trust, Inc.

Notes to Financial Statements

December 31, 2012 and 2011

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

Funding Sources:

Federal Government Grants:

Community Development Block Grant (CDBG)

The CDBG Program allocates annual grants to cities and urban counties to develop viable communities by providing decent housing, a suitable living environment, and opportunities to expand economic opportunities, principally for low and moderate income persons. The Trust applies for CDBG grants from local municipalities to support both its operations and programs; specifically grants have been provided to support CDFI implementation and the Homebuyer Assistance Program. Extension of grant periods for utilization of unspent grants is provided at the discretion of the local municipality upon a yearend review of the organization and its program.

Community Development Financial Institutions Financial Assistance (CDFI FA)

The CDFI Fund makes awards of up to \$2 million to certified CDFIs under the FA component of the CDFI Program. A CDFI may use the award for financing capital, loan loss reserves, capital reserves, or operations. FA awards are made in the form of equity investments, loans, deposits, or grants, and the CDFI is required to match its FA award dollar-for-dollar with non-federal funds of the same type as the award itself. This requirement enables CDFIs to leverage private capital to meet the demand for affordable financial products and services in economically distressed communities.

Community Development Financial Institutions Healthy Food Financing Initiative (HFFI)

The CDFI Fund makes awards totaling \$25 million annually to certified CDFIs under the HFFI component of the CDFI Program. A CDFI may use the award for financing capital, loan loss reserves, capital reserves, or operations. The HFFI is an interagency initiative involving the United States Department of the Treasury, the United States Department of Agriculture, and the United States Department of Health and Human Services. HFFI represents the federal government's first coordinated step to eliminate "food deserts" by promoting a wide range of interventions that expand the supply of and demand for nutritious foods, including increasing the distribution of agricultural products; developing and equipping grocery stores; and strengthening producer-to-consumer relationships.

HOME Investment Partnership Program (HOME)

HOME provides formula grants to States and localities that communities use, often in partnership with local nonprofit groups, to fund a wide range of activities that build, buy, and/or rehabilitate affordable housing for rent or homeownership or provide direct rental assistance to low-income individuals. The Trust applies for HOME grants from local municipalities to support both its operations and programs; specifically grants have been provided to the Homebuyer Assistance Program. Extension of grant periods for utilization of unspent grants is provided at the discretion of the local municipality upon a yearend review of the organization and its program.

The Lowcountry Housing Trust, Inc.

Notes to Financial Statements

December 31, 2012 and 2011

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

Neighborhood Stabilization Program (NSP)

The Neighborhood Stabilization Program (NSP) was established for the purpose of stabilizing communities that have suffered from foreclosures and abandonment. NSP1, a term that references the NSP funds authorized under Division B, Title III of the Housing and Economic Recovery Act (HERA) of 2008, provides grants to all states and selected local governments on a formula basis.

Small Business Loan Fund (SBLF)

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 nonprofit 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.

Private Investments:

Equity Equivalent Investments (EQ2)

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). EQ2 is a financial tool that encourages banks and certain other entities to invest in CDFI's, such as the Trust. The purpose of an EQ2 is to promote a stronger capital structure at the CDFI, secure additional debt capital and increase lending and investing in economically disadvantaged communities. An EQ2 is a long-term, low-interest loan that is typically structured with a rolling maturity and an automatic annual extension of the loan, as long as the borrower carries out its community development purposes. The equity equivalent investment is carried on the bank or entities' 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 subordinate to the Trust's other creditors. (See Note 6)

Program-Related Investments (PRI)

Program-Related Investments (PRIs) are long term, low interest loans used to finance charitable activities. As with EQ2s, they are typically non-secured investments, but have a defined maturity date.

In accordance with accounting principles generally accepted in the United States of America (GAAP), the Trust reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

The Lowcountry Housing Trust, Inc.

Notes to Financial Statements

December 31, 2012 and 2011

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

Basis of presentation, continued

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. The Trust has no permanently restricted net assets at December 31, 2012 or 2011.

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.

Budgets

The budget for the Trust is prepared in October for the following calendar year, and is 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.

Use of estimates and assumptions

The preparation of financial statements in conformity with 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 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. The Trust did not have any cash equivalents at December 31, 2012 or 2011.

NSP requires that all funds granted to the Trust must be deposited in a non-interest bearing account. Additionally, NSP stipulates that any income generated from an activity associated with NSP must be deposited in an interest-bearing account. The Trust held \$42,413 and \$84,321 of NSP funds at December 31, 2012 and 2011, respectively.

The Lowcountry Housing Trust, Inc.

Notes to Financial Statements

December 31, 2012 and 2011

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

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 Loan 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.

Below Market Interest Loans

GAAP generally require that loans with below market interest rates be restated for financial reporting purposes to 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 non-performing assets, past and expected loan loss experience, adequacy of collateral, and specific impaired loans.

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 \$5,000, 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:

Furniture and equipment	3 – 5 years
Software	5 years

The Lowcountry Housing Trust, Inc.

Notes to Financial Statements

December 31, 2012 and 2011

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

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% for the years ended December 31, 2012 and 2011). There was no allowance related to uncollectible promises to give in 2012 or 2011.

Credit Risk

The Trust maintains its cash accounts at various financial institutions. The Federal Deposit Insurance Corporation (FDIC) fully insures all non-interest bearing accounts, and insures up to \$250,000 for all interest bearing accounts. At December 31, 2011, the Trust had total bank balances of \$810,655 which were not covered by the FDIC. There were no balances held at financial institutions that were not fully insured at December 31, 2012.

Accounts Receivable

Accounts receivable, typically are comprised of grant funds receivable and are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. There was no allowance related to uncollectible accounts receivable at December 31, 2012 or 2011.

The Lowcountry Housing Trust, Inc.

Notes to Financial Statements

December 31, 2012 and 2011

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

Deferred Revenue

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 services performed are recorded as deferred revenue in the financial statements. (See Note 13)

Functional Allocation of Expenses

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

Management and general expenses include 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 program administration of the Trust, and manage the financial and budgetary responsibilities of the Trust.

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

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 a reserve in 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 years ended December 31, 2012 and 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 federal, state, or local tax authorities for years before 2009.

The Lowcountry Housing Trust, Inc.

Notes to Financial Statements

December 31, 2012 and 2011

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

Reclassifications

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

Subsequent Events

In preparing these financial statements, the Trust evaluated events and transactions for potential recognition or disclosure through March 15, 2013, 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:

	<u>2012</u>	<u>2011</u>
Furniture and equipment	\$ 25,398	\$ 27,305
Software	35,530	14,022
	<u>60,928</u>	<u>41,327</u>
Less accumulated depreciation	<u>(27,640)</u>	<u>(17,401)</u>
Property and equipment, net	<u>\$ 33,288</u>	<u>\$ 23,926</u>

Depreciation expense for the years ended December 31, 2012 and 2011 was \$10,239 and \$8,270, respectively.

Note 3. Loans Receivable

Loans receivable is comprised of the following at December 31:

	<u>2012</u>	<u>2011</u>
Loans receivable:		
Interest rates ranging from 1.00% - 7.25%, secured by real estate and one receivable secured by developer fee and mortgage assignment	\$ 2,445,251	\$ 1,176,823
Less allowance for loan loss	<u>(122,263)</u>	<u>(58,888)</u>
	2,322,988	1,117,935
Less current portion	<u>(85,012)</u>	<u>(382,975)</u>
Loans receivable, net of current portion and allowance for loan loss	<u>\$ 2,237,976</u>	<u>\$ 734,960</u>

The Lowcountry Housing Trust, Inc.

Notes to Financial Statements

December 31, 2012 and 2011

Note 3. Loans Receivable, Continued

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 reserve to be used should loans not be repaid in full.

Note 4. Promises to Give

Promises to give are comprised of the following as of December 31:

	<u>2012</u>	<u>2011</u>
Receivable in less than one year	\$ 50,000	\$ 100,000
Receivable in one to 5 years	-	50,000
	<u>50,000</u>	<u>150,000</u>
Less discount to present value	-	(980)
Promises to give, net	<u>\$ 50,000</u>	<u>\$ 149,020</u>

Discount to net present value was calculated using a discount rate of 2% in 2011. There were no conditional promises to give at December 31, 2012 or 2011.

Note 5. Other Liabilities – Program Related Investments

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

	<u>2012</u>	<u>2011</u>
South Carolina Bank and Trust, 2% interest only payments, payable quarterly. Maturing November 2017; unsecured; subordinated.	\$ 300,000	\$ -
Anita Zucker, 2% interest only payments, payable quarterly. Maturing February 2017; unsecured; subordinated.	200,000	-
Mary Reynolds Babcock Foundation, 2% interest only payments, payable quarterly. Maturing December 2014; unsecured; subordinated.	150,000	150,000
Mary Reynolds Babcock Foundation, 2% interest only payments, payable quarterly. Maturing June 2016; unsecured; subordinated.	100,000	100,000
Heritage Trust, 2% interest only payments, payable quarterly. Maturing June 2022; unsecured; subordinated.	100,000	-

The Lowcountry Housing Trust, Inc.

Notes to Financial Statements

December 31, 2012 and 2011

Note 5. Other Liabilities – Program Related Investments, Continued

	<u>2012</u>	<u>2011</u>
Bunnelle Foundation, 2% interest only payments, payable quarterly. Maturing January 2017; unsecured; subordinated.	100,000	100,000
Bunnelle Foundation, 2% interest only payments, payable quarterly. Maturing December 2015; unsecured; subordinated.	100,000	-
Robert Johnston, 2% interest only payments, payable quarterly. Maturing December 2017; unsecured; subordinated.	50,000	-
Robert Johnston, 2% interest only payments, payable quarterly. Maturing February 2017; unsecured; subordinated.	50,000	-
Architectural Associates, 2% interest-only payments, payable quarterly. Maturing June 2016; unsecured; subordinated.	25,000	25,000
South Carolina Bank and Trust, prime (3.25% at December 31, 2011) interest only payments, payable quarterly. Originally maturing December 2015; unsecured; subordinated. Rolled into new note in 2012	-	100,000
	<u>\$ 1,175,000</u>	<u>\$ 475,000</u>

The future maturities of program-related investments are as follows for the years ending December 31:

2013	\$ -
2014	150,000
2015	100,000
2016	125,000
2017	700,000
Thereafter	100,000
	<u>\$ 1,175,000</u>

The Lowcountry Housing Trust, Inc.

Notes to Financial Statements

December 31, 2012 and 2011

Note 6. Other Liabilities – Equity Equivalent Investments

The Trust has outstanding amounts under equity equivalent subordinated promissory note agreements. These notes are subordinate to all other debt, and the maturities may be extended or rolled at the option of the lender. At December 31, the notes consisted of the following:

	<u>2012</u>	<u>2011</u>
Small Business Lending Fund of the Federal Government, 2% interest-only payments, payable quarterly. Interest increases to 9% in year eight. Maturing September 2019; unsecured; subordinated with rolling maturity.	\$ 392,000	\$ 392,000
Wells Fargo, 2% interest-only payments, payable quarterly. Maturing February 2022; unsecured; subordinated with rolling maturity.	250,000	-
Bank of South Carolina, 2% interest-only payments, payable quarterly. Maturing August 2020; unsecured; subordinated with rolling maturity.	100,000	100,000
Heritage Trust, 2% interest-only payments, payable quarterly. Maturing October 2019; unsecured; subordinated with rolling maturity.	<u>100,000</u>	<u>100,000</u>
Total equity equivalent investments	<u>\$ 842,000</u>	<u>\$ 592,000</u>

The equity equivalent investments have rolling maturities and, unless otherwise extended, future maturities of these investments are as follows for the years ending December 31:

2013	\$ -
2014	-
2015	-
2016	-
2017	-
Thereafter	<u>842,000</u>
	<u>\$ 842,000</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. This line of credit was reaffirmed on November 2, 2011, and expired in November 2012. The line of credit bore interest at prime rate plus 1.85% and was due on demand. There were no outstanding borrowings under this line of credit at December 31, 2011.

Note 8. Concentrations

The Trust received over 94% and 80% of its revenue for the years ended December 31, 2012 and 2011, respectively, from federal, state, and local grants. These revenues are utilized to provide affordable housing loans to qualified consumers and developers.

The Lowcountry Housing Trust, Inc.

Notes to Financial Statements

December 31, 2012 and 2011

Note 9. Operating Leases

The Trust has an operating lease, which began in December 2010, expiring November 2015, for their office facilities. The initial monthly lease payment was \$2,788 and payment increases 3% per year of the lease. The following are the future minimum lease payments for the years ending December 31:

2013	\$	34,462
2014		35,496
2015		36,561

Note 10. Temporarily Restricted Net Assets

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

	<u>2012</u>	<u>2011</u>
CDFI Capacity Building	\$ 59,000	\$ 149,020
Affordable housing loans	27,000	29,581
South Carolina Community Development Finance Alliance	10,000	-
Healthy Food Program	235	-
Geographic	-	20,000
	<u>\$ 96,235</u>	<u>\$ 198,601</u>

Note 11. Board Designated Reserves

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

	<u>2012</u>	<u>2011</u>
Borrower reserve	\$ 321,694	\$ 170,494
Operating reserve	250,000	250,000
Investor liquidity reserve	201,700	106,700
Loan loss reserve	122,263	58,888
Total reserves	<u>\$ 895,657</u>	<u>\$ 586,082</u>

Note 12. Related Party Transactions

During the year ended December 31, 2012, the Trust received \$30,000 in donations from two companies at which board members were employed, and received \$9,575 in donations from individual board members. At December 31, 2012, the Trust also had loans receivable from entities affiliated with board members totaling \$35,095. In addition, the Trust had program related investments and equity equivalent investments due to entities affiliated with board members totaling \$125,000 and \$350,000, respectively, at December 31, 2012.

The Lowcountry Housing Trust, Inc.***Notes to Financial Statements******December 31, 2012 and 2011***

Note 12. Related Party Transactions, Continued

During the year ended December 31, 2011, the Trust received \$10,000 in donations from one company at which a board member was employed, and received \$9,929 in donations from individual board members. At December 31, 2011, the Trust also had loans receivable from entities affiliated with board members totaling \$28,465. In addition, the Trust had equity equivalent investments due to entities affiliated with board members totaling \$100,000 at December 31, 2011.

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 retrospectively. 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 decreased beginning net assets for 2011 by \$876,034. The change in policy resulted in \$2,263,642 of funds received by the Trust from CDFI being recorded as deferred revenue at December 31, 2011.

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, in accordance with the 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, the financial statements of the Lowcountry Housing Trust, Inc. (the Trust) as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Lowcountry Housing Trust's basic financial statements, and have issued our report thereon dated March 15, 2013.

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. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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, non-compliance with 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 non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Elliott Davis, LLC

Charleston, South Carolina
March 15, 2013

Reporting under *OMB Circular A-133*



**Report on Compliance For Each Major Program; Report on Internal Control over Compliance; and
Report on the Schedule of Expenditures of Federal Awards Required by OMB Circular A-133**

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

Report on Compliance for Each Major Federal Program

We have audited Lowcountry Housing Trust, Inc. (the Trust)'s compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Trust's major federal programs for the year ended December 31, 2012. 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.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Trust's major federal program based on our audit of the types of compliance requirement referred to above. 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 non-compliance 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the Trust's compliance with those requirements.

Opinion on Each Major Federal Program

In our opinion, the Trust complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

Report on Internal Control Over Compliance

Management of the Trust is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Trust's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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, non-compliance 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 non-compliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of Lowcountry Housing Trust as of and for the year ended December 31, 2012, and have issued our report thereon dated March 15, 2013, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the 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 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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.



March 15, 2013

The Lowcountry Housing Trust, Inc.*Schedule of Expenditures of Federal Awards**Year Ended December 31, 2012*

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Agency or Pass-through Number	Federal Expenditures
U. S. Department of Housing and Urban Development			
Passed through South Carolina State Housing Finance and Development			
Neighborhood Stabilization Program	14.228	08-NSP113	\$ 62,713
Passed through City of Charleston, South Carolina			
Community Development Block Grant	14.218	B-09-MC-45-0001	<u>20,000</u>
Total U. S. Department of Housing and Urban Development			<u>82,713</u>
U. S. Department of the Treasury			
Direct			
Community Development Financial Institutions Program	21.020	101FA008658	1,793,100
Community Development Financial Institutions Program - Healthy Food Financing Initiative Program	21.020	101FA008658	<u>15,000</u>
Total U. S. Department of the Treasury			<u>1,808,100</u>
Total Federal Expenditures			<u>\$ 1,890,813</u>

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, 2012**

Section I – Summary of Auditor's Results

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 auditor's 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:

CFDA Number(s)	Name of Federal Program or Cluster
21.020	Community Development Financial Institution Program

Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
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Auditee qualified as low-risk auditee?	Yes
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Section II - Financial Statements Findings

None

Section III - Federal Award Findings and Questioned Costs

None

Section IV - Summary Schedule of Prior Year Findings

None

Supplemental Information



2012 Board Audit Letter

To Investors and Grantors,

Thank you for your interest and support of the Lowcountry Housing Trust (LHT). The LHT board and staff recognize there is a difference of opinion among auditors on the treatment of U.S. Treasury CDFI Fund Financial Assistance (FA) awards as Deferred Revenue versus Temporarily Restricted Net Assets. LHT has been unable to get written audit guidance on the treatment of these capital award funds from the CDFI Fund or any CDFI industry trade association.

We understand that recognizing the U.S. Treasury CDFI Fund awards as Temporarily Restricted Net Assets in the year of receipt of the funds significantly shifts our organization's equity position, providing substantially more opportunity for leveraging of equity with debt capital investments. However, given the timing of the award disbursement (4th quarter of LHT's fiscal year) which would limit the deployment of the capital to a 60 to 90 day time frame to meet the organization's year end deployment targets, LHT has chosen to take a conservative approach and classifies these awards as deferred revenue. We believe this approach properly matches up the timing of our revenue and expenses related to the CDFI award.

The attached supplemental schedule on page 30 provides an adjusted, condensed Statement of Financial Position for the Lowcountry Housing Trust), excluding all deferred revenue.

Should clear guidance be provided in the future, LHT will evaluate the implication of restating all of its financial statements that classify FA awards as "deferred revenue" as the magnitude of the reclassifications may trigger a material audit finding.

Sincerely,

Karen Abrams
Board Chairman

Ron Owens
Board Treasurer

Michelle Mapp
Executive Director

The Lowcountry Housing Trust, Inc.**Schedule 1 - Schedule of Adjustments to Statement of Financial Position for Deferred Revenue****As of December 31, 2012**

The following schedule is used by management for internal operating purposes only and provides an adjusted, condensed Statement of Financial Position for the Trust, excluding all deferred revenue.

	2012		
	Total <i>(As Reported)</i>	Adjustments	Total <i>(Adjusted)</i>
Assets			
Current assets	\$ 4,884,211	\$ -	\$ 4,884,211
Other assets	2,271,264	-	2,271,264
Total assets	<u>\$ 7,155,475</u>	<u>\$ -</u>	<u>\$ 7,155,475</u>
Liabilities and net assets			
Current liabilities	\$ 1,470,948	\$ (1,405,961)	\$ 64,987
Other liabilities	2,017,000	-	2,017,000
Total liabilities	<u>3,487,948</u>	<u>(1,405,961)</u>	<u>2,081,987</u>
Net assets			
Unrestricted			
Undesignated	2,675,635	-	2,675,635
Board designated	895,657	-	895,657
Temporarily restricted	96,235	1,405,961	1,502,196
Total net assets	<u>3,667,527</u>	<u>1,405,961</u>	<u>5,073,488</u>
Total liabilities and net assets	<u>\$ 7,155,475</u>	<u>\$ -</u>	<u>\$ 7,155,475</u>

See Independent Auditor's Report.

The Lowcountry Housing Trust, Inc.**Schedule 2 - Schedule of Adjustments to Statement of Activities for Deferred Revenue****For the year ended December 31, 2012**

The following schedule is used by management for internal operating purposes only and provides an adjusted, condensed Statement of Activities for the Trust, excluding all deferred revenue.

	2012		
	<u>Total</u> <i>(As Reported)</i>	<u>Adjustments</u>	<u>Total</u> <i>(Adjusted)</i>
Public Support and Revenue			
Total public support	\$ 1,987,530	\$ (857,681)	\$ 1,129,849
Total revenue	198,955	-	198,955
Net assets released from restrictions	-	-	-
Total Public Support and Revenue	2,186,485	(857,681)	1,328,804
Total expenses	708,929	-	708,929
Change in net assets	1,477,556	(857,681)	619,875
Net assets, beginning of year	2,189,971	2,263,642	4,453,613
Net assets, end of year	<u>\$ 3,667,527</u>	<u>\$ 1,405,961</u>	<u>\$ 5,073,488</u>

See Independent Auditor's Report.