



**OFFICE OF MORTGAGE SETTLEMENT
OVERSIGHT AND SUBSIDIARIES**

CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTAL SCHEDULE

As of and for the Year Ended June 30, 2018

And Report of Independent Auditor

OFFICE OF MORTGAGE SETTLEMENT OVERSIGHT AND SUBSIDIARIES

TABLE OF CONTENTS

REPORT OF INDEPENDENT AUDITOR..... 1-2

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statement of Financial Position 3
Consolidated Statement of Activities and Changes in Net Assets 4
Consolidated Statement of Cash Flows 5
Notes to the Consolidated Financial Statements..... 6-8

SUPPLEMENTAL SCHEDULE

Consolidated Schedule of Functional Expenses 9

Report of Independent Auditor

Board of Directors
Office of Mortgage Settlement Oversight and Subsidiaries
Raleigh, North Carolina

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of the Office of Mortgage Settlement Oversight (a nonprofit organization) (“OMSO”) and Subsidiaries, which comprise the consolidated statement of financial position as of June 30, 2018, and the related consolidated statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management’s Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to OMSO’s preparation and fair presentation of the consolidated 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 OMSO’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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of OMSO as of June 30, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidated supplemental schedule, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.

Cherry Behaert LLP

Raleigh, North Carolina
October 29, 2018

OFFICE OF MORTGAGE SETTLEMENT OVERSIGHT AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

JUNE 30, 2018

ASSETS

Current Assets:

Cash and cash equivalents \$ 8,139,789

Other Assets:

Prepaid expenses 324,586

Total Assets \$ 8,464,375

LIABILITIES AND NET ASSETS

Current Liabilities:

Accounts payable \$ 1,404,975

Accrued liabilities 1,318

Total Liabilities 1,406,293

Net Assets:

Unrestricted 7,058,082

Total Liabilities and Net Assets \$ 8,464,375

OFFICE OF MORTGAGE SETTLEMENT OVERSIGHT AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2018

Unrestricted Revenue and Other Support:	
Service income	\$ 8,425,577
Interest income	<u>3,447</u>
Total Unrestricted Revenue and Other Support	<u>8,429,024</u>
Expenses:	
Professional services	9,342,968
Management and general	<u>1,318,689</u>
Total Expenses	<u>10,661,657</u>
Decrease in net assets unrestricted	(2,232,633)
Net assets unrestricted, beginning of year	<u>9,290,715</u>
Net assets unrestricted, end of year	<u><u>\$ 7,058,082</u></u>

OFFICE OF MORTGAGE SETTLEMENT OVERSIGHT AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2018

Cash flows from operating activities:

Decrease in net assets unrestricted	\$ (2,232,633)
Adjustments to reconcile decrease in net assets unrestricted to net cash used in operating activities:	
Changes in assets and liabilities:	
Decrease in prepaid expenses	118,031
Decrease in accounts payable	(545,550)
Decrease in accrued liabilities	<u>(27,116)</u>
Net cash used in operating activities	<u>(2,687,268)</u>
 Net decrease in cash and cash equivalents	 (2,687,268)
Cash and cash equivalents, beginning of year	<u>10,827,057</u>
Cash and cash equivalents, end of year	<u>\$ 8,139,789</u>

OFFICE OF MORTGAGE SETTLEMENT OVERSIGHT AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2018

Note 1—Organization and summary of significant accounting policies

Organization – Office of Mortgage Settlement Oversight (“OMSO”) was incorporated as a nonprofit corporation in North Carolina on February 6, 2012. OMSO was formed by the Monitor, Joseph Smith, to help him carry out the duties he was given in the National Mortgage Settlement (the “Settlement”), as described below. On May 16, 2014, July 8, 2014, and October 7, 2015, three Limited Liability Companies were created to assist the Monitor in carrying out his duties.

On February 9, 2012, the attorneys general of 49 states and the District of Columbia, the federal government, and five banks and mortgage servicers reached an agreement on a mortgage Settlement that will create new servicing standards, provide loan modification relief to distressed homeowners, and provide funding for state and federal governments. The Settlement was made formal and binding on April 5, 2012, when the U.S. District Court in Washington, District of Columbia entered the consent judgments containing the Settlement terms. The terms of the Settlement will remain in full force and effect for three and one-half years from the binding date with an additional six months for the Monitor to review the final report.

On December 19, 2013, the attorneys general of 49 states and the District of Columbia, the federal government, and a nonbank mortgage loan servicer reached an agreement on mortgage Settlement. The Settlement was made formal and binding on February 26, 2014. The terms of the Settlement will remain in full force and effect for three and one-half years from the binding date with an additional six months for the Monitor to review the final report.

On June 17, 2014, the attorneys general of 49 states and the District of Columbia, the federal government, and a mortgage servicer reached an agreement on mortgage Settlement. The Settlement was made formal and binding on September 30, 2014. The terms of the Settlement will remain in full force and effect for three years from the binding date, provided they meet the terms as presented in the Consent Judgment, with an additional six months for the Monitor to review the final report.

On March 14, 2016, the attorneys general of 49 states and the District of Columbia, the federal government, and a mortgage servicer reached an agreement on mortgage Settlement. The Settlement was made formal and binding on May 16, 2016. The terms of the Settlement will remain in full force and effect until four quarters of compliance testing have been completed, which shall be no later than December 31, 2016, provided they meet the terms as presented in the Consent Judgment, with an additional period expiring June 30, 2017 for the Monitor to review the final report.

Basis of Accounting – OMSO’s consolidated financial statements are prepared on the accrual basis of accounting, whereby income is recognized when earned and expenses are recognized when incurred in accordance with accounting principles generally accepted in the United States of America.

Basis of Presentation – Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Accounting Standard Codification No. 958, *Financial Statements of Not-for-Profit Organizations*. This statement requires that not-for-profit organizations provide a statement of financial position, a statement of activities and changes in net assets, and a statement of cash flows. Also, the statement requires classification of an organization’s net assets, revenues, and expenses based on the existence or absence of donor-imposed restrictions (permanently restricted, temporarily restricted, or unrestricted). All net assets of OMSO and changes therein are considered unrestricted net assets.

OFFICE OF MORTGAGE SETTLEMENT OVERSIGHT AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2018

Note 1—Organization and summary of significant accounting policies (continued)

Principles of Consolidation – During the year ended June 30, 2017, there were three subsidiaries with three separate agreements that support the activities of OMSO. The three agreements were reached in December 2013, June 2014, and March 2016. Although these subsidiaries are separate legal entities with their own accounting records, their financial position and changes in net assets have been included in the accompanying consolidated financial statements due to OMSO having an economic interest in and exercising control over the subsidiaries. Intercompany transactions have been eliminated in the consolidated financial statements.

Use of Estimates – The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents – For the purposes of the statement of cash flows, OMSO considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents. OMSO places its cash and cash equivalents on deposit with financial institutions in the United States. The Federal Deposit Insurance Corporation covers \$250,000 for substantially all depository accounts. As of June 30, 2018, OMSO had no amounts in excess of these insured amounts.

Prepaid Expenses – OMSO purchased a general liability insurance policy in the amount of \$4,352,000 with a policy period of April 1, 2012 through April 1, 2021. The policy has a limit of liability of \$50,000,000 in the aggregate for each policy period. In connection with various Settlement agreements OMSO renewed its general liability insurance policy for the additional exposure. The premiums paid for the additional exposure totaled \$607,800. These payments are being accounted for as a prepaid, with the policy expense being amortized accordingly.

Property and Equipment – OMSO leases predominantly all property and equipment due to the finite life of the organization.

Revenue Recognition – Revenue is recognized in the consolidated statement of activities and changes in net assets generally when cash is received by OMSO.

Income Taxes – OMSO received Internal Revenue Service (“IRS”) approval as a tax exempt organization on December 12, 2013 under Section 501(c)(4) of the Internal Revenue Code, and accordingly, is not subject to federal income tax. Management has evaluated the effect of the guidance provided by U.S. Generally Accepted Accounting Principles on Accounting for Uncertainty in Income Taxes. Management believes that OMSO continues to satisfy the requirements of a tax-exempt organization at June 30, 2018. Management has evaluated all other tax positions that could have a significant effect on the consolidated financial statements and determined OMSO had no uncertain income tax positions at June 30, 2018. OMSO’s federal Exempt Organization Business Income Tax Returns (Form 990) are subject to examination by the IRS, generally for three years after they are filed.

Net Assets – Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of restrictions imposed by a third party. Accordingly, net assets of OMSO and changes therein are classified and reported as follows:

Unrestricted – Unrestricted net assets are not subject to third party imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors.

OFFICE OF MORTGAGE SETTLEMENT OVERSIGHT AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2018

Note 2—Operating lease

Effective August 14, 2018, OMSO amended its existing sublease agreement with the law firm Poyner Spruill, LLP to extend the term to December 31, 2018. The sublease had previously been amended to provide Poyner Spruill, LLP the capability of subleasing OMSO's operating space to a co-tenant and reducing the monthly payment and parking rates charged to OMSO. Under the amended agreement, OMSO and the co-tenant are allocated their proportional share of the base rent based on a usage factor that is determined by their respective share of the total number of billable hours generated by OMSO and the co-tenants subcontractors with respect to their businesses for a given calendar year.

Rent expense amounted to \$126,753 for the year ended June 30, 2018. Future minimum lease payments are \$64,246 for the year ending December 31, 2018.

Note 3—Related party transactions

OMSO has a sublease agreement with the law firm Poyner Spruill LLP. OMSO's operating lease agreement details are listed above in Note 2. The leased space is used as the office space for OMSO's employee and management team. The office space is sublet from Poyner Spruill at the same rate as Poyner Spruill's lease agreement. OMSO also has a Legal and Consulting Services agreement with Poyner Spruill for legal and administrative support. The Monitor, Joseph A. Smith, Jr., who is President and a Director of OMSO, had been "Of Counsel" with Poyner Spruill LLP since the inception of OMSO. On April 21, 2015, the Monitor became a Partner with Poyner Spruill LLP.

The expenses associated with the lease agreement and the legal and consulting services agreement are included in the consolidated statement of activities and changes in net assets for the year ended June 30, 2018.

Note 4—Commitments and contingencies

OMSO is subject to various claims, legal proceedings, and investigations covering a wide range of matters that arise in the ordinary course of business. In the opinion of management, all such matters are adequately covered by insurance, and if not so covered are without merit or are of such kind, or involve such amounts, as would not have a significant effect on the financial position or results of activities of OMSO if disposed of unfavorably.

Note 5—Subsequent events

OMSO has evaluated subsequent events through October 29, 2018, in connection with the preparation of these consolidated financial statements, which is the date the consolidated financial statements were available to be issued.

SUPPLEMENTAL SCHEDULE

OFFICE OF MORTGAGE SETTLEMENT OVERSIGHT AND SUBSIDIARIES
CONSOLIDATED SCHEDULE OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2018

	Professional Services	General and Managerial	Total
Functional Expenses:			
Professional fees	\$ 9,342,968	\$ -	\$ 9,342,968
Payroll expense	-	733,360	733,360
Other office	-	186,740	186,740
Rent	-	126,753	126,753
Insurance	-	120,735	120,735
Board of Director fees	-	106,000	106,000
Travel	-	30,814	30,814
Telephone	-	10,087	10,087
Utilities	-	4,200	4,200
Total Functional Expenses	<u>\$ 9,342,968</u>	<u>\$ 1,318,689</u>	<u>\$ 10,661,657</u>