

SOUTHWEST IOWA HOUSING TRUST FUND
INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2017 AND 2016

SOUTHWEST IOWA HOUSING TRUST FUND

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SOUTHWEST IOWA HOUSING TRUST FUND
Officials
June 30, 2017

Board of Directors:

Brad Wright, Chairperson

Wendy Mueller, Vice-Chairperson

Marty Barnett, Secretary-Treasurer

Eric Osterloh

Sharon Yahnke

Pat McCurdy

Lori Holste

Chris Hartwig

Mahlon Sorenson

Program Administrator:

John McCurdy

Address

Red Oak, Iowa

Harlan, Iowa

Red Oak, Iowa

Council Bluffs, Iowa

Sidney, Iowa

Atlantic, Iowa

Avoca, Iowa

Logan, Iowa

Shenandoah, Iowa

Atlantic, Iowa

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Southwest Iowa Housing Trust Fund
Atlantic, Iowa

Report on the Financial Statements

We have audited the accompanying financial statements of Southwest Iowa Housing Trust Fund (an Iowa not-for-profit organization) which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America. This includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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.

To the Board of Directors
Southwest Iowa Housing Trust Fund

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Southwest Iowa Housing Trust Fund as of June 30, 2017 and 2016, and the changes in its net assets, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter Regarding Going Concern

The accompanying financial statements have been prepared assuming that the Agency will continue as a going concern. As discussed in Note I to the financial statements, the Agency has suffered recurring reductions in operations, decreases in net assets, increases in checks issued in excess of cash balance and weakening in its financial position that raise substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters also are described in Note I. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Amendell, Bell, Hyer & W. P. C.

Atlantic, Iowa
February 7, 2018

SOUTHWEST IOWA HOUSING TRUST FUND
 Statements of Financial Position
 June 30,

ASSETS

	<u>2017</u>	<u>2016</u>
Current Assets:		
Accounts receivable	\$ 85,767	\$ 63,043
Grants receivable	166,796	203,989
Prepaid expenses	1,750	--
Total current assets	<u>254,313</u>	<u>267,032</u>
Designated and Restricted Assets	<u>193,197</u>	<u>177,597</u>
Total assets	<u>\$ 447,510</u>	<u>\$ 444,629</u>

LIABILITIES AND NET ASSETS

Current Liabilities:		
Checks issued in excess of cash balance	\$ 74,489	\$ 27,527
Accounts payable	4,519	8,862
Accrued compensation and benefits	2,686	--
Advances from grantors	37,890	70,473
Total current liabilities	<u>119,584</u>	<u>106,862</u>
Net Assets:		
Unrestricted	<u>327,926</u>	<u>337,767</u>
Total liabilities and net assets	<u>\$ 447,510</u>	<u>\$ 444,629</u>

The accompanying notes are an integral part of these statements.

SOUTHWEST IOWA HOUSING TRUST FUND
 Statements of Activities and Changes in Net Assets
 Year ended June 30,

	2017	2016
Revenues and Support:		
Revolving Loan Fund	\$ 7,420	\$ 10,080
FHLB Repair Assistance	395,888	69,994
IFA Home Ownership Assistance	82,697	137,977
IFA Repair Assistance	154,710	192,711
IFA Demolition	34,541	20,537
Grant administration	75,904	62,284
Local assistance	7,736	--
Contract services	9,603	1,742
Total revenues and support	768,499	495,325
Operating Expenses:		
Salaries	66,594	85,796
Employee benefits	11,870	18,996
Grant expense	1,933	922
FHLB Repair Assistance	395,888	69,994
IFA Home Ownership Assistance	82,697	137,977
IFA Repair Assistance	154,710	192,711
IFA Demolition	34,541	20,537
Mileage	4,973	4,131
Payroll taxes	5,746	6,460
Professional fees	6,024	8,387
Recording fees	1,885	1,243
Supplies - office	11,576	16,580
Total expenses	778,437	563,734
Loss from Operations	(9,938)	(68,409)
Other Revenue:		
Interest income	97	6
Decrease in Unrestricted Net Assets	(9,841)	(68,403)
Net Assets at Beginning of Year	337,767	406,170
Net Assets at End of Year	\$ 327,926	\$ 337,767

The accompanying notes are an integral part of these statements.

SOUTHWEST IOWA HOUSING TRUST FUND
Statements of Cash Flows
Year ended June 30,

	2017	2016
Cash flows from operating activities:		
Cash received from customers and agencies	\$ 750,385	\$ 449,504
Cash paid to suppliers and employees	(787,104)	(607,612)
Interest received	97	6
Net cash used in operating activities	(36,622)	(158,102)
Cash flows from investing activities:		
Notes receivable advances	(42,279)	(15,199)
Notes receivable payments received	31,939	37,933
Net cash provided by (used in) investing activities	(10,340)	22,734
Cash flows from financing activities:		
Change in checks issued in excess of cash balance	46,962	27,527
Net decrease in cash and cash equivalents	--	(107,841)
Cash and cash equivalents at beginning of year	--	107,841
Cash and cash equivalents at end of year	\$ --	\$ --
Reconciliation of cash to the balance sheets:		
Cash in designated and restricted assets	\$ --	\$ --
Total cash and cash equivalents at end of year	\$ --	\$ --
Reconciliation of decrease in net assets to net cash used in operating activities:		
Decrease in net assets	\$(9,841)	\$(68,403)
Adjustments to reconcile decrease in net assets to net cash used in operating activities:		
Changes in assets and liabilities		
Accounts receivable	14,469	27,146
Prepaid expenses	(1,750)	--
Property for resale	(5,260)	(44,686)
Accounts payable	(4,343)	8,260
Accrued compensation and benefits	2,686	(7,452)
Advances from grantors	(32,583)	(72,967)
Total adjustments	(26,781)	(89,699)
Net cash used in operating activities	\$(36,622)	\$(158,102)

The accompanying notes are an integral part of these statements.

SOUTHWEST IOWA HOUSING TRUST FUND
Notes to Financial Statements
June 30, 2017 and 2016

NOTE A - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES

1. Nature of Activities

Southwest Iowa Housing Trust Fund was created in 2005 as a not-for-profit corporation under the provisions of the Iowa Non-Profit Corporation Act, Chapter 504A of the Code of Iowa, and is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code. The purpose of the Agency is to provide safe, affordable housing, and expand housing opportunities in the eight county region it serves. The Agency presently serves the eight-county area of Cass, Fremont, Harrison, Mills, Montgomery, Page, Pottawattamie, and Shelby Counties. The Agency is governed by a nine member board appointed for three year terms. The Agency is required to file a Form 990 annually, to maintain its exempt status.

2. Basis of Accounting and Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Revenues are recognized when earned and expenses are recorded when the liability is incurred. Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law.

3. Use of Estimates

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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

4. Cash and Cash Equivalents

For purposes of the statement of cash flows, the Agency considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

5. Investments

Investments are stated at fair value in the statement of financial position. Unrealized gains or losses on securities are recorded through the statement of activities.

Investment income or loss is reported as part of revenues and support unless the income or loss is restricted by donor or law.

SOUTHWEST IOWA HOUSING TRUST FUND
Notes to Financial Statements
June 30, 2017 and 2016

NOTE A - NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING
POLICIES - Continued

6. Accounts Receivable and Notes Receivable

The Agency considers accounts receivable and notes receivable (included in designated and restricted assets on the statements of financial position) to be fully collectible, accordingly, no allowance for doubtful accounts is required. If amounts become uncollectible, they will be charged to operations when that determination is made.

7. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Agency has been limited by donors or grantor agencies to a specific time period or purpose. Permanently restricted net assets have been restricted by donors or grantor agencies to be maintained by the Agency in perpetuity.

8. Grant Revenue

Grant proceeds for operating activities are recorded in income as they are earned and are reported as a part of revenues and support. Capital grants are recorded as other revenue. Grant proceeds received but not expended are shown as a deferred revenue on the statement of financial position.

NOTE B - RESTRICTED ASSETS

Temporarily restricted assets are available for the purposes indicated below:

	2017	2016
Temporarily Restricted Assets:		
For various grant purposes	\$ 37,890	\$ 70,473

Net assets were released from grantor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by grantors:

	2017	2016
Purpose of Restrictions Accomplished:		
For various grant purposes	\$ 783,743	\$ 566,550

SOUTHWEST IOWA HOUSING TRUST FUND
Notes to Financial Statements
June 30, 2017 and 2016

NOTE C - DESIGNATED AND RESTRICTED ASSETS

Restricted assets are restricted for the purposes listed in Note B. Designated assets have been designated by the Agency's Board of Directors for purposes indicated in the following schedule. These assets remain under the control of the Board of Directors, which may, at its discretion, later use the funds for other purposes.

	2017	2016
Designated Assets:		
Revolving loan fund	\$ 86,809	\$ 95,499
Purchase and rehab homes for resale	106,388	82,098
Due to restricted assets	<u>(37,890)</u>	<u>(70,473)</u>
	155,307	107,124
Restricted Assets:		
Due from designated assets	<u>37,890</u>	<u>70,473</u>
Total Designated and Restricted Assets	<u>\$ 193,197</u>	<u>\$ 177,597</u>

The composition of designated and restricted assets is as follows:

	2017	2016
Notes receivable - revolving loan fund	\$ 86,809	\$ 95,499
Note receivable - rehab and resale	19,030	--
Property purchased for rehab and resale	<u>87,358</u>	<u>82,098</u>
	<u>\$ 193,197</u>	<u>\$ 177,597</u>

NOTE D - FAIR VALUE MEASUREMENTS

The fair value measurement accounting literature establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 inputs consist of observable inputs other than quoted prices for identical assets (Level 1), and Level 3 inputs are unobservable and have the lowest priority. The Agency uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Agency measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. No Level 1 or 2 inputs were available to the Agency, therefore, Level 3 inputs were used to value all investments at June 30, 2017 and 2016.

SOUTHWEST IOWA HOUSING TRUST FUND
Notes to Financial Statements
June 30, 2017 and 2016

NOTE D - FAIR VALUE MEASUREMENTS - Continued

Level 3 Fair Value Measurements

The property held for rehab and resale and notes receivable are not actively traded and significant other observable inputs are not available. Thus, the fair value of the property held for rehab and resale is based on cost at the time of acquisition by the Agency. The fair value of the notes receivable is based on contract value. Management believes these values approximate current fair value.

The following tables set forth, by level within the fair value hierarchy, the Agency's investments at fair value as of June 30, 2017 and 2016:

<u>June 30, 2017</u>	<u>Fair Value</u>	<u>Fair Value Measurements at Reporting Date Using: Significant Unobservable Inputs (Level 3)</u>
Property held for rehab and resale	\$ 87,358	\$ 87,358
Notes receivable	<u>105,839</u>	<u>105,839</u>
	<u>\$ 193,197</u>	<u>\$ 193,197</u>
<u>June 30, 2016</u>		
Property held for rehab and resale	\$ 82,098	\$ 82,098
Notes receivable	<u>95,499</u>	<u>95,499</u>
	<u>\$ 177,597</u>	<u>\$ 177,597</u>

The following tables reconcile the beginning and ending balances of fair value measurements for the Agency's Level 3 assets using unobservable inputs for the years ended June 30, 2017 and 2016:

<u>June 30, 2017</u>	
Beginning balance	\$ 177,597
Notes receivable advanced	23,249
Collections on notes receivable	(31,939)
Purchase of property for rehab and resale	5,260
Note receivable advanced for rehab and resale	<u>19,030</u>
Ending balance	<u>\$ 193,197</u>

SOUTHWEST IOWA HOUSING TRUST FUND
Notes to Financial Statements
June 30, 2017 and 2016

NOTE D - FAIR VALUE MEASUREMENTS - Continued

June 30, 2016

Beginning balance	\$ 155,645
Notes receivable advanced	15,199
Collections on notes receivable	(37,933)
Purchase of property for rehab and resale	<u>44,686</u>
Ending balance	<u>\$ 177,597</u>

NOTE E - FUNCTIONAL EXPENSES

Following is a summary of expenses classified by function:

	<u>2017</u>	<u>2016</u>
Program Services	\$ 676,627	\$ 427,515
Management and General	91,629	122,597
Fundraising	<u>10,181</u>	<u>13,622</u>
	<u>\$ 778,437</u>	<u>\$ 563,734</u>

NOTE F - CONCENTRATION OF CREDIT RISK

The Agency grants credit without collateral to its clients, most of whom are area residents and state and local governments and agencies. The mix of accounts, grants, and notes receivable at June 30 was as follows:

	<u>2017</u>	<u>2016</u>
Government	25%	18%
Individuals	26	26
State Agencies	<u>49</u>	<u>56</u>
	<u>100%</u>	<u>100%</u>

SOUTHWEST IOWA HOUSING TRUST FUND
Notes to Financial Statements
June 30, 2017 and 2016

NOTE G - SUPPORT ORGANIZATION

The Agency has administrative support provided by Southwest Iowa Planning Council (SWIPCO). Support provided by SWIPCO includes providing contracted administrative personnel, collecting revenue and paying expenses of the Agency, and maintaining the accounting records for the Agency.

NOTE H - CONTINGENCIES

Risk Management

The Agency is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage during the past three years.

Subsequent Events

The Agency has evaluated all subsequent events through February 7, 2018, the date the financial statements were available to be issued.

NOTE I - LOSSES AND GOING CONCERN

During the years ended June 30, 2017 and 2016, the Agency has incurred losses from operations, decreases in net assets, increases in checks issued in excess of cash balance and weakening in its financial position.

In response to the declining financial position experienced over the last two years, management has implemented a financial turnaround plan for 2018 to alleviate these problems and return the Agency to a viable level of operations. The plan includes:

Completing and eliminating the Purchase, Rehab and Resell Program. This program has been a large use of financial assets and has left the Agency vulnerable to risk of real estate ownership. This program will be replaced with advancing funds to cities and assisting the cities with a purchase, rehab and resell program where the individual city is assuming the risks.

* * *