

SOUTHWEST IOWA HOUSING TRUST FUND
INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2019 AND 2018

SOUTHWEST IOWA HOUSING TRUST FUND

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SOUTHWEST IOWA HOUSING TRUST FUND
Officials
June 30, 2019

Board of Directors:

Brad Wright, Chairperson

Paula Danker, Vice-Chairperson

Mahlon Sorenson, Secretary-Treasurer

Wendy Mueller

Sharon Yahnke

Pat McCurdy

Chris Hartwig

Stephanie Bowden

Trent Svendsen

Program Administrator:

John McCurdy

Address

Red Oak, Iowa

Council Bluffs, Iowa

Shenandoah, Iowa

Harlan, Iowa

Sidney, Iowa

Atlantic, Iowa

Logan, Iowa

Glenwood, Iowa

Harlan, Iowa

Atlantic, Iowa

Gronewold, Bell, Kyhnn & Co. P.C.

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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, 2019 and 2018, 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 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, 2019 and 2018, 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 K to the financial statements, the Agency has suffered recurring reductions in operations, decreases in net assets 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 K. 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.

Diamond, Bell, Taylor & Co. P.C.

Atlantic, Iowa
January 21, 2020

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

ASSETS

	<u>2019</u>	<u>2018</u>
Current Assets:		
Accounts receivable	\$ 16,750	\$ 30,886
Prepaid expenses	<u>1,870</u>	<u>3,007</u>
Total current assets	18,620	33,893
Designated and Restricted Assets	<u>234,940</u>	<u>259,074</u>
Total assets	<u>\$ 253,560</u>	<u>\$ 292,967</u>

LIABILITIES AND NET ASSETS

Current Liabilities:		
Accounts payable	\$ 25,627	\$ 559
Accrued compensation and benefits	759	2,970
Advances from grantors	<u>7,925</u>	<u>10,895</u>
Total current liabilities	34,311	14,424
Net Assets:		
Without donor restrictions	<u>219,249</u>	<u>278,543</u>
Total liabilities and net assets	<u>\$ 253,560</u>	<u>\$ 292,967</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,

	2019	2018
Revenues and Support:		
Revolving Loan Fund	\$ 15,970	\$ 18,120
IFA Purchase, Rehab, Resell	--	61,289
IFA Home Ownership Assistance	84,030	124,543
IFA Repair Assistance	73,969	171,338
IFA Demolition	19,650	4,170
Lead Based Paint Stabilization	772	1,111
Grant administration	45,171	55,383
Local assistance	40,000	40,000
Contract services	38,250	42,986
Total revenues and support	317,812	518,940
Operating Expenses:		
Salaries	104,037	86,689
Employee benefits	30,796	20,545
Grant expense	175	122
IFA Purchase, Rehab, Resell	--	97,456
IFA Home Ownership Assistance	84,030	124,543
IFA Repair Assistance	73,969	171,338
IFA Demolition	42,549	30,140
Lead Based Paint Stabilization	616	736
Mileage	3,441	4,601
Payroll taxes	8,524	6,828
Professional fees	11,425	8,841
Recording fees	376	996
Supplies - office	17,688	15,928
Total expenses	377,626	568,763
Loss from Operations	(59,814)	(49,823)
Other Revenue:		
Interest income	520	440
Decrease in Net Assets Without Donor Restrictions	(59,294)	(49,383)
Net Assets at Beginning of Year	278,543	327,926
Net Assets at End of Year	\$ 219,249	\$ 278,543

The accompanying notes are an integral part of these statements.

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

	2019	2018
Cash flows from operating activities:		
Cash received from customers and agencies	\$ 328,978	\$ 713,622
Cash paid to suppliers and employees	(353,632)	(486,338)
Interest received	520	440
Net cash provided by (used in) operating activities	(24,134)	227,724
Cash flows from investing activities:		
Notes receivable advances	(15,970)	(49,090)
Notes receivable payments received	69,052	32,981
Net cash provided by (used in) investing activities	53,082	(16,109)
Cash flows from financing activities:		
Change in checks issued in excess of cash balance	--	(74,489)
Net increase in cash and cash equivalents	28,948	137,126
Cash and cash equivalents at beginning of year	137,126	--
Cash and cash equivalents at end of year	\$ 166,074	\$ 137,126
Reconciliation of cash to the balance sheets:		
Cash in designated and restricted assets	\$ 166,074	\$ 137,126
Total cash and cash equivalents at end of year	\$ 166,074	\$ 137,126

The accompanying notes are an integral part of these statements.

SOUTHWEST IOWA HOUSING TRUST FUND
Notes to Financial Statements
June 30, 2019 and 2018

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. Measurement Focus and Basis of Accounting

Measurement focus refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles. Revenues are recognized when earned and expenses are recorded when the liability is incurred.

3. Financial Statement Presentation

The Agency is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions. However, the Agency has no net assets with donor restrictions as of June 30, 2019 and 2018.

4. Net Assets Without Donor Restrictions

Net assets without donor restrictions are resources available to support operations. The only limits on the use of these net assets are the broad limits resulting for the nature of the organization, the environment in which it operates, the purposes specified in its corporate documents and its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into in the course of its operations.

5. Net Assets With Donor Restrictions

Net assets with donor restrictions are resources that are restricted by a donor for use for a particular purpose or in a particular future period. Some donor-imposed restrictions are temporary in nature, and the restriction will expire when the resources are used in accordance with the donor's instructions or when the stipulated time has passed. Other donor-imposed restrictions are perpetual in nature; the organization must continue to use the resources in accordance with the donor's instructions.

SOUTHWEST IOWA HOUSING TRUST FUND
Notes to Financial Statements
June 30, 2019 and 2018

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

Unconditional promises to give cash and other assets to the Agency are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as restricted support if they are received with donor stipulations that limit the use of the donated assets.

When a donor's restriction is satisfied, either by using the resources in the manner specified by the donor or by the passage of time, the expiration of the restriction is reported in the financial statements by reclassifying the net assets from net assets with donor restrictions to net assets without donor restrictions. Net assets restricted for acquisition of buildings or equipment (or less commonly, the contribution of those assets directly) are reported as net assets with donor restrictions until the specified asset is placed in service by the Agency, unless the donor provides more specific directions about the period of its use.

6. 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.

7. 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.

8. 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 and changes in net assets.

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

9. 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.

SOUTHWEST IOWA HOUSING TRUST FUND
Notes to Financial Statements
June 30, 2019 and 2018

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

10. 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 advances from grantors on the statement of financial position.

NOTE B - RESTRICTED ASSETS

Temporarily restricted assets are available for the purposes indicated below:

	2019	2018
Temporarily Restricted Assets:		
For various grant purposes	\$ 7,925	\$ 10,895

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

	2019	2018
Purpose of Restrictions Accomplished:		
For various grant purposes	\$ 267,256	\$ 487,673

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.

	2019	2018
Designated Assets:		
Revolving loan fund	\$ 234,940	\$ 209,074
Purchase and rehab homes for resale	--	50,000
Due to restricted assets	(7,925)	(10,895)
	227,015	248,179
Restricted Assets:		
Due from designated assets	7,925	10,895
Total Designated and Restricted Assets	\$ 234,940	\$ 259,074

SOUTHWEST IOWA HOUSING TRUST FUND
Notes to Financial Statements
June 30, 2019 and 2018

NOTE C - DESIGNATED AND RESTRICTED ASSETS - Continued

The composition of designated and restricted assets is as follows:

	2019	2018
Cash and cash equivalents	\$ 166,074	\$ 137,126
Notes receivable - revolving loan fund	68,866	71,948
Note receivable - rehab and resale	--	50,000
	\$ 234,940	\$ 259,074

NOTE D - FAIR VALUE MEASUREMENTS

The Agency's investments are reported at fair value in the accompanying statements of financial position. The methods used to measure fair value may produce an amount that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

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, 2019 and 2018.

SOUTHWEST IOWA HOUSING TRUST FUND
Notes to Financial Statements
June 30, 2019 and 2018

NOTE D - FAIR VALUE MEASUREMENTS - Continued

Level 3 Fair Value Measurements

The notes receivable are not actively traded and significant other observable inputs are not available. Thus, 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, 2019 and 2018:

<u>June 30, 2019</u>	<u>Fair Value</u>	<u>Fair Value Measurements at Reporting Date Using: Significant Unobservable Inputs (Level 3)</u>
Notes receivable	\$ 68,866	\$ 68,866
 <u>June 30, 2018</u>		
Notes receivable	\$ 121,948	\$ 121,948

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, 2019 and 2018:

<u>June 30, 2019</u>		
Beginning balance	\$	121,948
Notes receivable advanced		15,970
Collections on notes receivable - revolving loan fund	(19,052)
Collections on note receivable - rehab and resale	(50,000)
Ending balance	\$	<u>68,866</u>

SOUTHWEST IOWA HOUSING TRUST FUND
Notes to Financial Statements
June 30, 2019 and 2018

NOTE D - FAIR VALUE MEASUREMENTS - Continued

June 30, 2018

Beginning balance	\$	193,197	
Notes receivable advanced		18,120	
Collections on notes receivable - revolving loan fund	(32,981)	
Purchase of property for rehab and resale		4,086	
Sale of property for rehab and resale	(91,444)	
Note receivable advanced for rehab and resale		<u>30,970</u>	
Ending balance	\$	<u>121,948</u>	

NOTE E - FINANCIAL ASSETS AND LIQUIDITY RESOURCES

Financial assets and liquidity resources available within one year for general expenditure, such as operating expenses, were as follows as of June 30:

	<u>2019</u>	<u>2018</u>
Financial assets:		
Accounts receivables, net	\$ 16,750	\$ 30,886
Working capital investments in prepaid expense	<u>1,870</u>	<u>3,007</u>
Total financial assets available within one year	<u>\$ 18,620</u>	<u>\$ 33,893</u>

As part of the Agency's liquidity management, it has structured its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, most of the Agency's grant awards reimburse expenditures as they are incurred to meet liquidity needs.

NOTE F - RECENT ACCOUNTING PRONOUNCEMENTS

Not-for-Profit Financial Statement Presentation

During 2019, the Agency adopted ASU No. 2016-14 - *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This guidance is intended to improve the net asset classification requirements and the information presented in the financial statements and notes about a not-for-profit entity's liquidity, financial performance and cash flows. Main provisions of this guidance include: presentation of two classes of net assets versus the previously required three; recognition of capital gifts for construction as a net asset without donor restrictions when the associated long-lived asset is placed in service; and recognition of underwater endowment funds as a reduction in net assets with donor restrictions. The guidance also enhances disclosures for board designated amounts, composition of net assets without donor restrictions, liquidity, and expenses by both their natural and functional classification.

SOUTHWEST IOWA HOUSING TRUST FUND
Notes to Financial Statements
June 30, 2019 and 2018

NOTE F - RECENT ACCOUNTING PRONOUNCEMENTS - Continued

A recap of the net asset reclassifications driven by the adoption of ASU 2016-14 as of June 30, 2018 follows:

<u>Net Assets Classifications</u>	<u>ASU 2016-14 Classifications</u>	
	<u>Without Donor Restrictions</u>	<u>Total Net Assets</u>
As previously presented:		
Unrestricted	\$ 278,543	\$ 278,543
Net assets as previously presented	<u>\$ 278,543</u>	<u>\$ 278,543</u>

NOTE G - FUNCTIONAL EXPENSES

The financial statements report certain categories of expenses that are attributable to one or more program or supporting functions of the Agency. Those expenses include personnel costs, professional fees and supplies and other expenses which are allocated based on estimates of time and effort.

Expenses by function classification for the year ended June 30, 2019 consist of the following:

	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and benefits	\$ --	\$ 129,021	\$ 14,336	\$ 143,357
Professional fees	737	10,688	--	11,425
Supplies and other	<u>205,156</u>	<u>15,919</u>	<u>1,769</u>	<u>222,844</u>
	<u>\$ 205,893</u>	<u>\$ 155,628</u>	<u>\$ 16,105</u>	<u>\$ 377,626</u>

Expenses by function classification for the year ended June 30, 2018 consist of the following:

	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and benefits	\$ --	\$ 102,656	\$ 11,406	\$ 114,062
Professional fees	--	7,957	884	8,841
Supplies and other	<u>429,932</u>	<u>14,335</u>	<u>1,593</u>	<u>445,860</u>
	<u>\$ 429,932</u>	<u>\$ 124,948</u>	<u>\$ 13,883</u>	<u>\$ 568,763</u>

SOUTHWEST IOWA HOUSING TRUST FUND
Notes to Financial Statements
June 30, 2019 and 2018

NOTE H - 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:

	2019	2018
Business	--%	33%
Government	20	20
Individuals	80	47
	100%	100%

NOTE I - 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 J - 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 January 21, 2020, the date the financial statements were available to be issued.

SOUTHWEST IOWA HOUSING TRUST FUND
Notes to Financial Statements
June 30, 2019 and 2018

NOTE K - LOSSES AND GOING CONCERN

During the years ended June 30, 2019 and 2018, the Agency has incurred losses from operations, decreases in net assets 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 2020 to alleviate these problems and return the Agency to a viable level of operations. The plan includes:

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. In addition, the Agency has been awarded a \$750,000 contract with FHLB to provide housing repair assistance over the next two years.

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