



LECOMPTE, P.C.

CPAs & Financial Consultants

**SALISH AND KOOTENAI
HOUSING AUTHORITY
PABLO, MONTANA**

**FINANCIAL AND
COMPLIANCE REPORT**

DECEMBER 31, 2017

**SALISH AND KOOTENAI HOUSING
AUTHORITY PABLO, MONTANA**

YEAR ENDED DECEMBER 31, 2017

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	1
MANAGEMENT DISCUSSION AND ANALYSIS.....	4
FINANCIAL STATEMENTS:	
Statement of Net Position.....	9
Statement of Activity.....	10
Statement of Cash Flows	11
Notes to Financial Statements	13
SUPPLEMENTAL SCHEDULES:	
Schedule of Expenditures of Federal Awards for the year ended December 31, 2017.....	25
Notes to the Schedule of Expenditures of Federal Awards.....	26
Schedules Required by the RUS Water & Sewer Revenue Bonds:	
Schedule of Insurance Policies	27
Schedule of Cash Balances.....	28
INDEPENDENT AUDITOR'S REPORTS:	
On Internal Control over Financial Reporting and on Compliance and Other Matter	29
On Compliance for each Major Program and on Internal Control over Compliance	31
Schedule of Findings and Questioned Costs	33

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INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
Salish and Kootenai Housing Authority
Pablo, Montana

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities, of the Salish and Kootenai Housing Authority (SKHA), a component unit of the Confederated Salish and Kootenai Tribes, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the SKHA's basic financial statements as listed in the table of contents.

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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, of the SKHA, Pablo, Montana, as of December 31, 2017, and the respective changes in financial position, and, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Report on Summarized Comparative Information

We have previously audited the SKHA's 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 19, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4–8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted budgetary comparison information that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the SKHA's basic financial statements. The accompanying schedule of expenditures of federal awards on pages 25 and 26 is required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), the schedules of insurance policies and cash balances on pages 27 and 28 are required by the U.S. Department of Agriculture – Rural Utilities Services Revenue Bond. These schedules are presented for the purpose of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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, insurance policies, and cash balances are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 10, 2018, on our consideration of the SKHA'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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the SKHA's 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 the SKHA's internal control over financial reporting and compliance.

A handwritten signature in black ink, appearing to read "Craig A. Le Compte". The signature is fluid and cursive, with the first name "Craig" and last name "Le Compte" clearly distinguishable.

Craig A Le Compte, CPA
Le Compte, P.C.
Rio Rancho, NM
September 10, 2018

SALISH AND KOOTENAI HOUSING AUTHORITY

Management Discussion and Analysis For the Year Ended December 31, 2017

This section of the Salish and Kootenai Housing Authority (SKHA) financial report represents a discussion and analysis of the financial performance of the SKHA for the year ended December 31, 2017. The Management Discussion and Analysis (MD&A) is designed to focus on the current year and future years' activities, resulting changes and currently known facts and should be read in conjunction with the audited financial statements included in this report.

Overview of the Financial Statements:

This discussion and analysis is intended to serve as an introduction to the SKHA basic financial statements. The financial statements of the SKHA consist of four components. They are as follows:

- Management Discussion and Analysis
- Financial Statements
- Notes to Financial Statements
- Supplemental Schedules, including the Schedule of Expenditures of Federal Awards

The financial statements are presented as enterprise financial statements. The statements are presented on the full accrual basis of accounting in the Statement of Net Position, Statement of Activity, and Statement of Cash Flows. The Statement of Net Position includes all of the SKHA assets and deferred outflows of resources and liabilities and deferred inflows of resources. Assets and liabilities are classified in the order of relative liquidity for assets and due dates for liabilities. These statements provide a summary of the SKHA investment in assets and obligations to creditors. Liquidity and financial flexibility can be evaluated using the information contained in these statements. The Statement of Activity summarizes the SKHA revenues and expenses for the current year and prior year. The Statement of Cash Flows provides information about how the SKHA finances and meets the cash flow needs of its enterprise activity.

The SKHA activities are divided into three sources of funds:

1. Grants and loans from the U.S. Department of Housing and Urban Development, U.S. Department of Energy, Montana Department of Public Health and Human Services, NeighborWorks Montana, and Indian Health Services, and BIA funds received from the Confederated Salish and Kootenai Tribes (CS&KT) contracts.
2. Business-type activities: Charges to tenants and homebuyers for rental and house payments, damages, etc.
3. Business-type activities: Charges for water and sewer services to users in outlying communities that are connected to the SKHA water and sewer systems.

All of the SKHA basic services are accounted for following the Enterprise Model, which generally focuses on how cash and other assets can readily be converted to cash flow and the year-end balances that are available for spending.

Financial Highlights:

Net Position:

SKHA net position in 2017 decreased (\$1,003,740) as compared to 2016 of (\$882,814) (see Table on Page 5). One factor contributing to the 2017 net position decrease compared to 2016 is less Capital Grant funds were received in 2017 (\$516,137) than in 2016 (\$766,803).

Salish and Kootenai Housing Authority

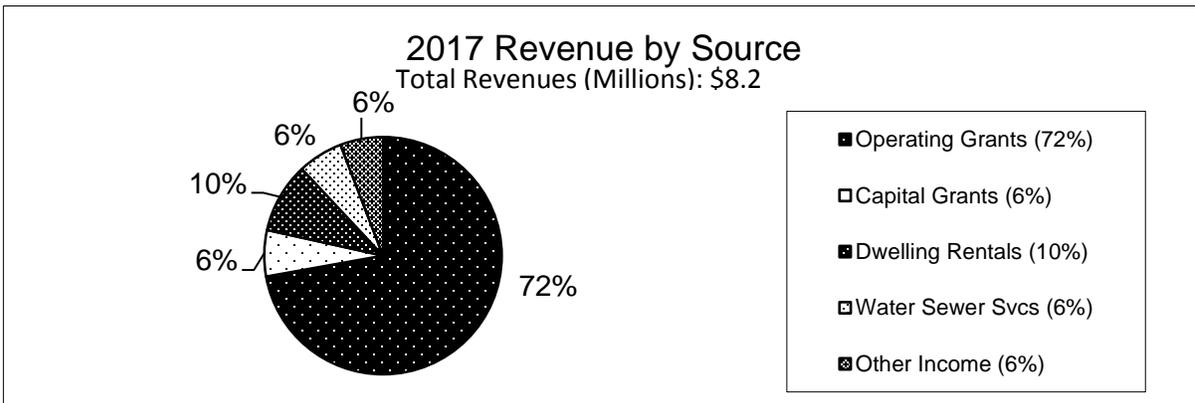
Statement of Net Position

December 31, 2017 and 2016

	2017	2016	Net Change	% Change
Current Assets.....	\$4,045,101	\$4,909,406	(\$864,305)	(18%)
Non-current Assets.....	25,873,135	26,276,632	(403,497)	(2%)
Total Assets.....	29,918,236	31,186,038	(1,267,802)	(4%)
Current Liabilities.....	560,995	800,420	(239,425)	(30%)
Non-current Liabilities.....	1,085,553	1,110,190	(24,637)	(2%)
Total Liabilities.....	1,646,548	1,910,610	(264,062)	(14%)
Deferred Inflows of Resources.....				
Total Liabilities and Deferred Inflows	1,646,548	1,910,610	(264,062)	(14%)
Net Position				
Net Investment in Capital Assets.....	20,681,393	20,789,412	(108,019)	(1%)
Unrestricted Net Position.....	7,590,295	8,486,016	(895,721)	(11%)
Total Net Position.....	\$28,271,688	\$29,275,428	(\$1,003,740)	(3%)

Revenues:

- The U.S. Department of Housing and Urban Development grants made up 97% of revenues received from Federal monies and 63% of overall revenues in 2017.
- Net Operating Revenues decreased by (\$602,421) and Net Non-operating Revenue decreased by (\$284,985). These decreases were due to the decrease in overall grant revenues in 2017 (see Significant Capital Assets Activity on Page 7).

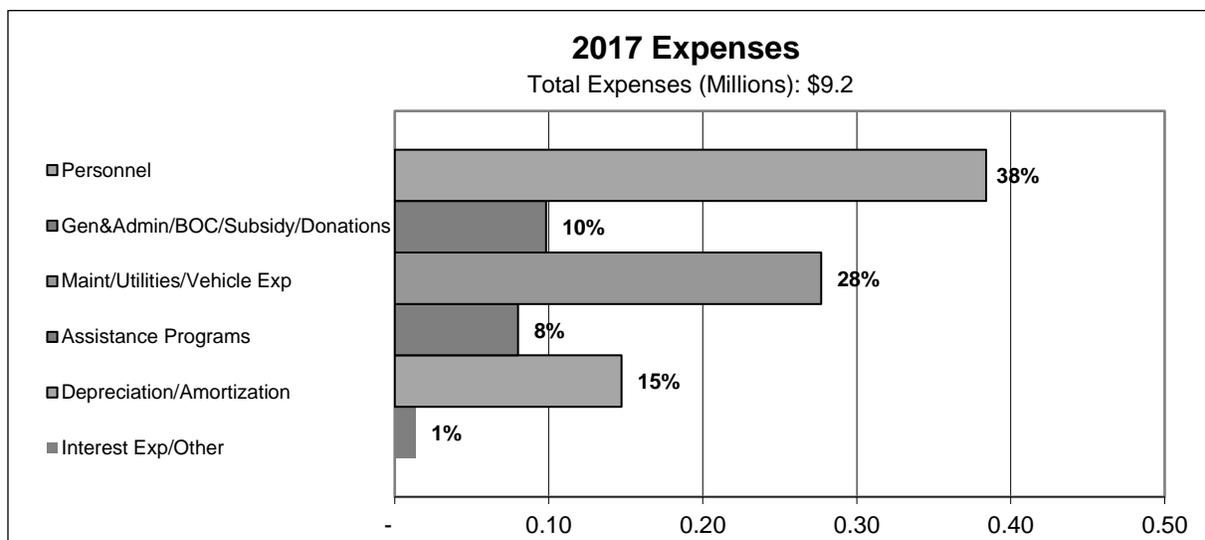


Expenses:

- Total operating expenses decreased in 2017 by (\$766,480) a decrease of (8%). The largest decreases in operating expenses were realized in Maintenance Expense of (\$371,165) (18%), Housing Assistance Programs of (\$326,151) (34%), Water & Sewer Installation Assistance of (\$108,961) (68%), Community and Other Assistance of (\$112,674) (36%) and Professional Services of (\$99,451) (42%). The decrease in Maintenance Expense is due to a reduction in meth remediation and repairs. The decrease in Housing Assistance is due to less bad debt write-off, no replacement housing assistance in 2017, and a reduced number of clients served with a reduced average cost per client. The decrease in Professional Services is due to the 2016 completion of a housing opportunity training grant for supportive housing for homeless vets.

- The 2004 U.S. Department of Agriculture Rural Utility Services (RUS) revenue bonds for two water and sewer projects require that water and sewer rates and charges for services be reasonable in covering the costs of operations and maintenance. In 2014 the CS&KT Tribal Council voted to increase the water and sewer user fees by \$3.50 (18%) effective January 1, 2015, with an additional increase of \$3.00 in 2016 and 2017, for a total rate increase spread over three years of \$9.50 per service. The 2017 net operating expense from water and sewer services was (\$116,833), with net non-operating revenue of \$72,634 for a total decrease in net position of (\$44,199).

The decrease in Net Operating Loss is due to decreased non-capital Contracts and Grants revenue. The Net Non-operating Revenue decrease is due to decreased capital grants and decreased Gain on Sale of Assets.



Salish and Kootenai Housing Authority
Statement of Activity
December 31, 2017 and 2016

	2017	2016	Net Change	% Change
Operating Revenues				
Rents and Fees.....	\$1,288,274	\$1,180,998	\$107,276	9%
Federal and Tribal Grants/Contracts.....	5,919,938	6,847,706	(927,768)	(14%)
Other Income.....	352,643	134,572	218,071	162%
Total Operating Revenues.....	7,560,855	8,163,276	(602,421)	(7%)
Operating Expenses				
Operating Expenses.....	7,725,926	8,559,239	(833,313)	(10%)
Depreciation/Amortization Expense.....	1,355,542	1,288,709	66,833	5%
Total Operating Expenses.....	9,081,468	9,847,948	(766,480)	(8%)
Net Operating Revenue (Expense)	(1,520,613)	(1,684,672)	164,059	10%
Non-Operating Revenue (Expense)				
Capital Grants.....	516,137	766,803	(250,666)	(33%)
Gain (Loss) on Conveyance of Housing Units.....	(74,245)	(31,535)	(42,710)	135%
Gain (Loss) on Sale of Assets.....	38	108,922	(108,884)	(100%)
Net Interest Income (Expense)	75,767	81,125	(5,358)	(7%)
Donation of Property.....		(123,000)	123,000	(100%)
Other Income (Expense)	(812)	(450)	(362)	80%
Gain (Loss) on Investments.....	(12)	(7)	(5)	71%
Net Non-operating Revenue (Expense)	516,873	801,858	(284,985)	(36%)
Increase (Decrease) in Net Position.....	(1,003,740)	(882,814)	(120,926)	(14%)
Net Position-Beginning of Year.....	29,275,428	30,158,242	(882,814)	(3%)
Net Position-End of Year.....	\$28,271,688	\$29,275,428	(\$1,003,740)	(3%)

Significant Activity:

Capital Asset Activity:

SKHA purchased capital assets during the fiscal year as follows:

Building/Improvements-Rentals.....	\$143,770
Building/Improvements-Non-Rentals.....	7,200
Site Improvements.....	13,650
Community W/S Systems.....	44,286
Vehicles and Equipment.....	108,842
Construction in Progress.....	<u>899,679</u>
Total.....	<u>\$1,217,427</u>

- In 2017 SKHA completed the purchase of S&K Limited Partnership #2. SKHA will continue to operate the 10 single-family units as an elderly living center.
- In 2017 SKHA completed the Clarice Paul Water Tank Project.
- See notes to the financial statements for detailed information on Capital Assets, Note 9, and Long-Term Debt, Note 12.

Other Activity:

- SKHA installed eight new water and sewer systems and seven replacement drain fields for individual families with Indian Health Services funds.
- Although meth remediation costs have reduced slightly in 2017, SKHA is still not immune to the surge in methamphetamine use in Montana. The impact on SKHA continues to create a significant strain on the maintenance budget for cleanup and remediation of units that have tested positive for meth use. In 2017, SKHA had 47 units with varying levels of meth remediation/move-out expenses and spent \$1.1 million in meth remediation/cleanup. These figures do not include the cost of also replacing the appliances for those units. SKHA tests each unit before a tenant moves in to make sure the units are safe for occupancy. With new policies and procedures in place, SKHA is hopeful meth remediation costs will soon be significantly reduced.

Significant Planned Activity:

- The St. Ignatius Sewer Lagoon upgrade project began in 2011 and is continuing for 2017. The project is now expected to be completed in 2018.
- The Dixon Agency well project began in 2016 and is continuing for 2017. One test well was drilled in 2016 but was found to be insufficient, necessitating a second and third well drilling in 2017. The new well and pipe bursting project is now expected to be completed in 2018.
- The Evaro Well and Pump House project began in 2016 and is continuing for 2017. The first well drilled was dry, necessitating a second well drilling. The project is now expected to be completed in 2018.
- The Mission Dam piping project began in 2016 and is continuing for 2017. The project is now expected to be completed in 2018.
- The Hot Springs Demolition project was started in 2017 because SKHA decommissioned eight low rent units (four duplexes) located in Hot Springs that were developed under the 1937 Act (current assisted stock) and became unstable because of ground issues. In 2018 the eight units in Hot Springs will be demolished.

- The Pablo Reconstruction project was started in 2017 to replace the units that will be demolished in Hot Springs in 2018. SKHA began reconstruction of eight low rent units in Pablo where the need is much greater. The project is expected to be completed in 2018.

Requests for Information:

This MD&A report is intended to provide a summary of the financial condition of the Salish and Kootenai Housing Authority. Any questions about this report can be relayed to Carolyn Weivoda, Finance Manager at (406) 883-4211 or (406) 675-4491.

SALISH AND KOOTENAI HOUSING AUTHORITY

STATEMENT OF NET POSITION
DECEMBER 31, 2017

(With comparative amounts for the year ended December 31, 2016)

	2017	2016
ASSETS		
Current Assets:		
Cash.....	\$600,976	\$743,986
Investments.....	1,936,383	2,085,350
Accounts Receivable.....	517,523	657,663
Contracts and Grants Receivable.....	590,937	1,015,928
Prepaid Expenses.....	226,527	241,420
Inventory.....	172,755	165,059
Total Current Assets.....	4,045,101	4,909,406
Non-Current Assets:		
Capital Assets:		
Property and Equipment.....	50,992,696	49,781,282
Less: Accumulated Depreciation.....	(29,194,428)	(27,858,092)
Capital Assets – Net.....	21,798,268	21,923,190
Notes/Advance Receivable.....	1,505,332	1,482,857
Investments in Partnerships.....	2,569,535	2,739,226
Property Held for Resale.....		
Mutual Help Homeownership.....		449,045
Less: Accumulated Amortization.....		(317,686)
Total Non-Current Assets.....	25,873,135	26,276,632
Total Assets.....	29,918,236	31,186,038
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities.....	445,957	515,755
Trust and Deposit Liabilities.....	83,716	261,077
Current Portion of Notes and Revenue Bonds Payable.....	31,322	23,588
Total Current Liabilities.....	560,995	800,420
Non-current Liabilities:		
Revenue Bonds Payable – Net of Current Portion.....	1,000,896	1,021,437
Notes Payable – Net of Current Portion.....	84,657	88,753
Total Non-Current Liabilities.....	1,085,553	1,110,190
Total Liabilities.....	1,646,548	1,910,610
DEFERRED INFLOWS OF RESOURCES		
Unearned Revenues.....		
Total Liabilities and Deferred Inflows.....	1,646,548	1,910,610
NET POSITION		
Net Investment in Capital Assets.....	20,681,393	20,789,412
Unrestricted Net Position.....	7,590,295	8,486,016
Total Net Position.....	\$28,271,688	\$29,275,428

See notes to financial statements

SALISH AND KOOTENAI HOUSING AUTHORITY

STATEMENT OF ACTIVITY
FOR THE YEAR ENDED DECEMBER 31, 2017
(With comparative amounts for the year ended December 31, 2016)

OPERATING REVENUE	2017	2016
Rents and Fees:		
Dwelling Rentals.....	\$784,952	\$761,304
Water and Sewer Charges.....	503,322	419,694
Total Rents and Fees.....	1,288,274	1,180,998
Other Income.....	352,643	134,572
Federal Housing Grants.....	4,923,549	5,738,588
Other Federal Grants.....	199,996	101,982
Tribal and Other Intergovernmental Revenues.....	796,393	1,007,136
Total Operating Revenues.....	<u>7,560,855</u>	<u>8,163,276</u>
 OPERATING EXPENSE		
Personnel.....	3,486,507	3,310,145
Repairs and Maintenance.....	1,673,456	2,044,621
Depreciation & Amortization Expense.....	1,355,542	1,288,709
Housing Assistance.....	629,734	955,885
Water and Sewer Installation Assistance.....	52,198	161,159
Utilities.....	628,731	579,728
Professional Services.....	136,266	235,717
CS&KT Administrative Fee.....	178,542	167,317
Vehicles and Equipment Maintenance.....	246,726	247,550
Community and Other Assistance.....	196,967	309,640
Payment-in-Lieu of Taxes and Insurance.....	246,659	247,036
General and Administrative.....	155,860	154,310
Staff Training and Travel.....	65,757	80,858
Board Meetings, Travel, and Training.....	28,523	65,273
Total Operating Expenses.....	<u>9,081,468</u>	<u>9,847,948</u>
NET OPERATING REVENUE (EXPENSE)	<u>(1,520,613)</u>	<u>(1,684,672)</u>
 NON-OPERATING REVENUE (EXPENSE)		
Capital Grants.....	516,137	766,803
Interest Income.....	124,731	131,456
Gain (Loss) on Conveyance of Mutual Help Units.....	(74,245)	(31,535)
Gain (Loss) on Sale of Assets.....	38	108,922
(Loss) on Investments.....	(12)	(7)
Interest Expense.....	(48,964)	(50,331)
Donation of Property.....		(123,000)
Other Income (Expenses)	(812)	(450)
NON-OPERATING REVENUE (EXPENSE) – NET.....	<u>516,873</u>	<u>801,858</u>
INCREASE (DECREASE) IN NET POSITION.....	<u>(1,003,740)</u>	<u>(882,814)</u>
 NET POSITION:		
Beginning of Year.....	29,275,428	30,158,242
End of Year.....	<u>\$28,271,688</u>	<u>\$29,275,428</u>

See notes to financial statements

SALISH AND KOOTENAI HOUSING AUTHORITY

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017

(With comparative amounts for the year ended December 31, 2016)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from tenants.....	\$1,521,797	\$1,417,346
Receipts from grantors.....	6,109,748	6,718,875
Other operating receipts.....	174,672	125,001
Payments to employees.....	(2,947,053)	(2,839,256)
Payments to suppliers.....	(4,111,948)	(4,271,799)
Housing assistance paid.....	(629,734)	(955,885)
Water and sewer installation assistance.....	(125,032)	(181,524)
Net cash from operating activities.....	(7,550)	12,758
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Receipts from capital grants.....	751,318	530,783
Proceeds from sale of capital assets.....	38	37,938
Purchases of capital assets.....	(1,217,427)	(1,530,242)
Proceeds from capital debt.....	6,687	
Principal paid on capital debt.....	(23,589)	(56,611)
Interest paid on long term debt.....	(49,009)	(164,542)
Net cash from capital and related financing activities.....	(531,982)	(1,182,674)
 CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from notes held by SKHA.....	54,072	44,428
Proceeds from investments.....	338,896	179,482
Purchase of investments.....		(34,196)
Proceeds from interest and dividends and other.....	3,552	4,584
Net cash from investing activities.....	396,520	194,298
 NET CHANGE IN CASH AND CASH EQUIVALENTS	(143,010)	(975,618)
 CASH AND CASH EQUIVALENTS		
Beginning of Year.....	743,986	1,719,604
End of Year.....	\$600,976	\$743,986

(Continued on the following page)

SALISH AND KOOTENAI HOUSING AUTHORITY

STATEMENT OF CASH FLOWS
(Continued) FOR THE YEAR ENDED
DECEMBER 31, 2017

(With comparative amounts for the year ended December 31, 2016)

RECONCILIATION OF OPERATING (LOSS) TO CASH PROVIDED BY OPERATIONS

	2017	2016
Net Operating Revenue (Expense).....	(\$1,520,613)	(\$1,684,672)
Adjustments to reconcile to cash from operations		
Depreciation/Amortization Expense.....	1,355,542	1,288,709
Bad debt adjustment (netted w/assistance).....	(5,248)	107,235
Subsidy Expense/Partnership Fees.....	130,330	180,953
Health Insurance Subsidy.....	(177,972)	
Accounts Receivable/Inventory/Property Held for Resale/Other Income...	120,379	125,916
 Changes in assets and liabilities:		
(Increase) Decrease in accounts receivable.....	140,140	95,535
(Increase) Decrease in inventory.....	(7,697)	(15,688)
(Increase) Decrease in non-capital grants and contracts receivable.....	189,811	(113,392)
(Increase) Decrease in prepaid expenses.....	14,893	43,535
(Increase) Decrease in unearned revenue.....		(15,440)
(Increase) Decrease in accounts payable.....	(69,754)	(3,605)
(Increase) Decrease in trust and deposit liabilities.....	(177,361)	3,672
Net cash from operating activities.....	<u>(\$7,550)</u>	<u>\$12,758</u>

NON-CASH TRANSACTIONS:

Gain on Sale of Assets-Property Held for Resale.....		(\$108,922)
Subsidy Expense for Limited Partnerships.....	\$141,613	\$197,426
Health Insurance Subsidy.....	(\$177,972)	
Donation of Capital Assets.....		\$123,000
Bad Debt Adjustment.....	(\$5,248)	\$107,235
Purchase of Limited Partnership.....	\$454,130	\$551,828

See notes to financial statements

**SALISH AND KOOTENAI HOUSING AUTHORITY
PABLO, MONTANA**

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

TABLE OF CONTENTS

	<u>Note</u>	<u>Page</u>
Summary of Significant Accounting Policies:		
Organization/Reporting Entity	1A	14
Nature of Operations	1B	14
Basis of Accounting	1C	14
Classification of Net Position	1D	14
Specific Accounting Policies:		
Cash and Investments	1E	15
Accounts Receivable	1F	15
Inventory	1G	15
Capital Assets	1H	15
Investment in Partnerships	1I	15
Property Held for Resale	1J	15
Mutual Help Home Ownership	1K	15
Tenants Security Deposits	1L	15
Trust and Deposit Liabilities	1M	15
Operating Revenues and Expenses	1N	16
Use of Estimates	1O	16
Budgets	1P	16
Prior-Year Comparative Information	1Q	16
Cash and Investments	2	16
Accounts Receivable	3	16
Grants Receivable	4	17
Prepaid Expenses	5	17
Mutual Help Home Ownership	6	17
Property Held for Resale	7	17
Notes/Advance Receivable	8	17
Capital Assets	9	18
Investment in Limited Partnerships	10	18
Accounts Payable and Accrued Liabilities	11	19
Long-Term Debt	12	20
Compensated Absences	13	21
Retirement Plans	14	21
Other Post Employment Benefits	15	22
Risk Management	16	22
Internal Balances and Activities	17	22
Commitments and Contingencies	18	22
Deferred Inflows and Outflows of Resources	19	22
Segment Information	20	22
Related Party Transactions	21	23
Subsequent Events	22	24

**SALISH AND KOOTENAI HOUSING AUTHORITY
PABLO, MONTANA**

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A. Organization/Reporting Entity - The Salish and Kootenai Housing Authority (SKHA) is the Tribally Designated Housing Entity for the Confederated Salish and Kootenai Tribes (CS&KT or The Tribes). SKHA is located on the Flathead Indian Reservation (Reservation) in Western Montana and was organized to provide housing for qualified individuals.

SKHA is governed by a Board of Commissioners (Board). The Board is composed of up to seven members (one must be a member of the CS&KT Tribal Council) who are appointed by the CS&KT Tribal Council. Consequently, SKHA is considered a component unit of the CS&KT. SKHA has no component units. The Tribal Council has the authority to remove a member for serious inefficiency, neglect of duty, or misconduct in office. The Commissioners are compensated for their services as established by the Board and approved by the Tribal Council.

- B. Nature of Operations - SKHA is a reservation-wide agency responsible for planning, coordinating, and delivering services which support the purpose of the agency. SKHA was organized and is operated:

To act as a recipient of block grant funds authorized under PL 104-330, the Native American Housing Assistance and Self-Determination Act of 1996 (NAHASDA), and to administer such funds in accordance with the Act as authorized by the CS&KT's Tribal Council;

To remedy unsafe and unsanitary housing conditions, alleviating the acute shortage of decent, safe, and sanitary dwellings for qualified individuals;

To provide employment opportunities through the construction, repair, and operation of dwellings for qualified individuals;

To improve the quality of life in all reservation communities;

To engage in related activities such as mortgage origination and servicing, development and management of housing, and housing related services;

To participate in entities formed to accomplish any of these purposes including acting as a general partner of limited partnerships.

SKHA receives substantial funding from Federal grants. The loss of these grants could have a significant impact on SKHA.

- C. Basis of Accounting - SKHA uses the accrual basis of accounting. The operating activities are accounted for as enterprise funds in a manner similar to private business enterprises because the governing body has decided that periodic determination of revenue earned, expenses incurred, and net income is appropriate for capital maintenance, public policy, and management control.

- D. Classification of Net Position - Because restrictions are placed on the use of some of SKHA's resources by its grantors and others, SKHA separately accounts for these restricted resources and classifies its net position as follows:

Net Investment in Capital Assets - SKHA's investment in capital assets, net of depreciation and related capital debt.

Restricted Net Position - Resources received that are expendable only for purposes specified by the grantor or others. There were no restricted net assets in 2017 or 2016.

Unrestricted Net Position - Resources over which the governing board has discretionary control.

Specific Accounting Policies

- E. Cash and Investments - consist of balances in various checking, saving and money market accounts, and a certificate of deposit. SKHA carries investments at fair value. These deposits are insured up to the FDIC limit and the remaining deposits are collateralized with securities held by the financial institution's trust department or by an agent in SKHA's name. Certificates of deposit with original maturities of greater than three months are considered as investments; the maturity of the certificate of deposit is greater than three months at December 31, 2017.
- F. Accounts Receivable - include amounts due from tenants and water and sewer users. The allowance for doubtful accounts is provided for those accounts SKHA deems uncollectible. SKHA's accounts which are deemed uncollectible are combined with assistance program expenses.
- G. Inventory - is valued at specific cost and recognized as expenses when consumed.
- H. Capital Assets - reflects the cumulative total of capitalized costs of the housing, non-housing, and water and sewer projects. Costs incurred in connection with the construction or rehabilitation of a project are recorded as construction in progress. Upon completion of a project, the costs are recorded as capital assets. The threshold for capitalizing assets is \$5,000. Interest on borrowings for housing construction is capitalized during construction.

Depreciation expense and related accumulated depreciation is reported based on the straight line method of depreciation over estimated useful lives as follows:

Rental units/building improvements.....	20-40 years
Administration and other buildings.....	20-40 years
Vehicles and other equipment	5-20 years
Infrastructure	40 years
Water and sewer activities:	
Wells, pump houses, sewer lagoons, and distribution lines	40-50 years
Other equipment	10-25 years

- I. Investment in Partnerships - consist of the amounts invested by SKHA as the general partner in the limited partnerships which were formed to develop housing for low income tenants.
- J. Property Held for Resale - accounts for those homes held by SKHA which are intended to be resold. Consequently, SKHA has not included the homes in capital assets.
- K. Mutual Help Home Ownership - accounts for those homes held by SKHA which were developed under the 1937 Housing Act and are intended to be resold. Each year a portion of the homebuyer debt is forgiven. Until the unit is conveyed to the homebuyer, the debt forgiveness is amortized over 25 years based on the unit cost to the homebuyer.
- L. Tenants Security Deposits - reflect the amount of deposits which are held for tenants and are to be returned upon the termination of their leases after deducting rent due and property damage charges.
- M. Trust and Deposit Liabilities - consist of mandatory and voluntary home buyer payments including income from investment of the payments. It is reduced by costs incurred by SKHA for routine maintenance, amounts applied to unpaid monthly charges, refunds to homebuyers upon termination of agreements, and amounts applied to the purchase price of the dwelling.

- N. Operating Revenues and Expenses - The Indian Housing Block Grant (IHBG) provides the primary operating revenue for SKHA. Other operating revenues and expenses generally result from providing services and producing and delivering goods in connection with its ongoing housing operations, rental income, and water and sewer charges. Grant revenue is recognized when earned, generally when related expenses are recorded. Advances of grant revenue are reported as unearned revenues. SKHA generally applies restricted resources to expenses incurred before using unrestricted resources when both restricted and unrestricted components of net position are available.
- O. Use of Estimates - Preparation of the financial statements requires management to make estimates and assumptions that affect certain reported amounts. Accordingly, actual results could differ from those estimates.
- P. Budgets - SKHA prepares its budget for the calendar year using the same basis of accounting as used for the financial statements. A comparison of actual to budget is not presented in these financial statements.
- Q. Prior-Year Comparative Information - These financial statements include summarized prior-year comparative information. Such information does not include a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, such information should be read in conjunction with SKHA's financial statements for the year ended December 31, 2016, from which such summarized information was derived.

2. CASH AND INVESTMENTS

Cash and investments are in two local banks. The amounts include demand deposits, money market accounts, savings accounts and a Certificate of Deposit. These amounts are classified as Category 1 investments and are covered by FDIC insurance and collateral held in the bank's name. The Certificate of Deposit is a five year CD with a maturity date of September 16, 2020. Certain short-term investments are restricted for specific purposes, such as bond reserves and trust accounts.

Cash and investment balances at December 31, 2017 are as follows:

Cash	
Demand Deposits and Savings.....	\$598,476
Petty Cash.....	2,500
Total Cash.....	<u>600,976</u>
Investments	
RD Bond Reserves MMAs.....	64,977
Money Market & Savings.....	1,865,528
Certificates of Deposit.....	5,878
Total Investments.....	<u>1,936,383</u>
Total Cash and Investments.....	<u>\$2,537,359</u>

3. ACCOUNTS RECEIVABLE

Accounts receivable consist of:

Limited Partnership Receivables.....	\$368,297
Low Rent Receivables.....	580,995
Allowance for Doubtful Accounts-Low Rent.....	(514,876)
Mutual Help Receivables (net).....	20
Water and Sewer Fees Receivable (net).....	13,057
A/R-Other.....	70,030
Total Accounts Receivable.....	<u>\$517,523</u>

In 2017 SKHA reduced their receivables greater than one year by \$15,404. SKHA wrote off \$10,156 in future debt forgiveness on second mortgages held. Net bad debt expense was \$5,248 in 2017, which was combined with assistance program expenses. SKHA received offset collections of \$97,019 from per capita judgments.

4. GRANTS RECEIVABLE

Grants receivable consist of the following:

Indian Housing Block Grant.....	\$138,472
Indian Community Development Block Grant	193,332
CS&KT Projects	234,700
Other	<u>24,433</u>
Total Grants Receivable	<u>\$590,937</u>

5. PREPAID EXPENSES

Prepaid expenses consist of insurance deposits of \$19,800, prepaid insurance premiums of \$194,355, and other prepaid expenses of \$12,372 as of December 31, 2017. These prepaid expenses are recognized as expenses when consumed.

6. MUTUAL HELP HOME OWNERSHIP

During the year 2017 six homes in the Mutual Help Home Ownership program were conveyed to home buyers. As of December 31, 2017 there are no more homes in the Mutual Help Home Ownership program and the program has ended.

7. PROPERTY HELD FOR RESALE

As of December 31, 2017 SKHA had no property held for resale units.

8. NOTES/ADVANCE RECEIVABLE

Down Payment Assistance and Home Repair Loans:

Primary Mortgages, 0%, 4 to 35 years.....	\$1,135,122
Second Mortgages Receivable (equity share) 0%, due when first mortgage Paid or property is sold.....	36,263
Advance Receivable-CS&KT.....	440,000
Less Valuation Allowances:	
Second Mortgages-Equity Share Receivable.....	(36,263)
Second Mortgages-Down Payment/Foreclosure Assistance.....	<u>(69,790)</u>
Total Notes Receivable.....	<u>\$1,505,332</u>

In relation to the second mortgages equity share, SKHA will receive a proportional share of any increase in value on the property at the time the property is sold, if not paid in full prior to that date. All notes receivable are secured by liens against the property. During 2017 one Equity Share loan was paid off and nine second mortgage loans were paid off. As of December 31, 2017 SKHA had ten second mortgages equity share receivables and 122 mortgage receivables, down payment assistance (DPA) or foreclosure assistance second mortgage receivables. As of December 31, 2017 the future amount to be forgiven for the DPA or foreclosure assistance mortgage receivables is \$69,790. The current portion of notes receivable is not material. In 2016 SKHA loaned to CS&KT \$440,000, at zero % interest, in connection with their Ronan Community Center project, to be paid back upon selling of certain properties in connection with the project. See Note 21 for detailed information.

9. CAPITAL ASSETS

Costs incurred during construction projects and equipment acquisitions are recorded in the construction in progress account until the project is finished or acquisition completed. The cost is then capitalized and depreciated. A significant portion of SKHA’s structures are on land owned by the Tribe and leased at no cost by SKHA, generally for 50 years.

In 2017 SKHA purchased S & K Limited Partnership #2 located in Elmo for \$405,481 along with small equipment and furniture purchases of \$5,982. SKHA intends to continue operating the 10 single family units as an elderly center.

SKHA also completed capital improvements on low rent units for \$143,770.

In 2017 SKHA purchased capital equipment in the amount of \$108,842 and disposed of equipment in the amount of \$38.

Property and equipment consists of the following:

	December 31, 2016	Additions	Deletions	Transfers/ Other	December 31, 2017
COST:					
Land.....	\$2,725,212				\$2,725,212
Buildings - rentals.....	26,081,776	\$143,769		\$403,411	26,628,956
Buildings–non-rentals.....	3,413,656	7,200			3,420,856
Equipment and vehicles.....	3,129,941	108,842	(\$6,012)		3,232,771
Site Improvement/Infrastructure.....	716,109	13,650			729,759
Water/sewer systems.....	13,067,133	44,286			13,111,419
Construction in progress.....	647,455	899,679		(403,411)	1,143,723
Total.....	49,781,282	1,217,427	(6,012)		50,992,696
ACCUMULATED DEPRECIATION:					
Buildings–rentals.....	(17,253,241)	(692,008)			(17,945,249)
Buildings–non-rentals.....	(1,567,986)	(104,002)			(1,671,988)
Equipment and vehicles.....	(2,489,411)	(180,427)	6,012		(2,663,826)
Site Improvement/Infrastructure.....	(191,932)	(21,416)			(213,348)
Water/sewer systems.....	(6,355,522)	(344,495)			(6,700,017)
Total.....	(27,858,092)	(1,342,348)	6,012		(29,194,428)
Capital Assets–Net.....	\$21,923,190	(\$124,921)			\$21,798,268

10. INVESTMENT IN LIMITED PARTNERSHIPS

SKHA’s investment in these partnerships at December 31, 2017 consists of the following:

	S&K LP#4	S&K LP#5	Total
Contributed Capital.....		\$71,386	\$71,386
Mortgage receivable, interest at 4.6%, principal and interest due November 1, 2032.....	\$211,806		211,806
Mortgage receivable, interest at 4.6%, principal and interest due November 1, 2032.....	891,000		891,000
Mortgage receivable, interest at 4.79%, principal and interest due December 1, 2035.....		94,052	94,052
Interest receivable	1,229,777	71,514	1,301,291
Totals.....	\$2,332,583	\$236,952	\$2,569,535

SKHA's share of S&KLP#4 partnership capital has a net value of zero due to the partnership's sustained losses.

All of the partnerships have a calendar year end. At December 31, 2017 summarized financial information about the partnerships is as follows:

	<u>S&K LP#4</u>	<u>S&K LP#5</u>
Property and equipment (net)	\$2,105,665	\$1,076,964
Other assets	123,774	155,362
Less liabilities	<u>(2,568,259)</u>	<u>(1,066,211)</u>
Partners' capital.....	<u>(\$338,820)</u>	<u>\$166,115</u>
SKHA's share of partners' capital.....		<u>\$71,386</u>
Revenues	\$207,512	\$133,136
Expenses.....	<u>(492,418)</u>	<u>(253,672)</u>
Net increase (decrease).....	<u>(\$284,906)</u>	<u>(\$120,536)</u>

Information as to each limited partnership is as follows:

1. S & K Limited Partnership #4 was formed in June 2002. The Limited Partner is Native American Housing Fund II, Limited Partnership. This Partnership was organized to acquire, develop, rehabilitate, own and operate a low income residential complex consisting of 33 housing units located on the Flathead Reservation in the Turtle Lake Addition near Polson, Montana. The project was completed in February 2004 and occupancy of the homes began in 2004.
2. S & K Limited Partnership #5 was formed November 1, 2004. The Limited Partner is the Native American Housing Fund IV, LLC. This Partnership was organized to construct, own and operate a low income residential complex consisting of six duplexes in Pablo, Montana. The project was completed in 2006 and occupancy of the duplexes began in 2006.

These partnerships received an allocation of low income housing tax credits from the Montana Board of Housing under Section 42 of the Internal Revenue Code and are utilizing this low income housing tax credit program. The low income housing tax credit program and both mortgage agreements place restrictions on tenant qualification and rental rates. Income, losses, and tax credits from the operations of the partnerships are allocated 99.99% to the limited partner and 0.01% to the general partner. A detail description of the allocations can be found in the partnership agreements.

The loans and mortgages are collateralized by the rental housing properties. SKHA has an option to purchase the partnerships' property at the end of the low income housing tax compliance period (15 years) at a price which would facilitate the purchase while protecting the limited partners' tax benefits.

Additional information and audited financial statements for S&K Limited Partnerships can be obtained from SKHA.

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities as of December 31, 2017 consist of the following:

Accounts payable – CS&KT programs.....	\$281,029
Accounts payable – Other.....	161,597
Accrued interest payable.....	<u>3,331</u>
Total accounts payable and accrued liabilities.....	<u>\$445,957</u>

Accounts payables for the CS&KT programs include the CS&KT Accounting Department, Central Mail, Tribal Lands Department, Tribal Court, Law and Order, Char-Koosta News, and CS&KT Indian Preference. Since CS&KT processes the SKHA payroll and is reimbursed by the SKHA for the SKHA salaries and benefits, the accrued payroll liability in the amount of \$279,813 is included in the amount due to the CS&KT Accounting Department.

12. LONG-TERM DEBT - Changes in long term debt are as follows:

	Balance December 31, 2016	Additions	Payments	Balance December 31, 2017	Due within one year
Revenue Bonds:					
Rural Utility Service Notes.....	\$1,041,100		(\$19,664)	\$1,021,436	\$20,540
Notes Payable:					
Glacier Bank Const Loan.....		\$6,687		6,687	6,687
Rural Utility Service Note.....	65,706		(1,301)	64,405	1,357
Rural Utility Service Note.....	26,972		(2,625)	24,347	2,738
Total Notes Payable.....	92,678		(3,926)	95,439	10,782
Total Long-term Debt.....	\$1,133,778	\$6,687	(\$23,590)	\$1,116,875	\$31,322

Glacier Bank/Eagle Bank Construction Loan In 2017 SKHA partnered with Glacier Bank and Eagle Bank to finance the construction of eight detached single family low rent units in Pablo. The Construction Loan amount is up to \$1,265,000 at a 3.5% fixed interest rate. The loan is to be paid back in monthly installments, amortized over 10 years. The construction in Pablo is replacing four low rent duplexes in Hot Springs that are being demolished. The completion date of the project is expected to be May of 2018. Collateral for the loan is a 1st Deed of Trust on the subject property and assignment of rents. As of December 31, 2017 no additional funds besides the closing costs of \$6,687 have been drawn on the Construction Loan.

RUS Revenue Bonds In 2004 SKHA issued two revenue bonds: Series A Bond for \$611,100 at 4.5% interest and Series B Bond for \$600,000 at 4.25% interest to fund sewer and water improvements in Elmo, Montana. SKHA has pledged and appropriated all revenues and receipts from rates, fees charges, and rentals imposed for connections with and for the availability, benefit, and use of the sewer and water system and any sales of property acquired for the sewer and water system and all income received from the investment of such revenues including investment for the reserve accounts and any other revenue of the SKHA but excluding any special assessments or taxes levied for construction of any part of the sewer and water system, and the proceeds of any grant or loan from the State or United States, and investment income thereon, to the extent such exclusion is a condition to such grant or loan. SKHA is required to make monthly payments of \$2,629 through September 2044 on the \$600,000 bond and \$2,775 through September 2044 on the \$611,100 bond.

These bonds impose certain requirement on the SKHA's operations including, among other requirements, that SKHA:

- a. Use segregated cash accounts with restrictions on their use.
- b. Complete their audit within 170 days of end of fiscal year.
- c. Deposit \$545 per month until Debt Service Reserve Accounts requirements are met.
- d. Ensure rates and charges for services be adequate to cover the cost of operating and maintaining the system, and cover bond payments and depreciation expense.
- e. Carry property and liability insurance and surety bonds.

In 2017 SKHA was in compliance with requirement a, c and e, but not in compliance with requirement b. Requirement d is not applicable since all other unrestricted revenues are used to cover bond payments.

RUS Note Payable In 2004 Rural Utility Services (RUS) issued a promissory note to SKHA for \$78,000. As of December 31, 2005, SKHA had requested and received the entire \$78,000. The note interest rate is 4.25% for a period of 40 years. SKHA is required to make monthly payments of \$339. SKHA borrowed the funds to develop the Hot Springs Tribal Loop water system.

RUS Note Payable In 2006 Rural Utility Services (RUS) issued a promissory note to SKHA for \$50,000. As of December 31, 2006, SKHA had requested and received the entire \$50,000. The note interest rate is 4.25% for a period of 40 years. SKHA is required to make monthly payments of \$310. SKHA borrowed the funds to develop the Big Arm water distribution system.

Future debt service requirements on the long-term debt are as follows:

Year ended December 31	Principal	Interest	Total
2018.....	\$31,322	\$47,989	\$79,311
2019.....	25,730	46,894	72,624
2020.....	26,872	45,752	72,624
2021.....	28,066	44,558	72,624
2022.....	29,313	43,311	72,624
2023 – 2027.....	158,254	196,247	354,501
2028 – 2032.....	185,094	159,426	344,520
2033 – 2037.....	230,194	114,326	344,520
2038 – 2042.....	286,293	58,227	344,520
2043 – 2044.....	115,737	4,724	120,461
Total.....	<u>\$1,116,875</u>	<u>\$761,454</u>	<u>\$1,878,329</u>

13. COMPENSATED ABSENCES

SKHA is part of the Confederated Salish and Kootenai Tribe's (CS&KT) leave pool for paid time off (PTO). SKHA follows the CS&KT policies for accrual of PTO. Each employee may accumulate up to 1,000 hours of PTO. SKHA contributes annually to the leave pool. Accordingly, no liability is recorded on SKHA's financial statements.

14. RETIREMENT PLANS

Full-time employees of the SKHA are eligible to participate under the Employees Retirement Plan of the CS&KT. The plan is a defined contribution pension plan. A defined contribution pension plan provides an individual account for each participant and specifies contributions to an individual's account instead of specifying the amount of benefits an individual is to receive. The benefits a participant will receive depend on the amount contributed to the participant's account, the earnings on investment of those contributions, and forfeitures of other participant's benefits that may be allocated to a participant's account.

The plan administrator is the CS&KT and the plan trustee is the Confederated Salish and Kootenai Retirement Board. The plan is funded and administered through a trust fund maintained by the insurer, Great West Retirement Services.

All employees of the SKHA are eligible to participate in the pension from the date they are hired. Contributions made by employees vest immediately and contributions made by the SKHA vest 10% after one year of full-time employment, 20% after the second year, 30% after the third year, 40% after the fourth year, 60% after the fifth year, 80% after the sixth year and 100% after the seventh year. An employee that leaves the employment of the SKHA is entitled to his or her contributions and to SKHA contributions when vesting requirements are satisfied. Employees contribute a portion of their gross salary to the pension plan and SKHA contributes a match of up to 6% of gross earnings. There were no changes to pension provisions during the year that affected the required contributions to be made by SKHA or its employees.

For the years ending December 31, 2017, 2016 and 2015, SKHA contributed \$137,565, \$134,723, and \$135,779 respectively, which was equal to the required contribution. SKHA had \$2,851,802 in total salaries in the year ending December 31, 2017.

15. OTHER POST EMPLOYMENT BENEFITS (RETIREE HEALTH CARE COVERAGE)

SKHA does not have any post-employment health care cost obligations. Any obligations to retiree health care coverage are handled by the CS&KT through the Indian Health Services.

16. RISK MANAGEMENT

SKHA faces a considerable amount of risks of loss, including: a) damage to and loss of property and contents, b) professional liability, i.e. errors and omission, c) workers' compensation, i.e. employee injuries, and d) medical insurance costs of employees. A variety of methods are used to provide for these risks. Commercial policies, transferring all risks of loss, except for relatively small deductible amounts, are purchased for property and content damage, employee medical costs, worker's compensation, and professional liabilities. There were no significant changes in the way SKHA handled risk in 2017.

17. INTERNAL BALANCES AND ACTIVITIES

Any internal balances or activities of SKHA that would create a grossing up of assets and liabilities or create a doubling up effect in the Statement of Activity have been eliminated to minimize the double counting of internal activities.

18. COMMITMENTS AND CONTINGENCIES

SKHA is subject to possible examinations by Federal and State authorities for compliance with the requirements of the grants received in the current and prior years.

19. DEFERRED INFLOWS AND OUTFLOWS OF RESOURCES

The Statement of Net Position reflects wording and categories as required by Government Accounting and Standards Board (GASB) Statement 65, *Items Previously Reported as Assets and Liabilities*. GASB 65 amends the financial statement classification of certain items to now be included in the deferred inflows of resources and deferred outflows of resources categories. Therefore, unearned revenues have been identified as deferred inflows of resources on the Statement of Net Position.

20. SEGMENT INFORMATION

SKHA has segmented their operations into two segments: Water and Sewer, which accounts for the activity of the community water and sewer systems operated by SKHA, and housing services, which accounts for the home-ownership and rent subsidy programs.

Additional information about SKHA's segments as of and for the year ending December 31, 2017 is as follows:

	Housing Programs	Water/Sewer Services	Total
Current Assets.....	\$4,692,472	(\$647,371)	\$4,045,101
Non-current Assets.....	18,232,719	7,640,415	26,583,634
Total Assets.....	22,925,191	6,993,044	25,873,135
Current Liabilities.....	430,791	130,204	560,995
Non-current Liabilities.....		1,085,553	1,085,553
Total Liabilities.....	430,791	1,215,757	1,646,548
Deferred Inflows of Resources.....			
Total Liabilities and Deferred Inflows.....	430,791	1,215,757	1,646,548
Net Position.....	\$22,494,400	\$5,777,287	\$28,982,187
Net Working Capital.....	\$4,261,681	(\$777,575)	\$3,484,106
Operating Revenues			
Rents and Fees.....	\$784,951	\$503,323	\$1,288,274
Federal and Tribal Grants/Contracts.....	5,152,874	767,064	5,919,938
Other Income.....	313,583	39,060	352,643
Total Operating Revenues.....	6,251,408	1,309,447	7,560,855
Operating Expenses			
Operating Expenses.....	6,753,387	972,539	7,725,926
Depreciation/Amortization Expense.....	901,802	453,740	1,355,542
Total Operating Expenses.....	7,655,189	1,426,279	9,081,468
Net Operating Revenues (Expenses).....	(1,403,781)	(116,832)	(1,520,613)
Non-operating Revenue (Expense)			
Capital Grants.....	175,450	340,687	516,137
Gain on Conveyance of Housing Units.....	(74,245)		(74,245)
Gain on Sale of Assets.....	38		38
(Loss) on Investments.....	(12)		(12)
Other Income (Expense).....	218,353	(219,165)	(812)
Net Interest Income (Expense).....	124,656	(48,889)	75,767
Non-operating Revenue (Expense) -Net.....	444,240	72,633	516,873
Increase (Decrease) in Net Position.....	(959,541)	(44,199)	(1,003,740)
Net Position – Beginning of Year.....	23,453,942	5,821,486	29,275,428
Net Position – End of Year.....	\$22,494,401	\$5,777,287	\$28,271,688

21. RELATED PARTY TRANSACTIONS

Confederated Salish and Kootenai Tribes:

SKHA is a component unit of the CS&KT which prepares the SKHA payroll and is reimbursed by the SKHA for salaries and benefits paid to the SKHA employees. SKHA pays an Administrative Fee to the CS&KT for payroll processing and other utilized services provided by the CS&KT. The Administrative Fee for the year ended December 31, 2017 is \$178,542. CS&KT also provides funds for dire-need recipients for rent and security deposits.

CS&KT also paid SKHA employer health insurance premiums in 2017 in the amount of \$177,972.

Acting as an agent for CS&KT, SKHA disburses Indian Health Service funds for improvement projects in accordance with federal guidelines. SKHA provides engineering services, contracting administration, and construction services for water and sewer projects and other projects on a contract basis for CS&KT.

SKHA had the following CS&KT contract activity during the year:

	Revenues	Expenditures
Indian Health Service projects	\$1,066,004	\$1,066,004
Total agency activity.....	<u>\$1,066,004</u>	<u>\$1,066,004</u>

The contracts receivable amount due from CS&KT to SKHA as of the year ended December 31, 2017 is \$244,510. The accounts payable amount due to CS&KT from SKHA as of the year ended December 31, 2017 is \$281,029.

The advance receivable amount due from CS&KT to SKHA as of the year ended December 31, 2017 is \$440,000. On December 23, 2015 SKHA advanced \$440,000 to CS&KT to purchase a 20 acre property in connection with their Ronan Community Center project. In accordance with the Memorandum of Agreement (MOA) between SKHA and CS&KT signed on December 29, 2015, CS&KT shall separate from the 20 acre property a 4-5 acre parcel which will include the house located within that 4-5 acre parcel and list that parcel for sale. The proceeds of that sale are due to SKHA, which the fair market value of the separated parcel with 4-5 acres and house was estimated at \$350,000.

The MOA states the project shall be completed within 10 years. In December, 2015, the SKHA and the CS&KT recorded a receivable and payable of \$440,000 respectively. In September 2016, CS&KT made a determination that the \$440,000 was a contribution from SKHA and reclassified the payable as a contribution. On May 25, 2017 during the Tribal Council meeting, the CS&KT made a motion to return the property back to SKHA, however on the following council meeting held on June 1, 2017, CS&KT rescinded that previous resolution.

As of December 31, 2017, SKHA's management maintains that the \$440,000 is still an advance to CS&KT to be paid back with the proceeds from the sale of the house and 4-5 acres, along with any unsold property should the project not be completed within the 10 year timeframe. Upon sale of the house and 4-5 acres, SKHA will reduce the receivable by the amount received from the sale. The remaining receivable will be adjusted at such time as the project is either completed or the unsold property is deeded from CS&KT to SKHA as payment of any remaining monies due SKHA for the project. An appropriate gain or loss will be recorded at that time.

SKHA leases land from CS&KT as discussed in Note 9.

S & K Limited Partnerships:

In addition to the investment in the S & K Limited Partnership #4 described in Note 10, SKHA had receivables from the partnership of \$221,857 at December 31, 2017. SKHA has a property management agreement with the partnership.

In addition to the investment in the S & K Limited Partnership #5 described in Note 10, SKHA had receivables from the partnership of \$146,440 at December 31, 2017. SKHA has a property management agreement with the partnership.

In addition, SKHA provides other various services to the Partnerships, such as snow removal, grounds maintenance, repairs and maintenance, etc.

22. SUBSEQUENT EVENTS

During 2017 SKHA decommissioned eight low rent units located in Hot Springs that were developed under the 1937 Act (current assisted stock). In the fall of 2017 SKHA began construction of eight low rent units in Pablo to replace the decommissioned units in Hot Springs. SKHA signed a Construction Loan for up to \$1,265,000 for construction of the Pablo low rent units. At the end of 2017 only the closing costs of the loan (\$6,687) were drawn from the loan. The project is expected to be completed in 2018. After completion of the project, SKHA will begin payback of the loan in monthly installments of approximately \$12,000 per month at 3.5% for ten years beginning in June 2018.

SALISH AND KOOTENAI HOUSING AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL
AWARDS FOR THE YEAR ENDED DECEMBER 31,
2017

	CFDA Number	Project Number	Grant Award	Current Year Expenditures	Cumulative Expenditures
U.S. Department of Housing and Urban Development					
Direct Grants					
Indian Housing Block Grant.....	14.867	55IH3002800	\$4,369,406	\$4,369,406	\$4,369,406
Total Indian Housing Block Grants.....				4,369,406	4,369,406
Direct Grants					
Indian Community Development Block Grant.....	14.862	B14SR300280	1,099,600	76,796	1,099,600
Indian Community Development Block Grant.....	14.862	B15SR300280	1,100,000	378,849	748,228
Indian Community Development Block Grant.....	14.862	B16SR300280	1,000,000	265,403	265,403
Total Indian Community Development Block Grants.....				721,048	2,113,231
Direct Grants					
Resident Opportunity and Self-Sufficiency Grant.....	14.870	MT013RIS039A010	210,000	50,292	134,699
Total Resident Opportunity and Self-Sufficiency Grants.....				50,292	134,699
Total U.S. Department of Housing and Urban Development.....				5,140,746	6,617,336
U.S. Department of Energy					
Passed through the Montana Department of Public Health and Human Services					
Weatherization Assistance.....	81.042	17-028-31010-0	68,618	68,618	68,618
Weatherization Assistance.....	81.042	16-028-30032-0	121,687	121,687	121,687
Total U.S. Department of Energy Grants.....				190,305	190,305
TOTAL EXPENDITURES OF FEDERAL AWARDS.....				\$5,331,051	\$6,807,641

See Notes to the Schedule of Expenditures of Federal Awards

SALISH AND KOOTENAI HOUSING AUTHORITY

Notes to the Schedule of Expenditures of Federal Awards

For the Year Ended December 31, 2017

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (schedule) includes the SKHA's federal grant activity for the year ended December 31, 2017. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements.

SKHA has established an approved federally recognized indirect cost rate and therefore has not elected to use the 10 percent de minimus indirect cost rate as allowed by 2 CFR Part 200.

SALISH AND KOOTENAI HOUSING AUTHORITY

SCHEDULE OF INSURANCE POLICIES
AS REQUIRED BY THE U.S. DEPARTMENT OF AGRICULTURE –
RURAL UTILITIES SERVICE REVENUE BONDS

FOR THE YEAR ENDED DECEMBER 31, 2017

A list of the insurance coverage for the Salish and Kootenai Housing Authority as of December 31, 2017 is as follows:

Company	Risks Covered	Amount	Date of Expiration
Amerind Risk Management Corp	Property	Individual Listed Maximums	12/31/18
	Equipment Breakdown	\$50,000,000 aggregate	12/31/18
	Earthquakes and Floods	\$15,000 per structure	12/31/18
	Business Liability	\$1,000,000 per occurrence	12/31/18
	Employee Theft	\$25,000 per occurrence	12/31/18
	Tribal Officials & Mgmt Liability	\$1,000,000 aggregate	12/31/18
	Personal & Advertising Injury	\$1,000,000 aggregate	12/31/18
Tribal First	Auto Liability	\$1,000,000 per occurrence	12/31/18
	Auto Medical Payments	\$5,000 per person	12/31/18
	Auto Uninsured/Underinsured Motorist	\$1,000,000 per occurrence	12/31/18
Amerind Risk Management Corp- Through Confederated Salish and Kootenai Tribes	Worker's Compensation	\$20,000,000 per occurrence	9/30/18
	Employer Liability	\$1,000,000 each accident/each employee	9/30/18

SALISH AND KOOTENAI HOUSING AUTHORITY

SCHEDULE OF CASH BALANCES

FOR THE YEAR ENDED DECEMBER 31, 2017

CASH BALANCES:

Revenue Bond Account 2004A & B	\$5,878
Reserve Account 2004A	\$33,328
Reserve Account 2004B	\$31,649
Surplus Account	\$0

As of December 31, 2017 SKHA has created separate accounts for revenue bond reserves and has deposited into these reserve accounts the minimum amounts as required by the bond agreements. As of December 31, 2017 there have been no surplus revenues. Therefore, surplus accounts have not been created.



**INDEPENDENT AUDITOR'S 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 Commissioners
Salish and Kootenai Housing Authority
Pablo, Montana

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 business-type activities, of Salish and Kootenai Housing Authority (SKHA), as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the SKHA's basic financial statements, and have issued our report thereon dated September 6, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the SKHA's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the SKHA's internal control. Accordingly, we do not express an opinion on the effectiveness of the SKHA's internal control.

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 a 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.

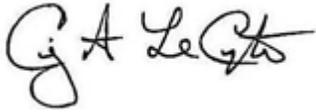
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not 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 SKHA's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance 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 noncompliance 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.

A handwritten signature in black ink, appearing to read "Craig A Le Compte". The signature is stylized with a large initial "C" and a long horizontal stroke at the end.

Craig A Le Compte, CPA
Le Compte, P.C.
Rio Rancho, NM
September 10, 2018



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

To the Board of Commissioners
Salish and Kootenai Housing Authority
Pablo, Montana

Report on Compliance for Each Major Federal Program

We have audited the Salish and Kootenai Housing Authority (SKHA)'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the SKHA's major federal programs for the year ended December 31, 2017. The SKHA'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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the SKHA's major federal programs based on our audit of the types of compliance requirements 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the SKHA'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 SKHA's compliance.

Opinion on Each Major Federal Program

In our opinion, the SKHA, 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, 2017.

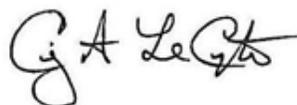
Report on Internal Control over Compliance

Management of the SKHA, 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 SKHA'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 the Uniform Guidance, 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 SKHA's internal control over compliance.

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



Craig A Le Compte, CPA
Le Compte, P.C.
Rio Rancho, NM
September 10, 2018

SALISH AND KOOTENAI HOUSING AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2017

SECTION I SUMMARY OF THE AUDITOR'S RESULTS

Financial Statements

Types of auditor's report issued:	Unmodified
Internal control over financial reporting	
• Material weakness(es) identified?	No
• Significant Deficiency(ies) identified?	None Reported
Non-compliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
• Material weakness(es) identified?	No
• Significant Deficiency(ies) identified?	None Reported
Types of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	No
Identification of Major Program	
Indian Housing Block Grants	CFDA No. 14.867
Dollar threshold used to distinguish between Type A and Type B programs:	\$750,000
Auditee qualified as low-risk auditee?	Yes

SECTION II FINANCIAL STATEMENTS FINDINGS

No matters were reported.

SECTION III FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

SALISH AND KOOTENAI HOUSING AUTHORITY
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
DECEMBER 31, 2017

No prior year audit findings.