

BEFORE THE IOWA BOARD OF ACCOUNTANCY

IN THE MATTER OF)	
)	
C.P.A. CERTIFICATE #814)	FINDINGS OF FACT
)	
ISSUED TO)	AND ORDER
)	
LLOYD G. HUFFER)	

Now on June 17, 1975, the Iowa Board of Accountancy, Leo E. Burger, Chairman, Roger R. Cloutier, Member, being present (Harry B. Carlson, Secretary-Treasurer, having disqualified himself on February 3, 1975 because of possible conflict), having heard and taken testimony on February 3, 4 and 5, 1975 and March 3, 4, 5 and 6, 1975 finds:

FINDINGS OF FACT

Charge #1

1. Respondent, Lloyd G. Huffer, is charged with supplying a financial statement to the Security Savings Bank of Williamsburg, Iowa, which misrepresented Huffer's personal financial status by failing to show encumbrances on real estate listed in the statement.

2. On December 1, 1969, Huffer signed a \$5,000.00 promissory note made to the order of George G. West and payable March 1, 1970. George G. West testified that he loaned Huffer \$5,000.00 on December 1, 1969 and that the security for the loan would be a first mortgage in Huffer's interest in certain property in Polk County, Iowa. The promissory note states that the security is a "first mortgage against promissor's interest in N. 1/2 of L8, Proctor Place, Polk County, Iowa".

3. The personal statement of Lloyd G. and Janet S. Huffer of Assets, Liabilities and Capital as of December 16, 1969 does not reflect the \$5,000.00 note payable to George G. West and does not disclose that the real estate securing the note is encumbered. The note was unpaid at December 16, 1969.

4. The Statement of Assets, Liabilities, and Capital as of December 16, 1969, was presented to the Security Savings Bank of Williamsburg, Iowa on or about that date in connection with the personal guarantee of a note given to the bank on that date by Paint Corporation of America (a client of Huffer).

5. Lloyd G. Huffer misrepresented the net worth of both he and his wife, as at December 16, 1969, by failing to include as a liability on the financial statements furnished to the Security Savings Bank a \$5,000.00 liability which was secured by a certain parcel of real estate included in the financial statements as an asset. This action is a violation of Rule 5.1(116)-3 inasmuch as Lloyd G. Huffer was a principal to the issuance of a false financial statement. Violation of Rule 5.1(116)-3 is grounds for revocation of the C.P.A. certificate.

6. Huffer was retained by Paint Corporation of America as their independent certified public accountant. Huffer stated that he later resigned.

7. Paint Corporation of America presented its statement of Assets, Liabilities and Capital as of November 30, 1969 to the Security Savings Bank. This statement of Assets, Liabilities and Capital was prepared by Lloyd G. Huffer and directly or indirectly his name was associated with that statement; even though the statement was signed by Donald Running, as president of Paint Corporation of America.

8. The statement of Assets, Liabilities and Capital of Paint Corporation of America as of November 30, 1969 does not contain Lloyd G. Huffer's disclaimer of an opinion and his reasons therefor. This omission is an act of unprofessional or unethical conduct in connection with the practice of accountancy and is a violation under Rule 5.2(116) and Rule 6.1(13). Violation of these two rules is grounds for suspension of his C.P.A. certificate.

Charge #2

1. Respondent, Lloyd G. Huffer is charged with supplying financial statements to the Iowa Commerce Commission relating to the value of the assets of Southern Iowa Grain Corporation which intentionally misrepresented their actual worth.

2. Lloyd G. Huffer prepared a statement of Assets, Liabilities and Capital of Southern Iowa Grain & Fertilizer Co., Inc. as of October 25, 1971 and submitted this statement to the Iowa Commerce Commission in connection with an application for a grain warehousing license.

3. On October 27, 1971, a warehouse license was issued on the basis of this financial statement.

4. Lloyd G. Huffer prepared an unaudited statement of Assets, Liabilities and Capital of Southern Iowa Grain & Fertilizer Co., Inc. as of August 31, 1972 and an Unaudited Operating Statement for the Ten Month Period Ended August 31, 1972, and submitted these financial statements to the Iowa Commerce Commission.

5. The October 25, 1971 financial statement was signed by Lloyd G. Huffer and sworn to in the presence of a notary public on October 26, 1971. The statement did not identify Lloyd G. Huffer as president of Southern Iowa Grain & Fertilizer Co., Inc.

6. The August 31, 1972 financial statements were signed by Lloyd G. Huffer as president and were not notarized.

7. The total assets as shown by the October 25, 1971 statement were \$1,119,000 and as shown by the August 31, 1972 statement were \$418,385.06.

8. Two farms (Grand River and Van Wert) valued at \$619,000.00, were included as assets of the corporation in the October 25, 1971 statement and were not included as assets at August 31, 1972.

9. The legal title to the Grand River and Van Wert farms, purchased under contract by Lloyd G. Huffer, were never transferred to Southern Iowa Grain & Fertilizer Co., Inc.; nor was title to the Corydon elevator property ever transferred. This property was also included as an asset in both financial statements.

10. The Corydon elevator property was purchased September 30, 1971 (less than a month before the October 25, 1971 statement) for \$330,000.00 and was included in the October 25, 1971 statement at \$455,000.00. Iowa Commerce Commission officials indicated that the fair market value of the Corydon elevator might range from \$275,000.00 to \$385,000.00.

11. The Grand River farm was purchased on September 22, 1971 for \$275,000.00 and was included in the October 25, 1971 statement at \$348,000.00. The Van Wert farm was purchased on July 21, 1971 for \$194,000.00 and was included in the statement at \$271,000.00.

12. No disclosure was made on any of the financial statements as to the basis of the various assets of Southern Iowa Grain & Fertilizer Co., Inc. No indication was made on any of the financial statements that the values of the properties were estimated.

13. The financial statements as of October 25, 1971 and August 31, 1972 show capital stock issued and outstanding of 100,000 shares of common stock (\$1.00 par value) - \$100,000.00. The minutes of the first meeting of the board of directors of the corporation; a buy and sell agreement; and the State of Iowa 1972 Annual Report Iowa Corporation as of January 1, 1972 show the common stock outstanding totaled only \$20,000.00.

14. Neither the October 25, 1971 statement nor the August 31, 1972 statement indicated that the statements were "pro-forma" and neither did the statements indicate the assumptions that certain transactions, such as transfer of properties and the issuance of capital stock, would take place at a later date.

15. The October 25, 1971 financial statement did not indicate the amount of total capital of the corporation which was represented by writing-up the fixed assets to estimated values.

16. Since the statements were not labeled "pro-forma", a reader would assume the corporation had legal title to all the properties included as assets of Southern Iowa Grain & Fertilizer Co., Inc.

17. The October 25, 1971 financial statement submitted to the Iowa Commerce Commission (1) included the Corydon elevator at a value of \$125,000.00 in excess of cost and from \$50,000.00 to \$125,000.00 in excess of the fair market value; (2) the assets were overstated by \$619,000.00 resulting from the inclusion of the Grand River and Van Wert farms, for which the corporation had no legal title; and (3) the capital stock outstanding was overstated by \$80,000.00. These three matters resulted in a significant misrepresentation

of the net worth of the corporation at October 24, 1971. These actions are a violation of Rule 5.1(116)-3 inasmuch as Lloyd G. Huffer was a principal to the issuance of a false financial statement. Violation of Rule 5.1(116)-3 is grounds for revocation of his C.P.A. certificate.

18. The October 25, 1971 statement was also given to the Citizens State Bank of Corydon, Iowa by Lloyd G. Huffer in connection with a request for a line of credit. At the same time Lloyd G. Huffer submitted his own personal financial statements as of September 30, 1971, the financial statements of George G. West and Lloyd G. Huffer (a real estate partnership) as of September 30, 1971, and the personal financial statements of George G. West as of September 30, 1971.

19. The statement of Assets, Liabilities and Net Worth of George G. West as of September 30, 1971 was prepared by Lloyd G. Huffer. The statement is signed by George G. West but Lloyd G. Huffer's name was associated with the statement. This statement should have carried Huffer's disclaimer of opinion and his reasons therefor and should have been marked unaudited.

20. The September 30, 1971 statement misrepresents the net worth of George G. West in that no accrual was provided for estimated income taxes on the net unrealized appreciation on the difference between the tax basis of the net assets and the estimated value basis. This statement is further deficient in that the cost basis of the assets was not stated, the source of the estimated values was not disclosed, no disclosure was made for the liability for current taxes payable, and no disclosure was made of pledged assets.

21. The personal financial statement of Lloyd G. Huffer as of September 30, 1971 misrepresented the net worth of Lloyd G. Huffer in that no accrual was provided for estimated income taxes on the net unrealized appreciation on the difference between the tax basis of the net assets and the estimated value basis. This statement is also further deficient in that the cost basis of the assets was not stated, the source of the estimated values was not disclosed, and no disclosure was made for the liability for current taxes payable.

22. The actions described in paragraphs 20 and 21 above are a violation of Rule 5.1(116)-3 inasmuch as Lloyd G. Huffer was a principal or accessory to the issuance of false financial or related statements. Violation of Rule 5.1(116)-3 is grounds for revocation of his C.P.A. certificate.

23. The actions described in paragraph 19 above is a violation of Rule 5.2(116) and Rule 6.1(13) inasmuch as Lloyd G. Huffer permitted his name to be associated with statements purporting to show the financial position of an individual without disclaiming an opinion on the statement and indicating clearly his reasons therefor. Violation of Rule 5.2(116) and Rule 6.1(13) is grounds for suspension of his C.P.A. certificate.

Charge #3

1. Respondent, Lloyd G. Huffer, is charged with fraudulently and falsely representing Greenbrier Water Company, Inc. to be the possessor of valuable property and water rights in Dallas County thereby inducing investment in said corporation by Mrs. Vada O'Hara of Marshalltown, Iowa.

2. Greenbrier Water Co., Inc. was incorporated August 28, 1972 by Lloyd G. Huffer.

3. Lloyd G. Huffer provided services as a Certified Public Accountant to Mr. Francis A. O'Hara and Mrs. Vada M. O'Hara starting in 1969 and continuing for approximately five years.

4. Lloyd G. Huffer recommended to the O'Hara's that they make an investment in the Greenbrier Water Company as an investment for retirement income and promised to return their money at anytime they would need it within 30 days.

5. On September 25, 1972, Francis A. and Vada M. O'Hara purchased 5,000 shares of \$1.00 par value capital stock of Greenbrier Water Co., Inc. and made payments as follows: \$1,000.00 on September 25, 1972, \$1,000.00 on October 10, 1972; and \$500.00 on April 13, 1973. The balance was never paid. A 5,000-share stock certificate was issued to the O'Hara's.

6. Lloyd G. Huffer and Janet S. Huffer acquired a tract of land in Dallas County, Iowa on April 30, 1972. This land was to be developed as Greenbrier Estates and was to be served by the Greenbrier Water Co., Inc.

7. At the time Francis A. and Vada M. O'Hara purchased the 5,000 shares of capital stock, Greenbrier Water Co., Inc. had no title to any water rights, water permits, or water contracts and it did not have any such rights

at the time of the hearings. A water permit was obtained in the name of Lloyd G. Huffer on November 16, 1972 (several weeks after the stock was sold to the O'Hara's).

8. The Greenbrier Water Co., Inc. did not possess any assets at the time the stock sale was made.

9. The O'Hara's stopped making payments towards the \$5,000.00 stock purchase because they needed the money for other purposes.

10. After the second request to get their money back and after a law suit had been filed, Lloyd G. Huffer on December 10, 1973 wrote a check to the O'Hara's for \$2,713.33, said amount representing the return of their money together with interest. This check was returned for "insufficient funds". The check was still unpaid at the time of the hearing (on advice of counsel).

11. On November 21, 1973, Francis A. O'Hara and Vada M. O'Hara as plaintiffs vs. Lloyd G. Huffer defendant, filed a petition at law in the District Court of the State of Iowa in and for Polk County stating that "the defendant did falsely and fraudulently represent to the plaintiffs that he had organized a company under the name of Greenbrier Water Co., Inc. of which the defendant was the president; and that said company owned a valuable property right in supplying water to residents of Greenbrier Estates in Dallas County, Iowa". The petition asked for the return of the \$2,500.00 investment plus interest at 8%.

12. A default judgment was entered on December 21, 1973 finding that the allegations were true and judgment for the requested amount was entered. Lloyd G. Huffer did not appear to contest the charges. He stated that he let the judgment be entered because he was occupied with other law suits and/or that he did not have the money to contest the suit. He admitted he owed the money.

13. Lloyd G. Huffer induced the O'Hara's to invest \$2,500.00 in Greenbrier Water Co., Inc. said company being merely a shell corporation without assets. Although no written or printed financial statements were presented to the board at the hearings, there was testimony referring to comparisons between the investment in Greenbrier Water Co., Inc. and other types of investments and insurance for the retirement plan. Lloyd G. Huffer did directly or indirectly issue false or fraudulent financial statements in advising the

O'Hara that Greenbrier Water Co., Inc. had (as assets) valuable water and property rights. This action constitutes a violation of Rule 5.1(116)-3 inasmuch as he was a principal to the issuance of false financial or related statements. Violation of Rule 5.1(116)-3 is grounds for revocation of his C.P.A. certificate.

Charge #4

1. Respondent, Lloyd G. Huffer, is charged with fraudulently representing to Mr. and Mrs. Stephen Michelson that Huffer had clear title to a tract of land in Dallas County called Greenbrier Estates thereby inducing them to purchase a "lot" from Huffer.

2. Lloyd G. Huffer and Janet S. Huffer purchased on contract March 18, 1972, a tract of land in Dallas County, Iowa. This land was to be developed as Greenbrier Estates.

3. Lloyd G. Huffer sold a parcel of land to Mr. and Mrs. Stephen Michelson on May 7, 1972 (Lot 7, Greenbrier). The Michelsons paid \$1,700.00 down and \$100.00 a month until a total of \$2,700.00 had been paid to Lloyd G. Huffer.

4. Lloyd G. Huffer was the Michelson's C.P.A. during 1971 through the early part of 1973.

5. The testimony received indicates that there was no discussion of title to the property either prior to the offer to buy or at the time the contract was signed. No persuasive evidence that Lloyd G. Huffer fraudulently represented that he had clear title to Greenbrier Estates at the time he sold a lot to the Michelsons was presented at the hearings.

6. It appears that when the Michelsons learned of the proposed development, they became interested in the location and purchased a lot.

7. It further appears that the purchasers requested the return of their money because (1) Huffer did not comply with the terms of the contract in that all improvements were not complete within 90 days from the date of the offer and acceptance; and (2) the Michelsons wanted out of the contract because it was not a good year to build.

8. The evidence and testimony do not show that Lloyd G. Huffer fraudulently misrepresented that he had clear title to a tract of land in Dallas County, Iowa.

ORDER

Now on the 17th day of June 1975, the matter of Iowa C.P.A. Certificate #814 issued to Lloyd G. Huffer, having been heard on February 3, 4, and 5, 1975 and March 3, 4, 5 and 6, 1975, the Iowa Board of Accountancy find that under Section 116.14 of the Code of Iowa and under Iowa Departmental Rules 5.1(116)-3 Lloyd G. Huffer was guilty of having been a principal to the issuance of false or fraudulent financial or related statements. The Board further finds that under Section 116.14 of the Code of Iowa and under Iowa Departmental Rules 5.2 (116) and 6.1(13), Lloyd Huffer was guilty of unprofessional or unethical conduct with the practice of accountancy inasmuch as Lloyd G. Huffer permitted his name to be associated with statements purporting to show the financial position of an individual without disclaiming an opinion on the statement and indicating clearly his reasons therefor.

1. It is therefore ORDERED, ADJUDGED AND DECREED that Iowa C.P.A. Certificate #814 issued to Lloyd G. Huffer is hereby revoked effective August 1, 1975.


2. It is further ORDERED, ADJUDGED AND DECREED that Lloyd G. Huffer shall personally or by registered mail deliver his C.P.A. Certificate #814 to the office of the Iowa Board of Accountancy within 5 days after the effective date of this order.

3. It is further ORDERED, ADJUDGED AND DECREED that effective August 1, 1975 that Lloyd G. Huffer shall cease and desist from practicing or holding himself out as a certified public accountant.

4. It is further ORDERED, ADJUDGED AND DECREED that Lloyd G. Huffer can petition this Board at anytime after two years from the date of this order for a hearing to act upon a request that the Board re-issue his certificate.

Signed: 

Leo E. Burger, Chairman


Roger R. Cloutier, Member