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April 28, 2017

Board of Directors
Indianapolis Housing Agency
1919 North Meridian Street
Indianapolis, IN 46202

We have reviewed the audit report prepared by Crowe Horwath, LLP, Independent Public Accountants, for the period January 1, 2015 to December 31, 2015. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Auditor's Report, the financial statements included in the report present fairly the financial condition of the Indianapolis Housing Agency, as of December 31, 2015 and the results of its operations for the period then ended, on the basis of accounting described in the report.

We call your attention to Section 3 Federal Award Findings in the report on pages 49-53. These findings are reported in the Independent Auditor's Report on Compliance For Each Major Federal Program; Report on Internal Control Over Compliance.

Findings similar to Finding 2015-003 appeared in audit reports for the periods ending December 31, 2014 and 2013.

The audit report is filed with this letter in our office as a matter of public record.

A handwritten signature in blue ink that reads "Paul D. Joyce".

Paul D. Joyce, CPA
State Examiner

INDIANAPOLIS HOUSING AGENCY
(A Component Unit of the City of Indianapolis, Indiana)

FINANCIAL STATEMENTS
December 31, 2015

INDIANAPOLIS HOUSING AGENCY

Indianapolis, Indiana

FINANCIAL STATEMENTS

December 31, 2015

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INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Indianapolis Housing Agency
Indianapolis, Indiana

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of the Indianapolis Housing Agency (the Agency), a component unit of the City of Indianapolis, Indiana, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Agency'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 audit 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 and the discretely presented component unit of the Indianapolis Housing Agency, as of December 31, 2015, and the respective changes in net position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

(Continued)

Emphasis of Matter

As discussed in Note 1 to the financial statements, during the year ended December 31, 2015, the Agency adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 7, the schedule of the Agency's proportionate share of the net pension liability on page 40 and the schedule of the Agency's contributions on page 41 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the basic financial statements that collectively comprise the Agency's basic financial statements. The accompanying schedule of expenditures of federal awards as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards is presented for purposes of additional analysis and is 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 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 expenditure of federal awards is 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 June 24, 2016 on our consideration of the Agency'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 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 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 Agency's internal control over financial reporting and compliance.

Crowe Horwath LLP

Crowe Horwath LLP

Indianapolis, Indiana
June 24, 2016

INDIANAPOLIS HOUSING AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2015

This section of the Indianapolis Housing Agency's (Agency's) annual financial report presents a discussion and analysis of the Agency's financial performance for the year ended December 31, 2015. The Agency in this section refers to the Indianapolis Housing Agency and Insight Development Corporation (Insight). Please read it in conjunction with the Agency's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- **Cash:** Total cash decreased by \$3.3 million or 14 percent from 2014 to 2015. This was primarily due to the completion of construction on the Millikan II (Insight owned) project.
- **Loans Payable Due to Non-affiliates (current):** Loans payable due to non-affiliates (current) increased by \$6.2 million or 241 percent from 2014 to 2015. This is primarily due to use of a construction bridge loan to fund construction period costs for the Millikan II (Insight owned) project.
- **Net Position Restricted for Section 8 Vouchers and VASH:** Net Position Restricted for Section 8 Vouchers and VASH increased by \$.3 million or 58 percent from 2014 to 2015. This is primarily due to the Agency receiving more housing assistance revenue than housing assistance payments in 2015.
- **Interest Expense:** Interest expense decreased by \$0.4 million or 41 percent from 2014 to 2015. This was primarily due to the payment of accrued interest on the 16 Park loan payable to IHA.
- **Other Capital Contributions:** Other capital contributions decreased by \$13.5 million or 113 percent from 2014 to 2015. This was primarily due to the inclusion of contribution of capital in 2014 for Barton Block, LP (Insight owned). 2015 consisted primarily of \$3.7 million that the Agency contributed to 16 Park to return investor capital contributions.

OTHER HIGHLIGHTS

- **The Millikan on Mass Avenue:** In 2012, Insight was awarded rental housing tax credits to finance the construction of Phase I of the Millikan on Mass project. Barton Block GP was formed to be the general partner of the project, a 61-unit \$11.5 million apartment project on the land that surrounds Barton Tower. Construction of Phase I was substantially completed in 2013 and fully leased in 2014. The commercial space was successfully leased to a restaurant in 2014. Phase II of the project consists of an additional 64 market-rate apartments with 15,000 square feet of retail space. Construction on Phase II began in 2014 and was substantially completed in 2015.
- **16 Park:** In February 2015, 16 Park (Insight owned) obtained a \$3,000,000 loan from IHDA and a \$750,000 loan from IHA. The proceeds from these two loans were used to pay down \$3,750,000 of the IHA capital funds note payable and the related interest payable. The proceeds from these loans were used to return investor capital contributions in 2015 due to a loss in tax credits in 2014.
- **Penn Place:** Insight co-developed this 38-apartment affordable supportive housing property with an MBE developer in 2014. The Agency loaned \$1.5 million RHF capital funds to the project for construction of 18 public housing units. Construction started in 2014 and was completed in 2015.

(Continued)

INDIANAPOLIS HOUSING AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2015

OVERVIEW OF THE FINANCIAL STATEMENTS

The Agency's and Insight's financial statements are prepared on an accrual basis in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. Under this basis of accounting, revenues are recognized in the period in which they are earned, expenses are recognized in the period in which they are incurred, and depreciation of assets is recognized in the Statements of Revenues, Expenses, and Changes in Net Position.

All assets and liabilities associated with the operation of the Agency and Insight are included in the Statements of Net Position. The financial statements provide both current and non-current information about the Agency's overall financial status. The financial statements also include notes that provide additional information and detailed data.

FINANCIAL ANALYSIS

Net Position

The Agency's and Insight's total assets and deferred outflows of resources reached \$226.4 million at December 31, 2015. This represents an increase of 2 percent from the prior year. Total liabilities and deferred inflows of resources amounted to \$46.2 million, representing an increase of 12 percent, and total net position was \$180.3 million, representing a decrease of 2 percent (See Table 1).

Table 1
Net Position – Agency and Insight

	<u>2015</u>	<u>2014 as restated</u>	<u>Percentage Change</u>
Assets and Deferred Outflows of Resources			
Current assets	\$ 26,224,581	\$ 29,283,347	(10)%
Capital assets (net)	178,377,025	171,101,120	4%
Other assets	20,502,312	21,636,868	(5)%
Deferred outflows of resources	<u>1,326,038</u>	<u>274,888</u>	<u>382%</u>
Total assets and deferred outflows of resources	<u>226,429,956</u>	<u>222,296,223</u>	<u>2%</u>
Liabilities and Deferred Inflows of Resources			
Current liabilities	\$ 13,842,508	\$ 7,970,701	74%
Non-current liabilities	32,131,490	32,553,957	(1)%
Deferred inflows of resources	<u>194,916</u>	<u>766,817</u>	<u>(75)%</u>
Total liabilities and deferred inflows of resources	<u>46,168,914</u>	<u>41,291,475</u>	<u>12%</u>
Net position			
Net investment in capital assets	145,020,108	143,835,537	1%
Restricted for Section 8 vouchers and VASH	783,768	494,844	58%
Unrestricted	<u>34,457,166</u>	<u>36,674,367</u>	<u>(6)%</u>
Total net position	<u>180,261,042</u>	<u>181,004,748</u>	<u>(2)%</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 226,429,956</u>	<u>\$ 222,296,223</u>	<u>2%</u>

The 2014 figures presented above have been adjusted for the prior period adjustment relating to the implementation of GASB statement No. 68 which is disclosed in the notes to the financial statements. As a result of the entry, deferred outflows of resources increased \$274,888, non-current liabilities increased \$2,630,037, deferred outflows of resources increased \$766,817, and unrestricted net position decreased \$3,121,966.

(Continued)

INDIANAPOLIS HOUSING AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2015

Changes in Net Position

The Agency's and Insight's net position at December 31, 2015 decreased by 2 percent over the prior year. The Agency's and Insight's total operating revenues increased by 16 percent. Total operating expenses decreased 1 percent. The changes in net position are detailed in Table 2. Operating expenses and budgetary analysis are detailed in Tables 3 and 4.

Table 2
Changes in Net Position – Agency and Insight

	<u>2015</u>	<u>2014</u> <u>as restated</u>	<u>Percentage</u> <u>Change</u>
Operating revenues			
Tenant revenue	\$ 5,382,369	\$ 5,004,997	8%
Other income	<u>2,048,590</u>	<u>1,420,057</u>	<u>44%</u>
Total operating revenues	<u>7,430,959</u>	<u>6,425,054</u>	<u>16%</u>
Operating expenses			
Operating expenses	61,004,022	61,972,262	(2)%
Depreciation	<u>6,355,057</u>	<u>6,108,799</u>	<u>4%</u>
Total operating expenses	<u>67,359,079</u>	<u>68,081,061</u>	<u>(1)%</u>
Operating loss	(59,928,120)	(61,656,007)	(3)%
Non-operating revenues (expenses) and capital contributions			
Intergovernmental	53,299,512	56,397,904	(5)%
Interest income from investments	34,404	38,441	(11)%
Interest income from loans	837,209	895,116	(6)%
Interest expense	(638,958)	(1,083,016)	(41)%
Gain (loss) on disposition of assets	20,199	173,480	(88)%
Other revenue	1,772,906	1,010,272	75%
HUD capital grants	5,412,682	908,187	496%
Other capital contributions (distributions)	<u>(1,553,540)</u>	<u>11,934,735</u>	<u>(113)%</u>
	<u>59,184,414</u>	<u>70,275,119</u>	<u>(16)%</u>
Change in net position	(743,706)	8,619,112	(109)%
Net position, beginning of year	<u>184,126,714</u>	<u>175,507,602</u>	<u>5%</u>
Restatement for GASB Statement No. 68 and 71	(3,121,966)	-	(100)%
Net position, beginning of year (as restated)	<u>181,004,748</u>	<u>175,507,602</u>	<u>3%</u>
Total net position, end of year	<u>\$ 180,261,042</u>	<u>\$ 184,126,714</u>	<u>(2)%</u>

Operating expenses in 2014 were not adjusted for the prior period adjustment related to implementing GASB Statement No. 68 and 71. The adjustment is shown as an adjustment to beginning net position.

(Continued)

INDIANAPOLIS HOUSING AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2015

Table 3
Operating Expenses – Agency and Insight
(Financial Statement Presentation)

	<u>2015</u>	<u>2014</u>	<u>Percentage Change</u>
Administration	\$ 9,215,830	\$ 8,310,776	11%
Tenant services	727,469	988,855	(26)%
Utilities	2,175,937	2,144,241	1%
Maintenance	3,741,964	3,796,562	(1)%
Protective services	899,699	1,122,691	(20)%
Insurance premiums	846,570	786,378	8%
General	2,136,569	2,046,982	4%
Pension expense	119,173	-	100%
Housing assistance payments	41,140,811	42,775,777	(4)%
Depreciation	<u>6,355,057</u>	<u>6,108,799</u>	<u>4%</u>
Total operating expenses	<u>\$ 67,359,079</u>	<u>\$ 68,081,061</u>	<u>(1)%</u>

Table 4
Budget Analysis
(Financial Statement Presentation
excluding depreciation)

	<u>2015 Budget</u>	<u>2015 Actual</u>	<u>Percentage Variance</u>
Administration	\$ 8,464,253	\$ 9,215,830	9%
Tenant services	635,661	727,469	14%
Utilities	1,948,163	2,175,937	12%
Maintenance	3,779,574	3,741,964	(1)%
Protective services	1,081,999	899,699	(17)%
Insurance premium	828,280	846,570	2%
General	480,464	2,136,569	345%
Pension expense	-	119,173	100%
Housing assistance payments	<u>44,745,938</u>	<u>41,140,811</u>	<u>(8)%</u>
Total operating expenses	<u>\$ 61,964,332</u>	<u>\$ 61,004,022</u>	<u>(2)%</u>

(Continued)

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of December 31, 2015, the Agency and Insight had \$178.4 million in capital assets, net of accumulated depreciation. Current year capital additions relate primarily to the construction of the Millikan II apartment building. As of December 31, 2014, the Agency and Insight had \$171.1 million in capital assets, net of accumulated depreciation. As compared to the prior year, this amount represents a net increase (including additions and disposals) of \$7.3 million as shown in Note 5 of the financial statements. This total increase includes a net decrease in capital assets of IHA of \$1.2 million and a net increase in capital assets of Insight of \$8.5 million.

Debt Administration

The Agency and Insight have long term obligations with various terms and conditions. Disclosures related to debt obligations are included in the basic financial disclosures in Notes 6 and 7.

CURRENTLY KNOWN FACTS

Other than the uncertainty of general economic indicators on the Agency and Insight, its funders, and its customers, we anticipate no significant facts, decisions or conditions that management believes will have a significant impact on the financial position or results of operations. The general financial challenges relate to the following:

- Unpredictability of HUD and other funding sources
- Increased costs to operate
- Correction of past program deficiencies

INDIANAPOLIS HOUSING AGENCY
STATEMENTS OF NET POSITION
December 31, 2015

	(Primary Government Housing Agency)	(Component Unit) Insight Development Corporation	(Memorandum Only) Total
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES			
Current assets			
Cash and cash equivalents:			
Cash-unrestricted (Note 2)	\$ 4,321,191	\$ 2,504,865	\$ 6,826,056
Cash-restricted (Notes 2 & 3)	11,223,709	2,373,991	13,597,700
Receivables:			
Due from governmental units (Note 4)	746,765	397,517	1,144,282
Due from affiliate (Housing Agency)	284,910	-	284,910
Accounts receivable – miscellaneous	571,207	46,931	618,138
Accounts receivable – tenants, net (Note 1)	71,632	61,640	133,272
Fraud recovery, net	23,410	-	23,410
Investments:			
Investments-restricted (Note 2 & 3)	2,951,596	-	2,951,596
Loans receivable, net (Note 8):			
Due from non-affiliates	445,000	-	445,000
Prepaid expense and other assets	<u>159,828</u>	<u>40,389</u>	<u>200,217</u>
Total current assets	20,799,248	5,425,333	26,224,581
Noncurrent assets			
Capital assets (Note 5):			
Non-depreciable property	17,039,255	2,196,255	19,235,510
Depreciable property	151,453,184	69,328,838	220,782,022
Accumulated depreciation	<u>(52,395,360)</u>	<u>(9,245,147)</u>	<u>(61,640,507)</u>
Net capital assets	116,097,079	62,279,946	178,377,025
Loans receivable, net (Note 8):			
Due from affiliate (Insight)	9,771,872	-	9,771,872
Due from non-affiliates	7,653,121	230,676	7,883,797
Other assets	<u>272,402</u>	<u>2,574,241</u>	<u>2,846,643</u>
Total non-current assets	<u>133,794,474</u>	<u>65,084,863</u>	<u>198,879,337</u>
Total assets	154,593,722	70,510,196	225,103,918
Deferred outflows of resources			
Deferred outflows from pension	<u>1,326,038</u>	-	<u>1,326,038</u>
Total assets and deferred outflows of resources	<u>\$ 155,919,760</u>	<u>\$ 70,510,196</u>	<u>\$ 226,429,956</u>

See accompanying notes to financial statements.

INDIANAPOLIS HOUSING AGENCY
STATEMENTS OF NET POSITION
December 31, 2015

	(Primary Government) Housing Agency	(Component Unit) Insight Development Corporation	(Memorandum Only) Total
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION			
Current liabilities			
Accounts payable and accrued expenses:			
Vendors and contractors	\$ 1,041,735	\$ 1,806,737	\$ 2,848,472
Accrued salaries and benefits payable	261,850	9,243	271,093
Accrued compensated absences (Note 6)	25,284	1,260	26,544
Interest payable	185	-	185
Due to other governmental units (Note 6)	64,554	-	64,554
Tenant security deposits	182,518	32,976	215,494
Unearned revenues	196,801	68,250	265,051
Capital lease (Note 6 and 7)	58,516	-	58,516
Loans and interest payable (Note 6):			
Due to non-affiliates	2,035,231	6,741,172	8,776,403
Other liabilities – FSS Escrow (Note 6)	559,161	15,380	574,541
Other accrued liabilities – due to affiliate (Insight)	-	284,910	284,910
Other accrued liabilities – miscellaneous	<u>143,605</u>	<u>313,140</u>	<u>456,745</u>
Total current liabilities	4,569,440	9,273,068	13,842,508
Non-current liabilities			
Capital lease (Note 6 and 7)	41,203	-	41,203
Loans and interest payable (Note 6):			
Due to affiliate (Housing Agency)	-	9,771,872	9,771,872
Due to non-affiliates	5,089,681	7,746,974	12,836,655
Other liabilities:			
Due to other governmental units (Note 6)	1,454,982	-	1,454,982
Unearned revenues (Note 5 and 6)	2,574,241	-	2,574,241
FSS Escrow (Note 6)	841,433	-	841,433
Accrued compensated absences (Note 6)	227,501	11,342	238,843
Net pension liability (Note 11)	<u>4,372,261</u>	<u>-</u>	<u>4,372,261</u>
Total non-current liabilities	<u>14,601,302</u>	<u>17,530,188</u>	<u>32,131,490</u>
Total liabilities	<u>19,170,742</u>	<u>26,803,256</u>	<u>45,973,998</u>
Deferred inflows of resources			
Deferred inflows from pension	194,916	-	194,916
Net position			
Net investment in capital assets	108,571,968	36,448,140	145,020,108
Restricted for Section 8 vouchers and VASH	783,768	-	783,768
Unrestricted	<u>27,198,366</u>	<u>7,258,800</u>	<u>34,457,166</u>
Total net position	<u>136,554,102</u>	<u>43,706,940</u>	<u>180,261,042</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 155,919,760</u>	<u>\$ 70,510,196</u>	<u>\$ 226,429,956</u>

See accompanying notes to financial statements.

INDIANAPOLIS HOUSING AGENCY
 STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
 Year ended December 31, 2015

	(Primary Government) Housing Agency	(Component Unit) Insight Development Corporation	(Memorandum Only) Total
Operating revenues			
Tenant revenue	\$ 3,532,653	\$ 1,849,716	\$ 5,382,369
Other income	<u>1,449,532</u>	<u>599,058</u>	<u>2,048,590</u>
Total operating revenues	4,982,185	2,448,774	7,430,959
Operating expenses			
Administration	7,745,549	1,470,281	9,215,830
Tenant services	651,263	76,206	727,469
Utilities	1,833,846	342,091	2,175,937
Maintenance	3,036,142	705,822	3,741,964
Protective services	830,372	69,327	899,699
Insurance premiums	656,053	190,517	846,570
General	1,794,614	341,955	2,136,569
Housing assistance payments	41,140,811	-	41,140,811
Pension expense	119,173	-	119,173
Depreciation	<u>4,552,404</u>	<u>1,802,653</u>	<u>6,355,057</u>
Total operating expenses	<u>62,360,227</u>	<u>4,998,852</u>	<u>67,359,079</u>
Operating loss	(57,378,042)	(2,550,078)	(59,928,120)
Non-operating revenues (expenses)			
Intergovernmental grants	52,037,935	1,261,577	53,299,512
Interest income from investments	30,509	3,895	34,404
Interest income from loans	804,063	33,146	837,209
Interest expense	(117,712)	(521,246)	(638,958)
Other revenue	734,908	1,037,998	1,772,906
Gain (loss) on disposition of assets	<u>(79,026)</u>	<u>99,225</u>	<u>20,199</u>
Total non-operating revenues (expenses)	<u>53,410,677</u>	<u>1,914,595</u>	<u>55,325,272</u>
Loss before capital contributions	(3,967,365)	(635,483)	(4,602,848)
Capital grants and contributions			
HUD capital grants	5,412,682	-	5,412,682
Other capital contributions	<u>(2,060,000)</u>	<u>506,460</u>	<u>(1,553,540)</u>
Total capital grants and contributions	<u>3,352,682</u>	<u>506,460</u>	<u>3,859,142</u>
Change in net position	(614,683)	(129,023)	(743,706)
Net position, beginning of year	<u>140,290,751</u>	<u>43,835,963</u>	<u>184,126,714</u>
Restatement due to GASB Statement No. 68 and 71	(3,121,966)	-	(3,121,966)
Net position, beginning of year (as restated)	<u>137,168,785</u>	<u>43,835,963</u>	<u>181,004,748</u>
Net position, end of year	<u>\$ 136,554,102</u>	<u>\$ 43,706,940</u>	<u>\$ 180,261,042</u>

See accompanying notes to financial statements.

INDIANAPOLIS HOUSING AGENCY
STATEMENTS OF CASH FLOWS
Year ended December 31, 2015

	(Primary Government) Housing Agency	(Component Unit) Insight Development Corporation	(Memorandum Only) Total
Cash flows from operating activities			
Rental receipts	\$ 3,246,501	\$ 1,932,502	\$ 5,179,003
Other operating receipts	1,496,290	709,069	2,205,359
Payments for personnel – salaries and benefits	(6,890,927)	(738,387)	(7,629,314)
Payments for other operating activities	(9,626,792)	(1,955,750)	(11,582,542)
Housing assistance payments	(41,140,811)	-	(41,140,811)
Tenant security and other deposits	(165,878)	1,669	(164,209)
Net cash from operating activities	<u>(53,081,617)</u>	<u>(50,897)</u>	<u>(53,132,514)</u>
Cash flows from non-capital financing activities			
Intergovernmental revenues received	<u>52,055,776</u>	<u>2,025,580</u>	<u>54,081,356</u>
Net cash from non-capital financing activities	52,055,776	2,025,580	54,081,356
Cash flows from capital and related financing activities			
Capital asset purchases	(3,374,403)	(11,267,203)	(14,641,606)
Non-operating receipts, net	601,575	565,996	1,167,571
Proceeds from issuance of loan	7,411	9,997,822	10,005,233
Interest paid	(28,129)	(824,351)	(852,480)
Principal payment – loan and capital lease	(1,922,779)	(2,861,393)	(4,784,172)
Capital contributions	<u>3,352,682</u>	<u>506,460</u>	<u>3,859,142</u>
Net cash from capital and related financing activities	(1,363,643)	(3,882,669)	(5,246,312)
Cash flows from investing activities			
Loans receivable issued	(2,566,914)	-	(2,566,914)
Proceeds from repayment of loan	2,868,028	-	2,868,028
Proceeds from sale of investments	6,345	-	6,345
Interest on cash, investments and loans	<u>652,081</u>	<u>25,931</u>	<u>678,012</u>
Net cash from investing activities	<u>959,540</u>	<u>25,391</u>	<u>985,471</u>
Net change in cash and cash equivalents	(1,429,944)	(1,882,055)	(3,311,999)
Cash and cash equivalents, beginning	<u>16,974,844</u>	<u>6,760,911</u>	<u>23,735,755</u>
Cash and cash equivalents, ending	<u>\$ 15,544,900</u>	<u>\$ 4,878,856</u>	<u>\$ 20,423,756</u>
Reconciliation of operating loss to net cash from operating activities:			
Operating loss	\$ (57,378,042)	\$ (2,550,078)	\$ (59,928,120)
Adjustments to reconcile operating loss to net cash from operating activities:			
Depreciation expense	4,552,404	1,802,653	6,355,057
Uncollectible loans	271,914	-	271,914
Change in assets and liabilities:			
Decrease (increase) in accounts receivable	(367,976)	30,223	(337,753)
Decrease (increase) in other assets	46,758	110,011	156,769
Increase in deferred outflows	(1,462,345)	-	(1,462,345)
Increase (decrease) in accounts payable and other accrued liabilities	(325,264)	492,631	167,367
Decrease in unearned revenue	81,824	52,563	134,387
Increase in tenant security deposits	29,001	5,441	34,442
Increase in FSS Escrow	(194,879)	(3,772)	(198,651)
Decrease in accrued salaries and benefits payable	53,594	4,251	57,845
Decrease in deferred inflows	(160,706)	-	(160,706)
Increase in net pension liability	1,742,224	-	1,742,224
Increase (decrease) in accrued compensated absences	29,876	5,180	35,056
Net cash from operating activities	<u>\$ (53,081,617)</u>	<u>\$ (50,897)</u>	<u>\$ (53,132,514)</u>
Non-cash transactions:			
Vendor and contractors payable on capital assets	\$ 300,295	\$ 1,571,788	\$ 1,872,083

See accompanying notes to financial statements.

INDIANAPOLIS HOUSING AGENCY
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Background: The Indianapolis Housing Agency (Agency) is organized under the laws of the State of Indiana. The Agency is responsible for the management, operation, maintenance and administration of public housing and public housing projects, and the provision of safe, sanitary and affordable dwelling accommodations for qualified persons of low and moderate income. Prior to January 1, 1995, the Agency was part of the City of Indianapolis' Department of Metropolitan Development. The City-County Council passed an ordinance on May 19, 1999, which clarified the reporting entity of the Agency. As part of this ordinance, the name of the Agency was changed from the Indianapolis Public Housing Agency to the Indianapolis Housing Agency. The Agency has a separate Board of Commissioners, which is comprised of nine members. The Mayor of Indianapolis appoints five members while the City-County Council appoints two members. The remaining two members are appointed from the family housing community and one from the senior community. The City-County Council is responsible for examining the organizational structure of the Agency.

Reporting Entity: The Agency is considered a component unit of the City of Indianapolis (City) and as such the operations of the Agency are shown in the City of Indianapolis' Comprehensive Annual Financial Report (CAFR) as a discretely presented component unit. See the City's CAFR for the definition of the City's overall reporting entity.

Indianapolis Housing Agency (Primary Government): The Agency's financial statements include the operations of all organizations for which the Agency is financially accountable. Financial accountability is demonstrated by the ability of the Agency to appoint the voting majority of an organization's governing board and (1) its ability to impose its will on the organization or (2) a potential for the organization to provide specific financial benefits or to impose specific financial burdens on the Agency. The Agency has formed four wholly-owned subsidiaries, described below as LR Apartments, Inc., THB Apartments, Inc., BH Apartments, Inc., and Lugar Apartments, Inc. The Agency's subsidiaries are the controlling general partners of limited partnerships formed to acquire, construct and operate developments. The financial information of the limited partnerships is included in the financial reporting of the Agency as blended component units since the component unit's governing body is substantially the same as the governing body of the Agency and the management of Agency has operational responsibility for the component unit.

- **LR Apartments, Inc.** is authorized to serve as the General Partner of L and R Housing, LP, an Indiana Limited Partnership, which was formed to develop, rehabilitate, own, maintain and operate a 231 unit multifamily project property for rental to individuals and families of low-income, known as Laurelwood and Rowney Apartments located in Indianapolis, Indiana. The project consists of 72 buildings, and all have been placed in service as of December 31, 2013. The partnership has received an allocation of low-income housing tax credits from the State of Indiana totaling \$13,092,540. Each building of the project has qualified for and been allocated low-income housing tax credits pursuant to Internal Revenue Code Section 42, ("IRC Section 42"), which regulates the use of the project as to occupant eligibility and unit gross rent, among other requirements. Each building of the project must meet the provisions of these regulations during each of 15 consecutive years in order to remain qualified to receive the credits. The credit allocation is spread over 10 years and will be \$820,519 for the first year, \$1,309,254 annually for the next nine years and \$488,735 in the eleventh year, if the project remains in compliance.

(Continued)

INDIANAPOLIS HOUSING AGENCY
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- **THB Apartments, Inc.** is authorized to serve as the General Partner of TH and B, LP, an Indiana Limited Partnership, which was formed to develop, rehabilitate, own, maintain and operate a 307 unit multifamily project property for rental to individuals and families of low-income, known as Twin Hills and Blackburn Apartments located in Indianapolis, Indiana. The project consists of 84 buildings, and all have been placed in service as of December 31, 2013. The partnership has received an allocation of low-income housing tax credits from the State of Indiana totaling \$16,907,460. Each building of the project has qualified for and been allocated low-income housing tax credits pursuant to IRC Section 42, which regulates the use of the project as to occupant eligibility and unit gross rent, among other requirements. Each building of the project must meet the provisions of these regulations during each of 15 consecutive years in order to remain qualified to receive the credits. The credit allocation is spread over 10 years and will be \$1,033,272 for the first year, \$1,668,356 for the second year, \$1,690,733 annually for years three through ten, \$657,474 in the eleventh year, and \$22,494 in the twelfth year, if the project remains in compliance.
- **BH Apartments, Inc.** is authorized to serve as the General Partner of B and H Housing, LP, an Indiana Limited Partnership, which was formed to develop, rehabilitate, own, maintain and operate a 321 unit multifamily project property for rental to individuals and families of low-income, known as Beechwood Gardens and Hawthorne Place located in Indianapolis, Indiana. The partnership has received an allocation of low-income housing tax credits from the State of Indiana totaling \$19,671,810. Each building of the project has qualified for and been allocated low-income housing tax credits pursuant to IRC Section 42, which regulates the use of the project as to occupant eligibility and unit gross rent, among other requirements. Each building of the project must meet the provisions of these regulations during each of 15 consecutive years in order to remain qualified to receive the credits. The credit allocation is spread over 10 years, beginning in 2011, and will be \$1,152,638 for the first year, \$1,966,584 for the second year, \$1,967,181 annually for the next eight years, \$814,543 in the eleventh year, and \$597 in the twelfth year, if the project remains in compliance.
- **Lugar Apartments, Inc.** is authorized to serve as the General Partner of Lugar, LP, an Indiana Limited Partnership, which was formed to develop, rehabilitate, own, maintain and operate a 298 unit multifamily project property for rental to individuals and families of low-income, known as Lugar Towers and the Braxton located in Indianapolis, Indiana. The partnership has received an allocation of low-income housing tax credits from the State of Indiana totaling \$29,586,566. Each building of the project has qualified for and been allocated low-income housing tax credits pursuant to IRC Section 42, which regulates the use of the project as to occupant eligibility and unit gross rent, among other requirements. Each building of the project must meet the provisions of these regulations during each of 15 consecutive years in order to remain qualified to receive the credits. The credit allocation is spread over 10 years, beginning in 2012, and will be \$2,958,657 annually, if the project remains in compliance.

Insight Development Corporation (Discretely Presented Component Unit): The Agency established a non-profit entity known as the Insight Development Corporation (Insight) which is legally separate from the Agency and which is exempt from Federal income tax under Section 501(c)(3). The purpose of Insight is to foster low-income housing in and around Indianapolis. Insight has as its sole member, the Agency. Further, the Board consists of 7 members, 3 of which are Agency Board Members.

(Continued)

INDIANAPOLIS HOUSING AGENCY
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In determining how to define the reporting entity, management has considered all potential component units. The decision to include a component unit in the reporting entity was made by applying the criteria set forth in the accounting standards of the GASB 61. These criteria state that the financial reporting entity consists of (a) the primary government, (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. In addition, there needs to be a financial benefit or burden relationship present. Legally separate, tax exempt entities whose relationship with the primary government meets the direct benefit, access, and significance criteria should be reported as discretely presented component units. Based on these criteria, Insight Development Corporation has been included in the financial reporting entity as a discretely presented component unit.

Insight has formed four wholly-owned subsidiaries described below as Concord Homes, Inc., IHA Housing Partners II GP, Inc., 16 Park GP, Inc., and Barton Block GP, Inc. Insight's subsidiaries are the controlling general partners of limited partnerships formed to acquire, construct and operate developments. Additionally, Insight formed one single member limited liability company (LLC) known as Millikan II LLC. The financial information of the limited partnerships and LLC is included in the financial reporting of Insight as blended component units since the component unit's governing body is substantially the same as the governing body of the Insight and the management of Insight has operational responsibility for the component unit.

- **Concord Homes, Inc.** is authorized to serve as the General Partner of IHA Housing Partners I, LP, an Indiana Limited Partnership, which was formed to develop, rehabilitate, own, maintain and operate a 61 unit scattered site community known as Concord Homes located in Indianapolis, Indiana. The project consists of 43 buildings. The partnership has received an allocation of low-income housing tax credits from the State of Indiana totaling \$4,400,390. Each building of the project has qualified for and been allocated low-income housing tax credits pursuant to IRC Section 42, which regulates the use of the project as to occupant eligibility and unit gross rent, among other requirements. Each building of the project must meet the provisions of these regulations during each of 15 consecutive years in order to remain qualified to receive the credits. The credit allocation will be annually in the amount of \$440,039 for ten years if the project remains in compliance.
- **IHA Housing Partners II GP, Inc.** is authorized to serve as the General Partner of IHA Housing Partners II, LP, an Indiana Limited Partnership, which was formed to develop, rehabilitate, own, maintain and operate a 90 unit scattered site community known as The Georgetown Apartments located in Indianapolis, Indiana. The partnership has received an allocation of low-income housing tax credits from the State of Indiana totaling \$7,796,080. Each building of the project has qualified for and been allocated low-income housing tax credits pursuant to IRC Section 42, which regulates the use of the project as to occupant eligibility and unit gross rent, among other requirements. Each building of the project must meet the provisions of these regulations during each of 15 consecutive years in order to remain qualified to receive the credits. The credit allocation is spread over 10 years and will be \$589,562 for the first year, \$779,608 annually for the next nine years and \$190,046 in the eleventh year, if the project remains in compliance.

(Continued)

INDIANAPOLIS HOUSING AGENCY
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- **16 Park GP, Inc.** is authorized to serve as the General Partner of 16 Park, LP, an Indiana Limited Partnership, which was formed to develop, rehabilitate, own, maintain and operate a 155 unit multi-family rental housing development known as 16 Park Apartments located in Indianapolis, Indiana. The partnership has received an allocation of low-income housing tax credits from the State of Indiana totaling \$33,531,920. Each building of the project has qualified for and been allocated low-income housing tax credits pursuant to IRC Section 42, which regulates the use of the project as to occupant eligibility and unit gross rent, among other requirements. Each building of the project must meet the provisions of these regulations during each of 15 consecutive years, beginning in 2011, in order to remain qualified to receive the credits. The credits began in 2012 and increased in 2013 to the full year annual credit of \$3,353,192. The total credits will be spread over an eleven year period, if the Project remains in compliance.
- **Barton Block GP, Inc.** is authorized to serve as the General Partner of Barton Block, LP, an Indiana Limited Partnership, which was formed to acquire, construct, own, and operate a residential rental project in Indianapolis, Indiana. The partnership has received an allocation of low-income housing tax credits from the State of Indiana totaling \$11,703,770. Each building of the project has qualified for and been allocated low-income housing tax credits pursuant to IRC Section 42, which regulates the use of the project as to occupant eligibility and unit gross rent, among other requirements. Each unit of the project must meet the provisions of these regulations during each of 15 consecutive years, beginning in 2013, in order to remain qualified to receive the credits. The credit allocation is spread over 11 years, beginning in 2014, and was \$941,685 for the first year, and will be \$1,170,377 for the next nine years, and \$228,692 in the eleventh year, if the project remains in compliance.
- **Millikan II LLC** is a single member LLC formed to acquire, construct, own, and operate a residential rental project in Indianapolis, Indiana. Construction at the project began in 2014 and was completed in 2015. There was no allocation of low-income housing tax credits for this project.

Copies of the most recently issued financial statements for L and R Housing, LP, TH and B, LP, B and H Housing LP, Lugar, LP, IHA Housing Partners I, LP, IHA Housing Partners II, LP, 16 Park, LP, and Barton Block, LP, can be obtained by contacting the Indianapolis Housing Agency, Department of Finance, 1919 North Meridian Street, Indianapolis, Indiana 46202.

Basis of Presentation: The accounting policies of the Agency conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units, while Insight is a not-for-profit organization that applies GAAP in accordance with the Financial Accounting Standards Board. All of the activities of the Agency are accounted for as an enterprise fund for financial reporting purposes. Enterprise funds are used to account for activities (a) that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Measurement Focus, Basis of Accounting and Financial Reporting: The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met. Inter-fund activities within the Agency and Insight are eliminated. Activities between the Agency and Insight are not.

“Memorandum Only” totals are intended for use of specific readers of the financial statements and are not intended to be a consolidated presentation of the financial statements.

(Continued)

INDIANAPOLIS HOUSING AGENCY
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates in Preparation of Financial Statements: The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Operating and Non-operating Revenues and Expenses: Operating revenues and expenses are distinguished from non-operating items. Operating revenues and expenses generally result from providing services or leasing property. Operating expenses include the cost of providing services, administrative services, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Cash and Cash Equivalents: For purposes of reporting cash flows, cash and cash equivalents are considered to be unrestricted and restricted cash that includes cash on hand, demand deposits and investments with an original maturity of 90 days or less. See Note 3 for detail on restricted cash.

Tenant Accounts Receivable: Accounts receivable represents amounts due from tenants of the Agency's residential properties. The allowance for doubtful accounts on accounts receivable was determined by management by a process involving consideration of past experience, current delinquent account information, and the aging of accounts. The balance at December 31, 2015 is as follows:

<u>Agency:</u>	<u>2015</u>
Tenant account receivable - gross	\$ 154,598
Allowance for uncollectible accounts	<u>(82,966)</u>
	<u>\$ 71,632</u>
<u>Insight:</u>	
Tenant account receivable - gross	\$ 133,209
Allowance for uncollectible accounts	<u>(71,569)</u>
	<u>\$ 61,640</u>

Investments: Investments are reported at fair value based on quoted market prices.

Capital Assets: Capital assets are recorded at cost. Donated fixed assets are valued at their estimated fair value on the date donated and a corresponding contribution is recognized as revenue. Depreciation is recognized on operations over the estimated useful lives using the straight-line method. The estimated useful lives are:

Buildings	25 to 40 years
Building improvements	15 to 20 years
Equipment	3 to 10 years

The Agency and Insight maintain a capitalization threshold of \$1,000 for equipment and \$5,000 for land, dwellings and improvements. Expenses for ordinary maintenance and repairs are charged against income as incurred while betterments and additions are capitalized.

(Continued)

INDIANAPOLIS HOUSING AGENCY
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of Long-Lived Assets: In accordance with GAAP, the Agency reviews its property and equipment for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If the fair value is less than the carrying amount of the asset, an impairment loss is recognized for the difference. No impairment loss has been recognized during the year ended December 31, 2015.

Loans Receivable: Loans receivable relate to grant funded capital projects for affordable, low income housing. Terms of the loans vary as to due dates, interest rates, security of collateral, and repayment of principal.

Allowance for Loan Losses: The allowance for loan losses is a valuation allowance for probable incurred losses. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. The Agency has recorded an allowance for loan loss of \$500,000 at December 31, 2015, and an additional allowance of \$1,417,530 at December 31, 2015 for loans which have been forgiven. Insight has no provision for loan loss at December 31, 2015.

Net Position: GASB requires the classification of net position into three components – invested in capital assets, net of related debt; restricted; and unrestricted. These net position classifications are defined as follows:

- **Net investment in capital assets** - This component consists of capital assets, net of accumulated depreciation reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- **Restricted** - This component consists of external constraints placed on net position imposed by creditors (such as through debt covenants), contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation. The Agency has restricted net position of \$783,768 in 2015 for distribution of Section 8 Housing Choice Vouchers and Veterans Affairs Supportive Housing.
- **Unrestricted net position** - This component of net position consists of net position that do not meet the definition of “restricted” or “net investment in capital assets.”

Revenue Sources: The primary resources for the Agency include intergovernmental revenue from HUD and dwelling rental income from tenants. Dwelling rental revenues are received directly from tenants and are recorded as rentals become due. Intergovernmental revenues are reported under the legal contractual requirements of the individual programs. The Agency has entered into Annual Contributions Contracts with HUD to develop, manage and own public housing projects and to administer the federal Section 8 housing programs, whereby monthly housing assistance payments are made to landlords on behalf of eligible lower income individuals and families. HUD makes monthly operating subsidy contributions within the public housing program and monthly contributions for housing assistance payments and administration fees for the Section 8 program. HUD provides the majority of the Agency’s funding and the possibility exists that HUD contributions may decrease in the future. In the event such contributions were significantly decreased, the Agency would need to seek other funding sources to maintain operations at current levels. Unearned revenue consists of revenue received in advance. Revenue is recognized over the period of service provided or lease term as it is earned.

(Continued)

INDIANAPOLIS HOUSING AGENCY
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Insight funding primarily comes from capital contributions, dwelling rental, developer fees, and other operating revenue.

The Agency and Insight typically utilize restricted sources of funding first and then unrestricted sources of funding for its programs.

Allocation of Expenses: Operating expenses have been classified based on actual direct expenditures and indirect cost allocations based on actual time, expense, space used or benefit received, as applicable.

Compensated Absences: Agency employees earn benefit leave in varying amounts based on their employment status. The Agency's benefit policy provides that, upon retirement or resignation, an employee is reimbursed for accumulated vacation leave in full up to the amount earned, not to exceed 112 hours. Non-union employees can carry over 176 hours including 112 for vacation and 64 for sick hours. If the employee is covered by the Master Agreement between the Agency and AFSCME, 100% of hours the employee could accrue in a twelve-month period can be carried over. Vested or accumulated vacation is recorded as an expense and liability as the benefits accrue to employees. In accordance with GASB Statement No. 16, the liability calculations include an accrual at the current rate for ancillary salary-related payments (i.e., the employer's share of social benefits) associated with its ultimate liquidation.

Net Pension Liability: The Agency has recorded a net pension liability reflecting their proportionate share of the difference between the total pension liability and the fiduciary net position of the Indiana Public Retirement System (INPRS) PERF Plan. For purposes of measuring the net pension liability, deferred outflows and inflows of resources related to pensions, and pension expense, information about the fiduciary net position of INPRS PERF Plan and additions to/deductions from the INPRS PERF Plan fiduciary net position have been determined on the same basis as they are reported by the INPRS system. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Outflows of Resources and Deferred Inflows of Resources: Deferred outflows of resources represent a consumption of net position that applies to a future period(s). Deferred inflows of resources represent an acquisition of net position that applies to a future period(s). These amounts will not be recognized as expense or revenue until the applicable period. The Agency's activities are related to recognition of changes in its defined benefit plan's net pension liability that will be amortized in future periods.

New Accounting Pronouncements: In 2015, the Agency adopted GASB Statement No. 68, Accounting and Financial Reporting for Pensions and GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68. These Statements require the Agency to record the excess of the total pension liability over the fiduciary net position of the pension plan as a net pension liability on the statement of net position. The change in accounting for pensions, as discussed in Note 11, resulted in the following restatement at January 1, 2015:

	<u>Beginning Balance</u>	<u>As Restated</u>	<u>GASB 68 Adjustment</u>
Statement of Net Position:			
Net pension liability	\$ -	\$ 2,630,037	\$ 2,630,037
Deferred outflows of resources	-	274,888	274,888
Deferred inflows of resources	-	766,817	766,817
Statement of Revenues, Expenses and Changes in Net Position:			
Net position	\$ 140,290,751	\$ 137,168,785	\$ 3,121,966

(Continued)

INDIANAPOLIS HOUSING AGENCY
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsequent Events: Management has performed an analysis of the activities and transactions subsequent to December 31, 2015, to determine the need for any adjustments or disclosures to the financial statements for the year ended December 31, 2015. Management has performed their analysis through June 24, 2016, the date the financial statements were available to be issued.

NOTE 2 - CASH AND INVESTMENTS

Cash Deposits: The Agency and Insight maintains cash deposits with area financial institutions. A summary of these deposits at December 31, 2015 is as follows:

<u>Agency:</u>	-----2015-----	
	<u>Carrying Value</u>	<u>Bank Balance</u>
Insured by FDIC	\$ 1,830,957	\$ 1,830,957
Insured by Indiana Public Deposits Insurance Fund	1,565,106	1,565,106
Insured by Securities Investor Protection Corporation	7,142,119	7,162,799
Uninsured	<u>5,006,718</u>	<u>5,730,576</u>
	<u>\$ 15,544,900</u>	<u>\$ 16,289,438</u>

Cash and cash equivalents:	
Unrestricted	\$ 4,321,191
Restricted (Note 3)	<u>11,223,709</u>
	<u>\$ 15,544,900</u>

<u>Insight:</u>	-----2015-----	
	<u>Carrying Value</u>	<u>Bank Balance</u>
Insured by FDIC	\$ 1,822,230	\$ 1,829,662
Insured by Indiana Public Deposits Insurance Fund	70,721	70,721
Insured by Securities Investor Protection Corporation	1,934,097	1,934,097
Uninsured	<u>1,051,808</u>	<u>1,103,235</u>
	<u>\$ 4,878,856</u>	<u>\$ 4,937,715</u>

Cash and cash equivalents:	
Unrestricted	\$ 2,504,865
Restricted (Note 3)	<u>2,373,991</u>
	<u>\$ 4,878,856</u>

(Continued)

INDIANAPOLIS HOUSING AGENCY
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 2 - CASH AND INVESTMENTS (Continued)

The following summarizes the Agency's policy and investment activity:

Investment Policy and Legal and Contractual Provisions Governing Cash Deposits: In accordance with Section 401(E) of the HUD/PHA Annual Contributions Contract, it is the policy of the Agency to invest its funds in a manner which will provide the highest investment return with maximum security while meeting the daily cash flow needs of the Agency, and comply with all federal, State and local statutes or ordinances governing the investment of public funds.

Demand deposits of the Agency are fully insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposits Insurance Fund. Demand deposits of Insight are partially insured by the Federal Depository Insurance Corporation.

Credit Risk and Custodial Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Custodial credit risk is the risk that the Agency will not be able to recover the value of its deposits, investments or collateral securities that are in the possession of an outside party if the counter party fails. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized or collateralized with securities held by the pledging financial institution.

The Agency has one institutional money market deposit account valued at \$251,867 to consider for credit risk and custodial credit risk. The money market account had Standard and Poor credit rating of WR, a Moody's credit rating of P-2, and Fitch rating of F2.

Insight has one institutional money market deposit account valued at \$92,790 to consider for credit risk and custodial credit risk. The money market account had a Standard and Poor credit rating of AAA, a Moody's credit rating of Aaa, and Fitch rating of AAA.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss that may arise in the event of default by a single issuer. The following table shows the Agency's investment in issuers and the representative percentage of total investments at December 31, 2015:

<u>Investment Type</u>	<u>Fair Value</u>	<u>% (rounded)</u>
Government obligations:		
Federal Home Loan Mortgage Corporation	\$ 985,729	33%
Federal Home Loan Banks	979,501	34%
Federal Farm Credit Banks	<u>986,366</u>	33%
	<u>\$ 2,951,596</u>	

Insight has one institutional money market deposit account at Invesco, valued at \$92,790, which represents 100% of uninsured deposits and investment accounts.

(Continued)

INDIANAPOLIS HOUSING AGENCY
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 2 - CASH AND INVESTMENTS (Continued)

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the investments. At December 31, 2015, the Agency had the following investments and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>-----Maturities (in Years)-----</u>	
		<u>Less than 1</u>	<u>1 - 3</u>
Government obligations	\$ <u>2,951,596</u>	\$ <u>985,729</u>	\$ <u>1,965,867</u>
Investments:			
Restricted (Note 3)	\$ <u>2,951,596</u>		

Foreign Currency Risk: Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. All Agency and Insight deposits and investments are denominated in United States currency.

NOTE 3 - RESTRICTED CASH AND INVESTMENTS

The Agency has five types of restricted asset accounts as described below:

Tenant Security Deposits: Upon moving into a property, tenants are required to pay a security deposit, which is refundable when the tenant vacates the apartment, provided the apartment's physical condition is satisfactory. At December 31, 2015, tenant security deposits were \$182,518.

Family Self-Sufficiency (FSS) Escrow: The FSS program promotes the development of local strategies to coordinate the use of housing assistance with public and private resources in order to provide supportive services, which will enable participating families to achieve economic independence and self-sufficiency. At December 31, 2015, the cash restricted for the FSS escrow was \$1,400,593.

Section 8 Vouchers and Veterans Affairs Supporting Housing (VASH): As discussed in Note 1, overdraws of Section 8 Housing Assistance and VASH funds are restricted and are to be applied to subsequent years voucher/program payments. At December 31, 2015, cash restricted for Section 8 vouchers and VASH was \$783,768.

Funds Designated for Programs: Loan proceeds received by the Agency have been committed to be utilized for various programs, such as loans for low-income housing capital projects and home ownership program. At December 31, 2015, cash restricted for these programs was \$528,245. Other program income received by the Agency has been committed to be utilized for various housing projects and programs. At December 31, 2015, cash restricted for these programs was \$2,358,440.

Reserve Accounts for Operating, Replacement, ACC and Tax Escrow: Reserve accounts per the terms of Regulatory and Operating partnership agreements. At December 31, 2015, the cash account balances totaled \$5,970,145 and the investment account balances totaled \$2,951,596.

(Continued)

INDIANAPOLIS HOUSING AGENCY
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 3 - RESTRICTED CASH AND INVESTMENTS (Continued)

Insight has four types of restricted cash accounts as described below:

Tenant Security Deposits: Upon moving into a property, tenants are required to pay a security deposit, which is refundable when the tenant vacates the apartment, provided the apartment's physical condition is satisfactory. At December 31, 2015, tenant security deposits were \$32,976.

Family Self-Sufficiency (FSS) Escrow: The FSS program promotes the development of local strategies to coordinate the use of housing assistance with public and private resources in order to provide supportive services, which will enable participating families to achieve economic independence and self-sufficiency. At December 31, 2015, the cash restricted for the FSS escrow was \$15,830

Reserve Accounts for Operating, Replacement, Construction, ACC and Tax Escrow: Reserve accounts per the terms of Regulatory and Operating partnership agreements. At December 31, 2015, the cash account balances totaled \$2,325,635.

NOTE 4 - DUE FROM OTHER GOVERNMENTAL UNITS

A summary of amounts due from other governmental units at December 31, 2015 follows:

	<u>Agency</u>	<u>Insight</u>	<u>Total</u>
U.S. Department of Housing and Urban Development	\$ 736,042	\$ 395,820	\$ 1,131,862
Department of Justice	8,323	-	8,323
U.S. Department of Health and Human Services	2,400	-	2,400
City of Indianapolis	-	1,697	1,697
	<u>\$ 746,765</u>	<u>\$ 397,517</u>	<u>\$ 1,144,282</u>

NOTE 5 - CAPITAL ASSETS

A summary of capital assets at December 31, 2015 follows:

	<u>Agency</u>	<u>Insight</u>	<u>Total</u>
Non-depreciable:			
Land	\$ 16,945,577	\$ 2,149,790	\$ 19,095,367
Construction in progress	93,678	46,465	140,143
Total	<u>17,039,255</u>	<u>2,196,255</u>	<u>19,235,510</u>
Depreciable:			
Buildings and improvements	145,046,123	67,175,794	212,221,917
Equipment	6,407,061	2,153,044	8,560,105
Total	151,453,184	69,328,838	220,782,022
Accumulated depreciation:			
Buildings and improvements	(52,198,064)	(9,131,428)	(61,329,492)
Equipment	(197,296)	(113,719)	(311,015)
Total	<u>(52,395,360)</u>	<u>(9,245,147)</u>	<u>(61,640,507)</u>
Net depreciable	<u>99,057,824</u>	<u>60,083,691</u>	<u>159,141,515</u>
Net capital assets	<u>\$ 116,097,079</u>	<u>\$ 62,279,946</u>	<u>\$ 178,377,025</u>

(Continued)

INDIANAPOLIS HOUSING AGENCY
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 5 - CAPITAL ASSETS (Continued)

Capital asset activity consisted of the following:

Agency:	December 31, <u>2014</u>	<u>Increases</u>	<u>Decreases</u>	December 31, <u>2015</u>
Non-depreciable:				
Land	\$ 16,446,878	\$ 505,800	\$ (7,101)	\$ 16,945,577
Construction in progress	<u>426,621</u>	<u>65,173</u>	<u>(398,116)</u>	<u>93,678</u>
Total	<u>16,873,499</u>	<u>570,973</u>	<u>(405,217)</u>	<u>17,039,255</u>
Depreciable:				
Buildings and improvements	142,282,365	2,856,356	(92,598)	145,046,123
Equipment	<u>6,306,242</u>	<u>353,639</u>	<u>(252,820)</u>	<u>6,407,061</u>
Total	<u>148,588,607</u>	<u>3,209,995</u>	<u>(345,418)</u>	<u>151,453,184</u>
Less: Accumulated depreciation:				
Buildings and improvements	(44,215,003)	(3,955,075)	12,220	(48,157,858)
Equipment	<u>(3,892,997)</u>	<u>(597,325)</u>	<u>252,820</u>	<u>(4,237,502)</u>
Total	<u>(48,108,000)</u>	<u>(4,552,400)</u>	<u>265,040</u>	<u>(52,395,360)</u>
Net depreciable	<u>100,480,607</u>	<u>(1,342,405)</u>	<u>(80,378)</u>	<u>99,057,824</u>
Total capital assets – net	<u>\$ 117,354,106</u>	<u>\$ (771,432)</u>	<u>\$ (485,595)</u>	<u>\$ 116,097,079</u>

Insight:	December 31, <u>2014</u>	<u>Increases</u>	<u>Decreases</u>	December 31, <u>2015</u>
Non-depreciable:				
Land	\$ 2,105,008	\$ 44,782	\$ -	\$ 2,149,790
Construction in progress	<u>2,594,645</u>	<u>-</u>	<u>(2,548,180)</u>	<u>46,465</u>
Total	<u>4,699,653</u>	<u>44,782</u>	<u>(2,548,180)</u>	<u>2,196,255</u>
Depreciable:				
Buildings and improvements	54,388,886	12,786,908	-	67,175,794
Equipment	<u>2,100,969</u>	<u>52,075</u>	<u>-</u>	<u>2,153,044</u>
Total	<u>56,489,855</u>	<u>12,838,983</u>	<u>-</u>	<u>69,328,838</u>
Less: Accumulated depreciation				
Buildings and improvements	(7,102,102)	(1,673,679)	-	(8,775,781)
Equipment	<u>(340,393)</u>	<u>(128,973)</u>	<u>-</u>	<u>(469,366)</u>
Total	<u>(7,442,495)</u>	<u>(1,802,652)</u>	<u>-</u>	<u>(9,245,147)</u>
Net depreciable	<u>49,047,360</u>	<u>11,036,331</u>	<u>-</u>	<u>60,083,691</u>
Total capital assets – net	<u>\$ 53,747,013</u>	<u>\$ 11,081,113</u>	<u>\$ (2,548,180)</u>	<u>\$ 62,279,946</u>

Effective 2007, the Agency entered into a ground lease with an Indiana Limited Partnership whereby property described as Red Maple Grove is leased for \$1 per annum for a term of 99 years.

Effective 2010, the Agency entered into a ground lease with another Indiana Limited Partnership whereby property described as 16 Park is leased for \$2,214,720 for a term of 90 years. The entire ground lease payment for the term was paid in 2010. The Agency has reported unearned ground lease revenue for \$2,083,477 at December 31, 2015 to be recognized over the remainder of the lease term.

Effective 2012, the Agency entered into a ground lease with another Indiana Limited Partnership whereby property described as Barton Block is leased for \$512,400 for a term of 75 years. The entire ground lease payment for the term was paid in 2012. The Agency has reported unearned ground lease revenue for \$490,764 at December 31, 2015 to be recognized over the remainder of the lease term.

(Continued)

INDIANAPOLIS HOUSING AGENCY
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 6 - NON-CURRENT LIABILITIES

Changes in non-current liabilities were as follows:

Agency:

	Balance December 31, <u>2014</u>	<u>Increases</u>	<u>Decreases</u>	Balance December 31, <u>2015</u>	Amounts Due within <u>One Year</u>	Amounts Due <u>Thereafter</u>
Capital lease (Note 7)	\$ 180,165	\$ 58,517	\$ (138,963)	\$ 99,719	\$ 58,516	\$ 41,203
Loans and interest payable (*)	9,121,223	1,989,672	(3,985,983)	7,124,912	2,035,231	5,089,681
Due to other governmental units (**)	1,756,409	-	(236,873)	1,519,536	64,554	1,454,982
Unearned revenues	2,689,218	196,801	(114,977)	2,771,042	196,801	2,574,241
FSS escrow (***)	1,595,473	878,253	(1,073,132)	1,400,594	559,161	841,433
Accrued compensated absences	<u>222,909</u>	<u>388,311</u>	<u>(358,435)</u>	<u>252,785</u>	<u>25,284</u>	<u>227,501</u>
	<u>\$ 15,565,397</u>	<u>\$ 3,511,554</u>	<u>\$ (5,908,363)</u>	<u>\$ 13,168,588</u>	<u>\$ 2,939,547</u>	<u>\$ 10,229,041</u>

***Loans and Interest Payable:**

Agency loans payable consist of five zero interest loans at December 31, 2015 between three tax credit limited partnerships controlled by the Agency and Indiana Housing Community Development Agency (IHCDA) related to tax credit assistance program (TCAP) and Section 1602 tax credit exchange programs. One fifteenth of the principal balance of Section 1602 tax credit exchange program notes are forgiven each year as long as the Projects stay in compliance. The mortgages are secured by the buildings of the Projects located in Indianapolis, Indiana. Balances of TCAP and 1602 loans, including accrued interest, at December 31, 2015 were \$3,055,000 and \$2,760,493, respectively.

In 2011, the Agency issued a \$2.1 million revenue bond for the purchase of its administrative office building located on Meridian Street. The revenue bond is payable over a 10-year period with an interest rate of 3.65%. Accrued interest payable totaled \$4,008 at December 31, 2015. The total balance outstanding at December 31, 2015 was \$1,309,419.

Scheduled maturities on loans and interest payable as of December 31, 2015 are as follows:

<u>Year Ended</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 1,976,222	\$ 59,009	\$ 2,035,231
2017	1,983,909	-	1,953,909
2018	491,880	-	491,880
2019	500,147	-	500,147
2020	508,722	-	508,722
Thereafter			
2021-2025	1,469,221	-	1,469,221
2026	<u>135,802</u>	<u>-</u>	<u>135,802</u>
	<u>\$ 7,065,903</u>	<u>\$ 59,009</u>	<u>\$ 7,124,912</u>

(Continued)

INDIANAPOLIS HOUSING AGENCY
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 6 - NON-CURRENT LIABILITIES (Continued)

****Due to Other Governmental Units:**

Due to other governmental units represents two agreements with HUD to repay Section 8 overdrafts in equal installments over ten-year periods originally beginning in 2006 and 2016. In 2015, HUD amended the agreements and extended the due dates to 2025 and 2040, respectively. Future minimum payments on these repayment agreements as of December 31, 2015 are as follows:

<u>Year Ended</u>		
2016	\$	64,554
2017		64,554
2018		64,554
2019		64,554
2020		64,554
Thereafter:		
2021-2025		322,770
2026-2030		545,360
2031-2035		545,360
2036-2040		<u>545,354</u>
Total future minimum payments		2,281,614
Less: amount representing present value discount		<u>(762,078)</u>
	\$	<u>1,519,536</u>

*****FSS Escrow:**

FSS is the family self-sufficiency program developed by HUD that encourages communities to develop strategies to help assisted families obtain employment and become economically independent. Families receiving housing assistance through Section 8 and public housing are eligible for the program. Each family that participates must sign an FSS contract and the head of household and other interested family members must work with the Agency to develop individual training and service plans. The plan spells out the responsibilities of the family and the Agency during the course of the FSS contract. Services that can be obtained through FSS are employment and training, transportation, home-ownership opportunities, educational programs, and other services. If an FSS participant increases their earnings in work, an amount equal to 30% of the net increase in income or 30% of the increased earnings (whichever is lower) is deposited into an escrow account. Once the participant successfully finishes the program they will receive all the funds in their escrow account. Management makes an estimate of the amount to be paid within the next year to determine the portion that is current and noncurrent.

Insight:

	Balance December 31, <u>2014</u>	<u>Increases</u>	<u>Decreases</u>	Balance December 31, <u>2015</u>	Amounts Due within <u>One Year</u>	Amounts Due <u>Thereafter</u>
Loans and interest payable (***)	\$ 17,963,937	\$ 10,990,816	\$ (4,694,735)	\$ 24,260,018	\$ 6,741,172	\$ 17,518,846
Accrued compensated absences	<u>7,422</u>	<u>18,941</u>	<u>(13,761)</u>	<u>12,602</u>	<u>1,260</u>	<u>11,342</u>
	<u>\$ 17,971,359</u>	<u>\$ 11,009,757</u>	<u>\$ (4,708,496)</u>	<u>\$ 24,272,620</u>	<u>\$ 6,742,432</u>	<u>\$ 17,530,188</u>

(Continued)

INDIANAPOLIS HOUSING AGENCY
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 6 - NON-CURRENT LIABILITIES (Continued)

*****Loans and Interest Payable:**

Insight loans payable consist of three loans at December 31, 2015:

- Insight entered into a loan with Local Initiatives Support Corporation (LISC) for \$50,000 with an interest rate of 0%. The principal balance is due in 2016. The loan is unsecured. The total balance outstanding at December 31, 2015 was \$50,000.
- IHA Housing Partners I, LP (an affiliate) entered into a loan with the Agency in the original amount of \$5,066,979. As of December 31, 2015, the entire balance of the loan is outstanding. Starting on the date of the first advance on the note and ending on the maturity date, December 31, 2055, interest shall be accrued and compounded annually at a rate of 4.9% per annum. Annual payments of interest shall be made in an amount equal to the lesser of (1) all accrued and unpaid interest on the loan or, (ii) the net available operating cash flow amount, as defined in the Partnership Agreement. The outstanding principal and any unpaid interest shall be due and payable on the maturity date. The IHA loan is collateralized by real estate held for lease and an assignment of rents and leases. Accrued interest payable totaled \$1,835,932 at December 31, 2015. The total balance outstanding at December 31, 2015 was \$6,902,911.
- 16 Park, LP (an affiliate) entered into a Capital funds loan with the Agency for up to \$4,425,466 with a fixed interest rate of 5%, compounding annually. No principal or interest payments are due until the maturity date of December 31, 2060. The mortgage is secured by the apartment buildings of the Project located in Indianapolis, Indiana. Accrued interest payable totaled \$69,633 at December 31, 2015. The total balance outstanding at December 31, 2015 was \$1,633,706.
- 16 Park, LP entered into Section 1602 tax credit exchange program note with IHEDA for \$7,080,024 with an interest rate of 0%. One fifteenth of the principal balance will be forgiven each year beginning with the first anniversary of the Conversion Date if the Project stays in compliance. The mortgage is secured by the apartment buildings of the Project located in Indianapolis, Indiana. The balance outstanding at December 31, 2015 was \$5,192,017.
- 16 Park, LP entered into a loan with IHA for up to \$750,000 with a simple fixed interest rate of 5% per annum on the outstanding principal balance. No principal or interest payments are due until the maturity date of December 31, 2060. Accrued interest payable totaled \$33,801 at December 31, 2015. The balance outstanding at December 31, 2015 was \$783,801.
- 16 Park, LP entered into a loan with IHEDA for up to \$3,000,000 with a simple fixed interest rate of 1% per annum on the outstanding principal balance. Principal payments of \$91,367, to the extent of available cash flow start April 1, 2016 and continue to the maturity date of January 31, 2055. Accrued interest payable totaled \$26,959 at December 31, 2015. The balance outstanding at December 31, 2015 was \$3,026,959.
- In 2013, Barton Block LP entered into a loan agreement with the Agency for up to \$400,000 with a simple fixed interest rate of 5% per annum on the outstanding principal balance. No principal or interest payments are due until the maturity date of December 31, 2067. The mortgage is secured by the apartment buildings of the Project located in Indianapolis, Indiana. Accrued interest payable at December 31, 2015 totaled \$51,454. The total outstanding balance at December 31, 2015 was \$451,454.

(Continued)

INDIANAPOLIS HOUSING AGENCY
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2015

NOTE 6 - NON-CURRENT LIABILITIES (Continued)

- Millikan II, LLC entered into construction loan with Merchants Bank for up to \$8,900,000. The loan has a LIBOR-based variable interest rate that was 4% at September 8, 2014. No principal payments are due until the maturity date of July 1, 2016; the note is expected to be refinanced into an FHA 223(f) loan after the Project reaches stabilized operations. The mortgage is secured by the apartment buildings of the Project located in Indianapolis, Indiana. Accrued interest payable at December 31, 2015 totaled \$21,348 and a total of \$81,606 of interest was capitalized during the year. The total outstanding balance at December 31, 2015 was \$6,219,170.

Scheduled maturities on loans and interest payable as of December 31, 2015 are as follows:

<u>Year Ended</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 6,719,824	\$ 21,348	\$ 6,741,172
2017	472,002	-	472,002
2018	472,002	-	472,002
2019	472,002	-	472,002
2020	472,002		472,002
Thereafter:			
2021-2025	2,360,006	-	2,360,006
2026-2030	472,001	-	472,001
2051-2055	9,631,052	1,932,524	11,563,576
2056-2060	750,000	33,801	783,801
2066-2067	<u>400,000</u>	<u>51,454</u>	<u>451,454</u>
	<u>\$ 22,220,891</u>	<u>\$ 2,039,127</u>	<u>\$ 24,260,018</u>

NOTE 7 – CAPITAL LEASES

Equipment Lease: In 2011, the Agency entered into a lease for a trash truck. The lease is for five years with an interest rate of 3.472%. At December 31, 2015, the total capitalized cost of the equipment was \$131,645 and accumulated depreciation was \$84,629. The capital lease obligation was \$4,766 at December 31, 2015. Payments in 2015 totaled approximately \$28,023.

Phone System Lease: In 2012, the Agency entered into a lease for a phone system. The lease is for five years with an interest rate of 2.502%. At December 31, 2015, the total capitalized cost of the phone system was \$260,647 and accumulated depreciation was \$182,453. The capital lease obligation was \$94,953 at December 31, 2015. Payments in 2015 totaled approximately \$52,423.

Future minimum payments on the capital leases as of December 31, 2015 are as follows:

<u>Year Ended</u>	<u>Payment</u>
2016	\$ 60,298
2017	<u>41,634</u>
Total future minimum payments	101,932
Less: amounts representing interest	<u>(2,213)</u>
Present value of net minimum lease payments	<u>\$ 99,719</u>

(Continued)

INDIANAPOLIS HOUSING AGENCY
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 8 - LOANS RECEIVABLE

Loans receivable are the result of grant funded affordable or low-income housing capital projects with fixed interest rates. Noninterest bearing loans are recorded at present value with a discount that is amortized over the term of the loan.

Agency:

	Interest Rate	Principal	Accrued Interest	Unamortized Discount	Allowance Loan Loss	Net Loans Receivable	Notes
Red Maple Grove:							
Phase I	4.84%	\$ 346,700	\$ 257,828	\$ -	\$ -	\$ 604,528	(a)
Phase IIA-Perm A	5.36%	772,616	453,737	-	-	1,226,353	(a)
Phase IIA-Perm B	0.00%	3,103,412	-	(2,519,678)	-	583,734	(a)
Phase IIB-Perm A	5.25%	2,078,454	810,480	-	-	2,888,934	(a)
Phase IIB-Perm B	0.00%	2,009,813	-	(1,638,427)	-	371,386	(a)
Second Mortgages	0.00%	1,417,530	-	-	(1,417,530)	-	(g)
Georgetown IHA							
Partners II	4.90%	5,066,979	1,835,932	-	-	6,902,911	(b)
16 Park, LP – Capital	5.00%	1,564,073	69,633	-	-	1,633,706	(c)
16 Park, LP – RHF	5.00%	750,000	33,801	-	-	783,801	(k)
Trail Side	0.00%	1,650,987	-	(1,098,567)	-	552,420	(d)
St. Clair	0.00%	1,574,691	-	(1,257,018)	-	317,673	(e)
Tibbs I	0.00%	200,000	-	-	(200,000)	-	(f)
Tibbs II	5.74%	300,000	-	-	(300,000)	-	(f)
Penn Place, LP	5.00%	1,545,000	8,093	-	-	1,553,096	(j)
Barton Block	5.00%	400,000	51,454	-	-	451,454	(h)
		<u>\$ 22,780,255</u>	<u>\$ 3,520,958</u>	<u>\$ (6,513,690)</u>	<u>\$ (1,917,530)</u>	<u>\$ 17,869,993</u>	

At December 31, 2015, of these loan amounts, the Georgetown IHA Partners II, 16 Park, LP, and Barton Block, LP loans totaling \$9,771,872 are affiliate loans and the remainder are non-affiliate loans.

Insight:

	Interest Rate	Principal	Accrued Interest	Unamortized Discount	Allowance Loan Loss	Net Loans Receivable	Notes
Red Maple Grove:							
Phase I –							
Insight (AHP)	0.00%	\$ 300,000	\$ -	\$ (188,812)	\$ -	\$ 111,188	(i)
Phase I –							
Insight (INHP)	0.00%	31,650	-	(19,919)	-	11,731	(i)
Phase IIA –							
Insight (AHP)	0.00%	318,000	-	(261,228)	-	56,772	(i)
Phase IIB –							
Insight (INHP)	0.00%	15,146	-	(12,443)	-	2,703	(i)
Phase IIB –							
Insight (AHP)	0.00%	275,000	-	(226,718)	-	48,282	(i)
		<u>\$ 939,796</u>	<u>\$ -</u>	<u>\$ (709,120)</u>	<u>\$ -</u>	<u>\$ 230,676</u>	

All Insight loans are non-affiliate loans at December 31, 2015.

(Continued)

INDIANAPOLIS HOUSING AGENCY
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 8 - LOANS RECEIVABLE (Continued)

Details on loans receivable are provided below:

(a) Red Maple Grove Phase I, IIA, and IIB - Agency: The Agency entered into agreements with BRINDY-I LP to develop low income housing on Agency owned land with an outstanding balance of \$8,310,995 discounted to \$4,058,881. Activity included:

- During 2005, the Agency loaned HOPE VI money to BRINDY-I LP in the amount of \$346,700, which bears interest at an annual rate of 4.84% and is due on June 30, 2044.
- During 2007, the Agency loaned HOPE VI money to BRINDY-I LP in the amount of \$3,876,028 due on December 31, 2047.
- During 2009, the Agency loaned HOPE VI money to BRINDY-I LP in the amount of \$5,088,267 due on December 31, 2049. During 2008, the construction loan of \$1,000,000 was repaid.
- No new loans or payments on loans during 2014.

(b) The Georgetown IHA Partners II: The Agency entered into an agreement with IHA Housing Partners II, LP (an affiliate) on January 15, 2009 for an original amount of \$5,066,979, of which all has been drawn as of December 31, 2009. Annual payments of interest shall be made in an amount equal to the lesser of all accrued and unpaid interest on the loan or the net available operating cash flow amount as defined in the partnership agreement. The loan is due on December 31, 2055.

(c) 16 Park, LP: The Agency entered into a Capital funds loan with 16 Park, LP (an affiliate) for up to \$4,425,466 with a fixed interest rate of 5%, compounding annually. No principal or interest payments are due until the maturity date of December 31, 2060; however, during 2015 a payment of \$3,750,000 (including accrued interest) was received which reduced the outstanding principal balance to \$1,564,073. The mortgage is secured by the apartment buildings of the Project located in Indianapolis, Indiana.

(d) Trail Side: The Agency entered into a non-interest bearing loan agreement for \$1,650,987 with Trail Side on Mass Ave., LP in 2011. No payments are due until the maturity date of September 1, 2042.

(e) St. Clair: The Agency entered into a non-interest bearing loan agreement for \$1,574,691 with St. Clair Senior Apartments, LP in 2011. No payments are due until the maturity date of December 31, 2054.

(f) Tibbs Court: During 1998, the Agency entered into an agreement with Tibbs Court, LLP (Tibbs Court) to utilize HOPE VI federal funds to construct 50 housing units of which 19 will be public housing units. In addition to grant funds expended, the Agency loaned HOPE VI money to Tibbs Court. The loan included a \$200,000 non-interest bearing loan, which is due September 14, 2036, and a \$300,000 interest-bearing loan at 5.74%, which is due September 14, 2038. The entire amount of the loans plus accrued interest is due at the maturity dates. No public housing money can be used to repay the loans. The loans are secured by collateral assignment of the leases and rents of the mortgaged property. At December 31, 2015, the Agency has not accrued any interest revenue on either loan due to uncertainty of collection.

(g) Red Maple Grove Second Mortgages: From 2009 through 2014, the Agency entered into several second mortgage agreements with individuals to purchase low-income housing properties. These mortgages are subordinate to first mortgages and are not collateralized. These loans are expected to be forgiven over five years. Therefore, a provision for allowance has been recorded for the balance of the loans.

(h) Barton Block: The Agency entered into a loan with Barton Block, LP (an affiliate) for up to \$400,000 with a simple fixed rate of 5% per annum. No principal or interest payments are due until the maturity date of December 31, 2067. The mortgage is secured by the apartment buildings of the Project located in Indianapolis, Indiana.

(Continued)

INDIANAPOLIS HOUSING AGENCY
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 8 - LOANS RECEIVABLE (Continued)

(i) Red Maple Grove Phase I, IIA, and IIB - Insight: The Agency, through Insight Development Corporation, made non-interest coupon loans of grant funds to BRINDY-I, LP with an outstanding balance of \$939,796 discounted to \$208,994. Activity included:

- \$300,000 and \$31,650 which are due upon demand or December 31, 2036
- \$318,000 which is due upon demand or December 31, 2047
- \$15,146 which is due upon demand or December 31, 2048
- \$275,000 which is due upon demand or December 31, 2049

(j) Penn Place, LP: The Agency entered into a loan agreement with Penn Place, LP for up to \$1,545,000 with a simple fixed rate of 5% per annum. The borrower is required to make a principal reduction payment of 445,000 dollars two years from the effective date. Following this payment, all principal and interest payments will be paid annually with any unpaid amounts being due at the maturity date of December 31, 2054. The Agency plans on building 38 unit residential rental apartment complexes.

(k) 16 Park, LP: The Agency entered into a loan with 16 Park, LP (an affiliate) for up to \$750,000 with a simple fixed rate of 5% per annum. No principal or interest payments are due until the maturity date of December 31, 2060.

NOTE 9 - RISK MANAGEMENT

The Agency maintains insurance against most normal hazards. The Agency is a member of the Housing Authority Risk Retention Group, Inc. (Group), which provides general liability, public official and lead-based paint insurance to participating public housing authorities throughout the United States. The Agency joined the Group in order to obtain stable and affordable insurance coverage for general liability. Coverage provided by general liability is \$5 million per year with a deductible of \$5,000 for general liability and \$10,000 for property claims per occurrence. The Agency's risk of participation in the Group is limited to the Agency's initial original equity contribution of \$90,000, any subsequent additional equity contribution as determined by the Group's Board of Directors and the payment of annual premiums for its general liability insurance coverage.

Although the underwriting experience of the Group may result in an increased annual premium charged and/or assessments against each participant's equity contribution account, the Agency's exposure to any net loss allocation is restricted to its equity contribution account balance, plus any additional assessment that may be required. The Agency paid total premiums in 2015 of \$829,810. The Agency has an investment of \$272,402 in the Group at December 31, 2015.

Management believes that the number of outstanding claims and potential claims outstanding do not materially affect the financial statements of the Agency.

NOTE 10 - RELATED PARTY TRANSACTIONS

As described in Note 1, the Agency is part of the City of Indianapolis. The Agency utilized services from the City of Indianapolis in the ordinary course of business including fleet services and health insurance. In 2015, the Agency paid \$423,651 to the City of Indianapolis for fleet services, health insurance, and other services. Further, the Agency is a sub-recipient of federal grant funds from the City of Indianapolis. In 2015, the Agency received \$235,029 of tax increment financing (TIF) for two development projects.

(Continued)

NOTE 11 - PENSION PLAN

Plan Description: The Agency employees are covered under a defined benefit Public Employees' Retirement Systems (PERS). As the Agency is part of the City of Indianapolis, the Agency's employees participate in the City of Indianapolis's Public Employees Retirement Fund of Indiana (PERF) employer account and are, therefore, inseparable according to PERF, which is administered by the Indiana Public Retirement System (INPRS). As part of the implementation of GASB Statement No. 67, *Financial Reporting for Pension Plans – An Amendment of GASB No. 25* (GASB No. 67), PERF changed from an agent to a cost sharing, multiple-employer defined benefit plan effective July 1, 2013, based on 35 IAC 21-1-1, 35 IAC 21-1-2 and amended IC 5-10.2-2-11(b). PERF was established to provide retirement, disability, and survivor benefits to full-time employees of the State not covered by another plan, those political subdivisions that elect to participate in the retirement plan, and certain INPRS employees. Political subdivisions mean a county, city, town, township, political body corporate, public school corporation, public library, public utility of a county, city, town, township, and any department of, or associated with, a county, city, town, or township, which department receives revenue independently of, or in addition to, funds obtained from taxation. There are two (2) tiers to the PERF Plan. The first is the Public Employees' Defined Benefit Plan (PERF Hybrid Plan) and the second is the Public Employees' Annuity Savings Account Only Plan (PERF ASA Only Plan).

The PERF Hybrid Plan was established by the Indiana Legislature in 1945 and is governed by the INPRS Board of Trustees in accordance with IC 5-10.2, IC 5-10.3 and IC 5-10.5. There are two (2) aspects to the PERF Hybrid Plan defined benefit structure. The first portion is the monthly defined benefit pension that is funded by the employer. The second portion of the PERF Hybrid Plan benefit structure is the annuity savings account (ASA) that supplements the defined benefit at retirement.

The PERF ASA Only Plan was established by the Indiana Legislature in 2011, and is governed by the INPRS Board of Trustees in accordance with IC 5-10.3-12 and IC 5-10.5. This plan is funded by an employer and a member for the use of the member, or the member's beneficiaries or survivors, after the member's retirement. The PERF ASA Only Plan members are full-time employees of the State (as defined in IC 5-10.3-7-1(d)), who are in a position eligible for membership in the PERF Hybrid Plan and who elect to become members of the PERF ASA Only Plan. The PERF ASA Only Plan membership does not include individuals who: (1) before March 1, 2013; were members of the PERF Hybrid Plan or (2) on or after March 1, 2013, do not elect to participate in the PERF ASA Only Plan. Any government agency that pays employees through the Auditor of the State is a mandatory participant in the PERF ASA Only Plan and must offer eligible employees the PERF ASA Only Plan option. Quasi-government agencies and State educational institutions may choose to offer the PERF ASA Only Plan as an option to their employees. Since inception, 395 members have selected the PERF ASA Only Plan, or approximately 9 percent of eligible new hires of the State.

Members are required to participate in the ASA. The ASA consists of the member's contributions, set by statute at three (3) percent of compensation as defined by IC 5-10.2-3-2 for PERF, plus the interest/earnings or losses credited to the member's account. The employer may elect to make the contributions on behalf of the member. In addition, under certain conditions, members may elect to make additional voluntary contributions of up to 10 percent of their compensation into their ASA. A member's contributions and interest credits belong to the member and do not belong to the State or political subdivision.

Investments in the members' ASA are individually directed and controlled by plan participants who direct the investment of their account balances among eight (8) investment options, with varying degrees of risk and return potential. All contributions made to a member's account (member contribution subaccount and employer contribution subaccount) are invested as a combined total according to the member's investment elections. Members may make changes to their investment directions daily and investments are reported at fair value.

(Continued)

INDIANAPOLIS HOUSING AGENCY
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 11 - PENSION PLAN (Continued)

Financial report: INPRS issues a publicly available stand-alone financial report that includes financial statements and required supplementary information for the plan as a whole. This report may be obtained by writing the Indiana Public Retirement System, One North Capitol, Suite 001, Indianapolis, IN 46204, by calling (888) 526-1687, by emailing questions@inprs.in.gov, or by visiting www.in.gov/inprs.

Retirement Benefits – Defined Benefit Pension: The PERF Hybrid Plan retirement benefit consists of the sum of a defined pension benefit provided by employer contributions plus the amount credited to the member's ASA. Pension benefits (non ASA) vest after 10 years of creditable service. The vesting period is eight (8) years for certain elected officials. Members are immediately vested in their ASA. At retirement, a member may choose to receive a lump sum payment of the amount credited to the member's ASA, receive the amount as an annuity, or leave the contributions invested with INPRS. Vested PERF members leaving a covered position, who wait 30 days after termination, may withdraw their ASA and will not forfeit creditable service or a full retirement benefit. However, if a member is eligible for a full retirement at the time of the withdrawal request, he/she will have to begin drawing his/her pension benefit in order to withdraw the ASA. A non-vested member who terminates employment prior to retirement may withdraw his/her ASA after 30 days, but by doing so, forfeits his/her creditable service. A member who returns to covered service and works no less than six (6) months in a covered position may reclaim his/her forfeited creditable service.

A member who has reached age 65 and has at least 10 years of creditable service is eligible for normal retirement and, as such, is entitled to 100 percent of the pension benefit component. This annual pension benefit is equal to 1.1 percent times the average annual compensation times the number of years of creditable service. The average annual compensation in this calculation uses the highest 20 calendar quarters of salary in a covered position. All 20 calendar quarters do not need to be continuous, but they must be in groups of four (4) consecutive calendar quarters. The same calendar quarter may not be included in two (2) different groups. For PERF members who serve as an elected official, the highest one (1) year (total of four (4) consecutive quarters) of annual compensation is used. Member contributions paid by the employer on behalf of the member and severance pay up to \$2,000 are included as part of the member's annual compensation.

A member who has reached age 60 and has at least 15 years of creditable service is eligible for normal retirement and, as such, is entitled to 100 percent of the pension benefit. A member who is at least 55 years old and whose age plus number of years of creditable service is at least 85 is entitled to 100 percent of the benefits as described above.

A member who has reached at least age 50 and has at least 15 years of creditable service is eligible for early retirement with a reduced pension. A member retiring early receives a percentage of the normal annual pension benefit. The percentage of the pension benefit at retirement remains the same for the member's lifetime. For age 59, the early retirement percentage of the normal annual pension benefit is 89 percent. This amount is reduced five (5) percentage points per year (e.g., age 58 is 84 percent) to age 50 being 44 percent.

The monthly pension benefits for members in pay status may be increased periodically as cost of living adjustments (COLA). Such increases are not guaranteed by statute and have historically been provided on an "ad hoc" basis and can only be granted by the Indiana General Assembly. There was no COLA for the year ended June 30, 2015; however, eligible members received a one-time check (a.k.a. 13th check) in September 2014. The amount of the one-time check ranged from \$150 to \$450, depending upon a member's years of service. The September 2014 one-time check was for a member who retired or was disabled on or before December 1, 2013, and who was entitled to receive a monthly benefit on July 1, 2014.

(Continued)

INDIANAPOLIS HOUSING AGENCY
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 11 - PENSION PLAN (Continued)

The PERF Hybrid Plan also provides disability and survivor benefits. A member who has at least five (5) years of creditable service and becomes disabled while in active service, on FMLA leave, receiving workers' compensation benefits, or receiving employer-provided disability insurance benefits may retire for the duration of the disability, if the member has qualified for social security disability benefits and has furnished proof of the qualification. The disability benefit is calculated the same as that for a normal retirement without reduction for early retirement. The minimum benefit is \$180 per month, or the actuarial equivalent.

Upon the death in service of a member with 15 or more years of creditable service as of January 1, 2007, a survivor benefit may be paid to the surviving spouse to whom the member had been married for two (2) or more years, or surviving dependent children under the age of 18. This payment is equal to the benefit which would have been payable to a beneficiary if the member had retired at age 50 or at death, whichever is later, under an effective election of the joint and survivor option available for retirement benefits. A surviving spouse or surviving dependent children are also entitled to a survivor benefit upon the death in service after January 1, 2007, of a member who was at least 65 years of age and had at least 10 but not more than 14 years of creditable service.

Funding Policy: Members are obligated by statute to make contributions to the PERF Hybrid Plan or the PERF ASA Only Plan. Any political subdivision that elects to participate in the PERF Hybrid Plan is obligated by statute to make contributions to the plan. The required contributions are determined by the INPRS Board of Trustees based on actuarial investigation and valuation in accordance with IC 5-10.2-2-11. The funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to fund the pension benefits when they become due. As PERF is a cost-sharing plan, all risks and costs, including benefit costs, are shared proportionately by the participating employers.

During fiscal year 2015, all participating employers were required to contribute 11.2 percent of covered payroll for members employed by the State. For political subdivisions, an average contribution rate of 11.03 percent was required from employers during the period of July 1 – December 31, 2014, and an average contribution rate of 11.9 percent was required for the period of January 1 – June 30, 2015. For the PERF ASA Only Plan, all participating employers were also required to contribute 11.2 percent of covered payroll. In accordance to IC 5-10.3-12-24, the amount credited from the employer's contribution rate to the member's account shall not be less than 3 percent and not be greater than the normal cost of the fund which was 4.6 percent for fiscal year 2015, and any amount not credited to the member's account shall be applied to the pooled assets of the PERF Hybrid Plan.

The PERF Hybrid Plan or the PERF ASA Only Plan members contribute three (3) percent of covered payroll to their ASA, which is not used to fund the defined benefit pension for the PERF Hybrid Plan. For the PERF Hybrid Plan, the employer may elect to make the contributions on behalf of the member. The employer shall pay the member's contributions on behalf of the member for the PERF ASA Only Plan. In addition, members of the PERF Hybrid Plan (effective July 1, 2014, the PERF ASA Only Plan may also participate) may elect to make additional voluntary contributions, under certain criteria, of up to 10 percent of their compensation into their ASA.

PERF covered employees are required to contribute 3% of their compensation to the Fund and the Agency is required to contribute amounts, which are actuarially determined, sufficient to fund the retirement benefits. In addition, some employees elect to make additional voluntary contributions to their PERF ASA Only Plans. The contribution requirement, which was made by the Agency, was \$598,945 for 2015. These total contributions represent 11.2% of covered payroll for 2015.

(Continued)

INDIANAPOLIS HOUSING AGENCY
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2015

NOTE 11 - PENSION PLAN (Continued)

The following represents the Agency's annual required contributions for the last two years:

<u>Year Ended December 31</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
2015	\$ 598,945	100%
2014	538,761	100%

Significant Actuarial Assumptions: The total pension liability is determined by INPRS actuaries in accordance with GASB No. 67, as part of their annual actuarial valuation for each defined benefit retirement plan. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts (e.g., salaries, credited service) and assumptions about the probability of occurrence of events far into the future (e.g., mortality, disabilities, retirements, employment terminations). Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future. Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuations are presented below:

- Asset valuation date June 30, 2015
- Liability valuation date June 30, 2014 – Member census data as of June 30, 2014 was used in the valuation and adjusted, where appropriate, to reflect changes between June 30, 2014 and June 30, 2015. Standard actuarial rollforward techniques were then used to project the total pension liability computed as of June 30, 2014 to the June 30, 2015 measurement date.
- Experience study date Period of 5 years ended June 30, 2010
- Actuarial cost method Entry age normal (level percent of payroll)
- Investment rate of return 6.75%
- COLA 1.00%
- Future salary increases 2.50% - 4.25% (including inflation)
- Inflation 2.25%
- Mortality RP-2014 (with MP-2014 improvement removed) Total Data Set mortality table projected on a fully generational basis using the future mortality improvement scale inherent in the mortality projection included in the Social Security Administration's 2014 Trustee Report

An assumption study was performed in April 2015 resulting in an update to the following assumptions:

- Inflation decreased from 3.00% to 2.25%
- The future salary increase rate decreased from a table ranging from 3.25% to 4.50% to a table ranging from 2.50% to 4.25%
- Mortality changed from the 2013 IRS Static Mortality projected five (5) years with Scale AA to the RP-2014 (with MP-2014 improvement removed) Total Data Set mortality table projected on a fully generational basis using the future mortality improvement scale inherent in the mortality projection included in the Social Security Administration's 2014 Trustee Report
- Retirement, Termination and Disability rates were adjusted to reflect recent experience
- The ASA Annuitization was updated from 50% of members assumed to annuitize the ASA balance to 60% of members prior to January 1, 2017

(Continued)

INDIANAPOLIS HOUSING AGENCY
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 11 - PENSION PLAN (Continued)

The long-term return expectation for the defined benefit retirement plan has been determined by using a building-block approach and assumes a time horizon, as defined in the INPRS Investment Policy Statement. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted average of the expected real return premiums for each asset class, adding the projected inflation rate, and adding the expected return from rebalancing uncorrelated asset classes.

<u>Asset Class</u>	<u>Target Allocation %</u>	<u>Long-Term Expected Real Rate of Return</u>
Public equity	22.5%	5.3%
Private equity	10.0	5.6
Fixed income – ex inflation - linked	22.0	2.1
Fixed income – inflation - linked	10.0	0.7
Commodities	8.0	2.0
Real estate	7.5	3.0
Absolute return	10.0	3.9
Risk parity	<u>10.0</u>	5.0
Total	<u>100.0%</u>	

Total pension liability for each defined benefit pension plan was calculated using the discount rate of 6.75 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and where applicable from the members, would at the minimum be made at the actuarially determined required rates computed in accordance with the current funding policy adopted by the INPRS Board, and contributions required by the State (the non-employer contributing entity) would be made as stipulated by State statute. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (6.75 percent). Based on those assumptions, each defined benefit pension plan's fiduciary net position were projected to be available to make all projected future benefit payments of current plan members; therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability for each plan.

Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability of each defined benefit pension plan calculated using the discount rate of 6.75 percent, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (5.75%), or one percentage point higher (7.75%) than the current rate:

	1% Decrease <u>(5.75%)</u>	Current Rate <u>(6.75%)</u>	1% Increase <u>(7.75%)</u>
Proportionate share of the Collective Net Pension Liability	\$ 6,449,459	\$ 4,372,261	\$ 2,647,806

(Continued)

INDIANAPOLIS HOUSING AGENCY
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 11 - PENSION PLAN (Continued)

Pension Plan Fiduciary Net Position: Detailed information about the pension plan's fiduciary net position is available in a stand-alone financial report of INPRS that includes financial statements and required supplementary information for the plan as a whole. This report may be obtained by writing the Indiana Public Retirement System, One North Capitol, Suite 001, Indianapolis, IN 46204, by calling (888) 526-1687, by emailing questions@inprs.in.gov, or by visiting www.in.gov/inprs.

Investment Valuation and Benefit Payment Policies: The pooled and non-pooled investments are reported at fair value by INPRS. Fair value is the amount at which an investment could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

Short-term investments consist primarily of cash, money market funds, certificates of deposits and fixed income instruments with maturities of less than one year. Short-term investments are reported at cost, which approximates fair value or, for fixed income instruments, valued using similar methodologies as other fixed income securities described below.

Fixed income securities consist primarily of the U.S. government, U.S. government-sponsored agencies, publicly traded debt and commingled investment debt instruments. Equity securities consist primarily of domestic and international stocks in addition to commingled equity instruments. Fixed income and equity securities are generally valued based on published market prices and quotations from national security exchanges and securities pricing services. Securities that are not traded on a national security exchange are valued using modeling techniques that include market observable inputs required to develop a fair value. Commingled funds are valued using the net asset value (NAV) of the entity.

Alternative investments include limited partnership interests in private equity, absolute return, private real estate and risk parity investment strategies. Publicly traded alternative investments are valued based on quoted market prices. In the absence of readily determinable public market values, alternative investments are valued using current estimates of fair value obtained from the general partner or investment manager. Moreover, holdings are generally valued by a general partner or investment manager on a quarterly or semi-annual basis. Valuation assumptions are based upon the nature of the investment and the underlying business.

Additionally, valuation techniques will vary by investment type and involve a certain degree of expert judgment. Alternative investments, such as investments in private equity or real estate, are generally considered to be illiquid long-term investments. Due to the inherent uncertainty that exists in the valuation of alternative investments, the realized value upon the sale of an asset may differ from the fair value.

Derivative instruments are marked to market daily with changes in fair value recognized as part of investments and investment income.

Pension, disability, special death benefits, and distributions of contributions and interest are recognized when due and payable to members or beneficiaries. Benefits are paid once the retirement or survivor applications have been processed and approved. Distributions of contributions and interest are distributions from inactive, non-vested members' ASAs. These distributions may be requested by members or auto-distributed by the fund when certain criteria are met.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: At December 31, 2015, the Agency reported a liability of \$4,372,261 for its proportionate share of the net pension liability. The Agency's proportionate share of the net pension liability was based on the Agency's wages as a proportion of total wages for the PERF Hybrid Plan. The proportionate share used at the June 30, 2015 measurement date was 0.0010735. Management is not aware of any significant changes to its proportionate share since the measurement date.

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INDIANAPOLIS HOUSING AGENCY
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 11 - PENSION PLAN (Continued)

For the year ended December 31, 2015, the Agency recognized pension expense of \$683,702, which included net amortization of deferred amounts from changes in proportion and differences between employer contributions and proportionate share of contributions of \$(7,003). At December 31, 2015, the Agency reported deferred outflows of resources and deferred inflows of resources related to the PERF Hybrid Plan from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 187,678	\$ 9,042
Net difference between projected and actual earnings on pension plan investments	326,023	-
Changes in assumptions	369,603	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	<u>161,475</u>	<u>185,874</u>
Total that will be recognized in pension expense (income) based on table below	1,044,779	194,916
Pension contributions subsequent to measurement date	<u>281,259</u>	<u>-</u>
Total	<u>\$ 1,326,038</u>	<u>\$ 194,916</u>

Deferred outflows of resources resulting from employer contributions subsequent to the June 30, 2015 measurement date is recognized as a reduction of net pension liability in the year ending December 31, 2016. Deferred inflows of resources resulting from the differences between projected and actual investment earnings on Plan investments are amortized over a 5 year period. A change in an employer's proportionate share represents the change as of the current year measurement date versus the prior year measurement date, and is amortized over the average expected remaining service lives of the plan. The difference between an employer's contributions and the employer's proportionate share of the collective contributions is amortized over the average expected remaining service lives of the plan. Amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2016	\$ 269,793
2017	269,793
2018	125,971
2019	<u>184,306</u>
Total	<u>\$ 849,863</u>

(Continued)

INDIANAPOLIS HOUSING AGENCY
NOTES TO FINANCIAL STATEMENTS
December 31, 2015

NOTE 12 – CONDENSED COMBINING INFORMATION

GASB Statement No. 61 requires that combining information be presented for business-type activities that included a blended component unit within a single column on the basic financial statements. The following summarizes the combining information for the statements of net position as of December 31, 2015.

	Agency	L and R Housing, LP	TH and B, LP	B and H Housing, LP	Lugar, LP	Eliminations	Combined
ASSETS							
Other current assets	\$ 9,678,142	\$ 1,900,993	\$ 3,366,137	\$ 3,960,671	\$ 1,631,193	\$ (22,798)	\$ 20,514,338
Due (to)/from	589,776	(10,785)	47,447	(10,913)	(330,615)	-	284,910
Total current assets	<u>10,267,918</u>	<u>1,890,208</u>	<u>3,413,584</u>	<u>3,949,758</u>	<u>1,300,578</u>	<u>(22,798)</u>	<u>20,799,248</u>
Capital assets (net)	42,787,835	14,077,641	16,555,035	17,875,657	24,800,911	-	116,097,079
Other noncurrent assets	50,403,256	642,591	689,491	434,097	484,345	(34,956,385)	17,697,395
Total noncurrent assets	<u>93,191,091</u>	<u>14,720,232</u>	<u>17,244,526</u>	<u>18,309,754</u>	<u>25,285,256</u>	<u>(34,956,385)</u>	<u>133,794,474</u>
Total assets	<u>103,459,009</u>	<u>16,610,440</u>	<u>20,658,110</u>	<u>22,259,512</u>	<u>26,585,834</u>	<u>(34,979,183)</u>	<u>154,593,722</u>
DEFERRED OUTFLOWS OF RESOURCES							
Deferred outflows from pension	1,326,038	-	-	-	-	-	1,326,038
Total assets and deferred outflows of resources	<u>104,785,047</u>	<u>16,610,440</u>	<u>20,658,110</u>	<u>22,259,512</u>	<u>26,585,834</u>	<u>(34,979,183)</u>	<u>155,919,760</u>
LIABILITIES							
Current liabilities	2,060,996	956,115	1,099,183	131,049	209,092	(22,798)	4,433,637
Noncurrent liabilities	10,555,361	10,576,230	10,901,495	9,869,662	7,790,742	(34,956,385)	14,737,105
Total liabilities	<u>12,616,357</u>	<u>11,532,345</u>	<u>12,000,678</u>	<u>10,000,711</u>	<u>7,999,834</u>	<u>(34,979,183)</u>	<u>19,170,742</u>
DEFERRED INFLOWS OF RESOURCES							
Deferred inflows from pension	194,916	-	-	-	-	-	194,916
NET POSITION							
Net investment in capital assets	41,494,283	2,613,678	4,755,451	8,245,550	16,784,118	34,979,183	108,872,263
Restricted for Section 8 vouchers and VASH	783,768	-	-	-	-	-	783,768
Unrestricted	49,695,723	2,464,417	3,901,981	4,013,251	1,801,882	(34,979,183)	26,898,071
Total net position	<u>91,973,774</u>	<u>5,078,095</u>	<u>8,657,432</u>	<u>12,258,801</u>	<u>18,586,000</u>	<u>-</u>	<u>136,554,102</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 104,785,047</u>	<u>\$ 16,610,440</u>	<u>\$ 20,658,110</u>	<u>\$ 22,259,512</u>	<u>\$ 26,585,834</u>	<u>\$ (34,979,183)</u>	<u>\$ 155,919,760</u>

The following summarizes the combining information for the statements of revenues, expenses, and changes in net position for the year ended December 31, 2015.

	Agency	L and R Housing, LP	TH and B, LP	B and H Housing, LP	Lugar, LP	Eliminations	Combined
Operating revenue	\$ 2,764,285	\$ 1,509,987	\$ 1,790,311	\$ 1,882,678	\$ 1,163,181	\$ (4,128,257)	\$ 4,982,185
Operating expenses	56,237,593	1,303,669	1,418,239	1,673,397	1,303,182	(4,128,257)	57,807,823
Depreciation expense	2,349,829	444,593	499,180	524,856	733,946	-	4,552,404
Total operating expenses	<u>58,587,422</u>	<u>1,748,262</u>	<u>1,917,419</u>	<u>2,198,253</u>	<u>2,037,128</u>	<u>(4,128,257)</u>	<u>62,360,227</u>
Operating loss	(55,823,137)	(238,275)	(127,108)	(315,575)	(873,947)	-	(57,378,042)
Intergovernmental grants	51,952,665	(2,602)	(3,743)	-	91,615	-	52,037,935
Other non-operating revenues (expenses)	2,057,143	(159,959)	(106,429)	(128,226)	(289,787)	-	1,372,742
Total non-operating revenues (expenses)	<u>54,009,808</u>	<u>(162,561)</u>	<u>(110,172)</u>	<u>(128,226)</u>	<u>(198,172)</u>	<u>-</u>	<u>53,410,677</u>
Loss before capital contributions	(1,813,329)	(400,836)	(237,280)	(443,801)	(1,072,119)	-	(3,967,365)
Capital grants and contributions	1,662,682	795,000	795,000	100,000	-	-	3,352,682
Change in net position	(150,647)	394,164	557,720	(343,801)	(1,072,119)	-	(614,683)
Net position, beginning of year	95,246,387	4,683,931	8,099,712	12,602,602	19,658,119	-	140,290,751
Restatement due to GASB Statement No. 68 and 71	(3,121,966)	-	-	-	-	-	(3,121,966)
Net position, beginning of year (as restated)	<u>92,124,421</u>	<u>4,683,931</u>	<u>8,099,712</u>	<u>12,602,602</u>	<u>19,658,119</u>	<u>-</u>	<u>137,168,785</u>
Net position, end of year	<u>\$ 91,973,774</u>	<u>\$ 5,078,095</u>	<u>\$ 8,657,432</u>	<u>\$ 12,258,801</u>	<u>\$ 18,586,000</u>	<u>\$ -</u>	<u>\$ 136,554,102</u>

(Continued)

NOTE 13 – CONTINGENCIES AND COMMITMENTS

In connection with various Federal and State grant programs, the Agency is obligated to administer programs and spend grant funds in accordance with regulatory restrictions subject to audit by grantor agencies. In cases of noncompliance, grantors may require the Agency to refund program funds.

The Agency is contingently liable in connection with claims and contracts arising in the normal course of its activities. The Agency management is of the opinion that the outcome of any such matters will not have a material effect on the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

INDIANAPOLIS HOUSING AGENCY
SCHEDULE OF THE AGENCY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
December 31, 2015

	<u>2015</u>
Agency's proportion of the net pension liability	0.0010735
Agency's proportionate share of the net pension liability	\$ 4,372,261
Agency's covered-employee payroll	\$ 5,131,057
Agency's proportionate share of the net pension liability as a percentage of its covered-employee payroll	85.21%
Plan fiduciary net position as a percentage of the total pension liability	77.30%

Measurement date: Actuarial valuation reports from the prior fiscal year.

Plan amendments. In 2014, HB 1075 impacted the PERF by reducing the Annuity Savings Account (ASA) interest crediting rate on annuities from 7.5% to 5.75% effective October 1, 2014. Effective October 1, 2015 the rate becomes the greater of 4.5% or market rate. On January 1, 2017, the ASA annuities are allowed to be outsourced to a third party provider.

* The amounts presented for each calendar year were determined as of the June 30 fiscal year-end that occurred within the calendar year. An assumption study was performed in April 2015 resulting in an update to the following assumptions:

- Inflation decreased from 3.00% to 2.25%
- The future salary increase rate decreased from a table ranging from 3.25% to 4.50% to a table ranging from 2.50% to 4.25%
- Mortality changed from the 2013 IRS Static Mortality projected five (5) years with Scale AA to the RP-2014 (with MP-2014 improvement removed) Total Data Set mortality table projected on a fully generational basis using the future mortality improvement scale inherent in the mortality projection included in the Social Security Administration's 2014 Trustee Report
- Retirement, Termination and Disability rates were adjusted to reflect recent experience
- The ASA Annuitization was updated from 50% of members assumed to annuitize the ASA balance to 60% of members prior to January 1, 2017

** This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the Agency is presenting information for those years for which information is available.

INDIANAPOLIS HOUSING AGENCY
 SCHEDULE OF THE AGENCY'S CONTRIBUTIONS
 December 31, 2015

	<u>2015</u>
Statutorily required contribution	\$ 598,945
Contributions in relation to the statutorily required contribution	<u>(598,945)</u>
Annual contribution deficiency (excess)	<u>\$ -</u>
Agency's contributions as a percentage of statutorily required contribution for pension	100%
Agency's covered-employee payroll	\$ 5,347,719
Contributions as a percentage of covered-employee payroll	11.20%

Note: This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the Agency is presenting information for those years for which information is available.

Valuation date: June 30, 2015

Actuarial cost method: Entry age normal (Level Percent of Payroll)

Amortization method: Level dollar

Remaining amortization period: 30 years, closed

Asset valuation method: 4 year smoothing of gains and losses on the market value of assets subject to a 20% corridor.

Inflation: 2.25%

Salary increases: 2.50% - 4.25%

Investment rate of return: 6.75%

Mortality: RP-2014 Total Data Set Mortality Table, with Social Security Administration generational improvement scale from 2016

Other information:

The INPRS Board sets, at its discretion, the State's employer contribution rate upon considering the results of the actuarial valuation and other analysis as appropriate. The actuarially determined contribution rate for the State for the fiscal year ended 6/30/14 was 11.17%; however, the INPRS Board approved a State employer contribution rate of 11.20%. The actuarially determined contribution rate for the State for the fiscal year ended 6/30/15 was 10.55%; however, the INPRS Board approved a State employer contribution rate of 11.20%. The actual dollar amount of the State's contributions depends on the actual payroll for the fiscal year.

Member census data as of June 30, 2014 was used in the valuation and adjusted, where appropriate, to reflect changes between June 30, 2014 and June 30, 2015. Standard actuarial roll forward techniques were then used to project the liabilities computed as of June 30, 2014 to June 30, 2015. Prior to the June 30, 2014 valuation, census data as of the valuation date was used.

SUPPLEMENTARY INFORMATION

INDIANAPOLIS HOUSING AGENCY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended December 31, 2015

Federal Grantor/Pass-Through Grantor /Program Title	<u>CFDA Number</u>	<u>Total Federal Expenditures</u>
Department of Housing and Urban Development		
Public and Indian Housing	14.850	\$ 6,332,960
Resident Opportunity and Supportive Services	14.870	193,061
Section 8 Housing Choice Vouchers	14.871	45,275,632
Public Housing Capital Fund	14.872	<u>5,412,683</u>
Total Department of Housing and Urban Development		57,214,336
Department of Justice		
Public Safety Partnership & Community Policing Grants	16.710	67,848
Department of Health and Human Services		
Community Economic Development	93.570	<u>65,313</u>
Total Federal Expenditures		<u>\$ 57,347,497</u>

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

INDIANAPOLIS HOUSING AGENCY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
December 31, 2015

Basis of Presentation: The accompanying Schedule of Expenditures of Federal Awards presents the activity of federal financial assistance activity of the Indianapolis Housing Agency (Agency) and Insight Development Corporation (Insight) and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Uniform Guidance. Some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements. The Agency reporting entity is defined in Note 1 to the Agency's financial statements.

As noted in Note 1 of the financial statements, Insight has been determined to be a discretely presented component unit of the Agency, and therefore the federal expenditures of Insight have been reported with the Agency on the Schedule of Expenditures of Federal Awards. Insight is responsible for the Community Economic Development grant (CFDA number 93.570) and a portion of the Section 8 Housing Choice Vouchers program (CFDA number 14.871), while all other federal grants listed on the schedule of expenditures of federal awards are the responsibility of the Agency.

Expenditures reported in the Schedule are recognized following the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Agency has elected not to use the 10-percent de minimus indirect cost rate as allowed under the Uniform Guidance.

Amounts presented as expenditures of Department of Housing and Urban Development, Section 8 Housing Choice Vouchers are presented in accordance with the requirements of the Department of Housing and Urban Development (HUD). Under those requirements, the amount presented is equal to the amount received by the Agency from HUD for the purposes of housing assistance payments under the Section 8 Housing Choice Voucher program.

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

Board of Commissioners
Indianapolis Housing Agency
Indianapolis, Indiana

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 and the discretely presented component unit of the Indianapolis Housing Agency (the Agency), a component unit of the City of Indianapolis, Indiana, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements and have issued our report thereon dated June 24, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Agency'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 Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency'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 Agency's financial statements are free of 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 over financial reporting 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.

Crowe Horwath LLP

Crowe Horwath LLP

Indianapolis, Indiana
June 24, 2016

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Board of Commissioners
Indianapolis Housing Agency
Indianapolis, Indiana

Report on Compliance for Each Major Federal Program

We have audited the Indianapolis Housing Agency's (the Agency) 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 Agency's major federal programs for the year ended December 31, 2015. The Agency'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 the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Agency'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 Agency'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 Agency's compliance.

Opinion on Each Major Federal Program

In our opinion, the Agency 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, 2015.

Report on Internal Control over Compliance

Management of the Agency 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 Agency'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 Agency'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 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2015-001, 2015-002, and 2015-003, that we consider to be significant deficiencies.

The Agency's response to the internal control over compliance findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The Agency's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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.

Crowe Horwath LLP

Crowe Horwath LLP

Indianapolis, Indiana
June 24, 2016

INDIANAPOLIS HOUSING AGENCY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
December 31, 2015

SECTION 1 - SUMMARY OF AUDITORS' RESULTS

Financial Statements:

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

_____ Yes X No

Significant deficiency(ies) identified?

_____ Yes X None reported

Noncompliance material to financial statements noted?

_____ Yes X No

Federal Awards:

Internal Control over major programs:

Material weakness(es) identified?

_____ Yes X No

Significant deficiency(ies) identified?

 X Yes _____ None reported

Type 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)?

 X Yes _____ No

Identification of major programs:

CFDA 14.850 - Public and Indian Housing
CFDA 14.871 - Section 8 Housing Choice Vouchers
CFDA 14.872 - Public Housing Capital Fund

Dollar threshold used to distinguish type A and B programs:

 \$ 1,720,425

Auditee qualified as low-risk auditee?

 X Yes _____ No

(Continued)

INDIANAPOLIS HOUSING AGENCY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
December 31, 2015

SECTION 2 - FINDINGS RELATING TO THE FINANCIAL STATEMENTS, WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

None

SECTION 3 - FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS INCLUDING AUDIT FINDINGS AS DEFINED IN 2 CFR 200.516(a):

2015-001 Public Housing Tenant Eligibility and Special Tests – Missing and Post-Dated Documentation (Public and Indian Housing – CFDA # 14.850) (Significant Deficiency)

Compliance Requirement: Eligibility and Special Tests

Condition: During our testing of 60 participants who received assistance through the PIH program, we noted missing documentation related to the determination and verification of participant eligibility in the participant's file. During our testing of eligibility, documentation significant for the verification of eligibility requirements was missing or incomplete in 12 of the 60 files examined. This documentation is important to maintain as it provides the support required to substantiate the eligibility determination. Missing documentation included:

- 1 instance of missing/incomplete PIH Applications
- 2 instances of missing wait-list determination letters
- 7 instances of missing Declaration of Section 214 Status forms
- 3 instances of missing move-in inspection documentation
- 2 instances of missing asset/income verification

Criteria: Federal regulations (24 CFR 990) require that documentation of recipient eligibility be maintained by agencies distributing assistance under the Public Housing program.

Effect: The above condition appears to be the result of ineffective quality control processes. Lack of documentation surrounding the determination and verification of participant eligibility may result in ineligible participants receiving benefits. Lack of documentation also represents instances of non-compliance with federal regulations that could impact future funding.

Cause: The tenants have been receiving PIH funding for a number of years and the document has either gone missing from the file or was never received. There was a change in the position responsible for quality control verification of tenant files and the completeness of the files appears to have suffered as a result.

Questioned Costs: None

Recommendation: We recommend that the Agency implement procedures to ensure that all required documentation is maintained in the files and that controls are in place to ensure compliance with these requirements.

Management Response and Corrective Action Plan: Management recognizes additional internal controls are necessary to ensure compliance with funding sources.

- *3 Instances of missing move-in inspection documentation* - Management provides that the one instance of a missing move-in inspection, is where the tenant moved into the unit in 2012, while it was being managed by a third-party management company not the Agency.

INDIANAPOLIS HOUSING AGENCY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
December 31, 2015

- *7 instances of missing Declaration of Section 214 Status forms* - Management provides that one tenant moved from the unit on 3/30/2015 and the annual reexamination was on 10/1/2014, which is when the declaration 214 should have been filled out by the client.

Correction Action Plan - Management will establish a resident file quality control and compliance plan that will ensure that 100% of move in files and statistically significant percentage of recertification files are reviewed. Property Management staff will receive ongoing training on funding source requirements during monthly Property Management meetings and scheduled trainings.

File management will be added to Site Visit Checklist to ensure that documentation is timely filed into resident files and that files are maintained to the standards established in the resident file quality control and compliance plan.

Further, management will acquire the missing documentation, if possible and permissible, to bring the resident file into funding source compliance.

Also, compliance will meet with the audit team upon engagement to ensure that both audit team and Agency Compliance understand what documents will be reviewed and accepted as it relates to the audit attributes.

Responsible Personnel - James Hicks, Director of Asset Management and Jennifer Green, Director of Compliance

INDIANAPOLIS HOUSING AGENCY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
December 31, 2015

2015-002 Section 8 Tenant Eligibility and Special Tests - Missing and Post-Dated Documentation (Section 8 Housing Choice Vouchers – CFDA # 14.871) (Significant Deficiency)

Compliance Requirement: Eligibility and Special Tests

Condition: During our testing of 60 participants who received assistance through the Section 8 Housing Choice Vouchers program, we noted missing documentation related to the determination and verification of participant eligibility in the participant's file. During our testing of eligibility, documentation significant for verification of eligibility requirements was missing or incomplete in 8 of the 60 files examined. This documentation is important to maintain as it provides the support required to substantiate the eligibility determination. Missing documentation included:

- 4 instances of missing/incomplete Section 8 Applications
- 2 instances of missing Declaration of Section 214 Status forms
- 1 instance of missing annual recertification support
- 1 instance of missing HAP Contract

Criteria: Federal regulations (24 CFR 960) require that documentation of recipient eligibility be maintained by agencies distributing assistance under the Section 8 voucher program.

Effect: The above condition appears to be the result of ineffective quality control processes. Lack of documentation surrounding the determination and verification of participant eligibility may result in ineligible participants receiving benefits. Lack of documentation also represents instances of non-compliance with federal regulations that could impact future funding.

Cause: The tenants have been receiving Section 8 funding for a number of years and the document has either gone missing from the file or was never received. There was a change in the position responsible for quality control verification of tenant files and the completeness of the files appears to have suffered as a result.

Questioned Costs: None

Recommendation: We recommend that the Agency implement procedures to ensure that all required documentation is maintained in the files and that controls are in place to ensure compliance with these requirements.

Management Response and Corrective Action Plan: Management concurs with the finding.

Correction Action Plan - The Agency, in order to address the missing information from Section 8 Housing Choice Voucher files, has developed a system that will ensure all of the required documents are in each file.

One method that has been introduced is the use of document scanners. Each new participant that is admitted to the program will be assigned a bar code that will allow to now have the paper documents scanned into their electronic file. Therefore all of the documents supporting the reason that participant entered the program are kept.

Another method that has been introduced is the use of file checklists. The file checklist will be used to ensure that all of the permanent documents and supporting documentation is placed in the file.

Lastly, a new filing system is in progress. This filing system will reduce and hopefully eliminate the amount of missing documentation. In addition, the missing information from this year's audit will be requested from the landlords and/or tenants.

INDIANAPOLIS HOUSING AGENCY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
December 31, 2015

The Agency Director of Compliance will select annually a sampling of new admissions and annual recertification files for review. Also, compliance will meet with the audit team upon engagement to ensure that both audit team and Agency Compliance understand what documents will be reviewed and accepted as it relates to the audit attributes.

Responsible Personnel - Keshawn Cue, Rental Assistance Department and Voucher Programs Director and Jennifer Green, Director of Compliance

INDIANAPOLIS HOUSING AGENCY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
December 31, 2015

2015-003 Negative Section 8 Unrestricted Net Position Balance (Section 8 Housing Choice Vouchers – CFDA # 14.871) (Significant Deficiency)

Compliance Requirement: Reporting

Condition: The Department of Housing and Urban Development conducted a Financial Management Review in 2011 and noted that the Agency has maintained a negative Unrestricted Net Position balance for numerous years. As of December 31, 2015 the cumulative UNP balance was negative \$3.1 million.

Criteria: The Section 8 Unrestricted Net Position Balance should be positive in order to cover administrative expenses on an annual basis.

Effect: A PHA that has exhausted their current year administrative fees earned and any unrestricted net position (administrative fee reserve) and who continues to spend more than they have in administrative fee income may by default end up using their NRA or other program funds to support their non-HAP expenditures; unless they are receiving non-federal funding to cover administrative expenses. This practice is prohibited by Public Law and restrictions are published each year in the appropriations language. If cost savings measures are not taken the PHA HCV program operation is at high risk for continued inappropriate use of program funds. This practice is in direct violation of public law and may result in breach of the Annual Contributions Contract (ACC).

Cause: The QAD staff performed a reconciliation of the Agency UNP balance as of December 31, 2011 and at December 31, 2015, the negative UNP had decreased to \$3.1 million. At December 31, 2011, the PHA did not have sufficient funds to cover HCV operating expenses and used Public Housing, low rent funds to cover the excess costs. The inability to properly manage funds resulted in the Agency having insufficient funds to operate their HCV program resulting in the use of LRP funds to operate the HCV program.

Questioned Costs: None

Recommendation: We agree with the 2011 recommendation of the Quality Assurance Division of the Department of Housing and Urban Development for the Agency to determine a course of action for repayment of the negative UNP balance.

Management Response and Corrective Action Plan: Management concurs with the finding.

Correction Action Plan – The Agency continues to reduce the Deficits through the negotiation with HUD to provide in-kind services to the Housing Choice Voucher from COCC. For the year ended December 31, 2015, \$236,873 of in-kind support was provided by the COCC staff. The Agency also paid down \$1.4 Million to reduce the UNA balance. Efforts are being made to monitor the budgets of the program so that this doesn't occur again.

The Agency renegotiated with HUD and the repayment agreement as noted by the Auditor on Note 6. As such the first payment of in 2016 of \$64,554 was remitted.

Responsible Personnel - Vincent Muliro, Chief Financial Officer and Keshawn Cue, Rental Assistance Department and Voucher Programs Director

Identification as a repeat finding: Prior year finding 2014-001.

INDIANAPOLIS HOUSING AGENCY
PRIOR YEAR FINDINGS AND QUESTIONED COSTS
December 31, 2015

2014-001 Negative Section 8 Unrestricted Net Position Balance (Section 8 Housing Choice Vouchers – CFDA # 14.871) (Significant Deficiency)

Compliance Requirement: Reporting

Condition: The Department of Housing and Urban Development conducted a Financial Management Review in 2011 and noted that the Agency has maintained a negative Unrestricted Net Position balance for numerous years. As of December 31, 2014 the cumulative UNP balance was negative \$4.3 million. This establishes an ongoing trend of over-spending program funds.

Recommendation: We agree with the 2011 recommendation of the Quality Assurance Division of the Department of Housing and Urban Development for the Agency to determine a course of action for repayment of the negative UNP balance.

Status: Similar finding in current year, see Finding 2015-003. The balance has been reduced to negative \$3.1 million.