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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, 2014 to December 31, 2014. 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, 2014 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 Finding 2014-001, Negative Section 8 Unrestricted Net Position Balance (Section 8 Housing Choice Vouchers – CFDA # 14.871) (Significant Deficiency) in the report on page 40. This finding is reported in the Independent Auditor's Report on Compliance For Each Major Federal Program; Report on Internal Control Over Compliance.

A similar finding appeared in the audit report for the period ending December 31, 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, 2014

INDIANAPOLIS HOUSING AGENCY

Indianapolis, Indiana

FINANCIAL STATEMENTS

December 31, 2014

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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, 2014, 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.

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(Continued)

## **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, 2014, 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.

## **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 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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 financial statements that collectively comprise the Agency's basic financial statements. The accompanying schedule of expenditures of federal awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the 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 May 26, 2015 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  
May 26, 2015

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INDIANAPOLIS HOUSING AGENCY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2014

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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, 2014. 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 \$2.5 million or 9 percent from 2013 to 2014. This was primarily due to the purchase of Bethel Townhomes, an apartment complex located near the Agency's Blackburn Terrace Apartments.
- **Loans Payable Due to Non-affiliates (current):** Loans payable due to non-affiliates (current) decreased by \$7.3 million or 74 percent from 2013 to 2014. This is primarily due to repayment of the Barton Block, LP (Insight owned) construction loan investor equity contributions.
- **Net Position Restricted for Section 8 Vouchers and VASH:** Net Position Restricted for Section 8 Vouchers and VASH decreased by \$1.7 million or 72% from 2013 to 2014. This is primarily due to the Agency paying out more housing assistance payments than housing assistance revenue received in 2014.
- **Other Income:** Other income decreased by \$0.8 million from 2013 to 2014. This was primarily due to a decrease in developer fees earned by Insight, the Agency's non-profit development arm.
- **Interest Expense:** Interest expense decreased by \$0.5 million or 29% from 2013 to 2014. This was primarily due to repayment of the Barton Block, LP (Insight owned) construction loan.
- **Other Capital Contributions:** Other capital contributions decreased by \$40.4 million or 77 percent from 2013 to 2014. This was primarily due to the completion of construction at Lugar, LP (Agency owned), B and H Housing, LP (Agency owned), and 16 Park, LP (Insight owned) in 2013 which resulted in capital contributions of \$20.0 million, \$8.3 million, and \$17.5 million, respectively. These were partially offset by new capital contributions of \$9.0 million for construction at Barton Block, LP.

#### OTHER HIGHLIGHTS

- **Bethel Townhomes:** In 2014, the Agency purchased Bethel Townhomes for \$1.9 million. This property, located close to Blackburn Terrace Apartments (Agency owned), was in a state of disrepair. Insight Development is reviewing options for rehabilitation of the property.
- **Barton Block/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 is expected to be completed in 2015.
- **Penn Place:** Insight co-developed this 38-apartment affordable supportive housing property with an MBE developer in 2014. The Agency will loan \$1.5 million RHF capital funds to the project for construction of 18 public housing units. Construction started in 2014 and will be completed in 2015.

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(Continued)

INDIANAPOLIS HOUSING AGENCY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2014

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**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 reached \$222.0 million at December 31, 2014. This represents a decrease of less than 1 percent from the prior year. Total liabilities amounted to \$37.9 million, representing a decrease of 19 percent and total net position were \$184.1 million, representing an increase of 5 percent (See Table 1).

**Table 1**  
**Net Position – Agency and Insight**

	<u>2014</u>	<u>2013</u>	<u>Percentage Change</u>
<b>Assets</b>			
Current assets	\$ 29,283,347	\$ 30,684,737	(5)%
Capital assets (net)	171,101,120	170,846,374	0%
Other assets	<u>21,636,868</u>	<u>21,012,703</u>	<u>3%</u>
Total assets	<u>\$ 222,021,335</u>	<u>\$ 222,543,814</u>	<u>0%</u>
<b>Liabilities</b>			
Current liabilities	\$ 7,970,701	\$ 15,429,286	(49)%
Non-current liabilities	<u>29,923,920</u>	<u>31,606,926</u>	<u>(5)%</u>
Total liabilities	<u>37,894,621</u>	<u>47,036,212</u>	<u>(19)%</u>
<b>Net position</b>			
Net investment in capital assets	143,835,537	134,116,166	7%
Restricted for Section 8 vouchers and VASH	494,844	1,740,598	(72)%
Unrestricted	<u>39,796,333</u>	<u>39,650,838</u>	<u>0%</u>
Total net position	<u>184,126,714</u>	<u>175,507,602</u>	<u>5%</u>
Total liabilities and net position	<u>\$ 222,021,335</u>	<u>\$ 222,543,814</u>	<u>0%</u>

(Continued)

INDIANAPOLIS HOUSING AGENCY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2014

**Changes in Net Position**

The Agency's and Insight's net position at December 31, 2014 increased 5 percent over the prior year. The Agency's and Insight's total operating revenues decreased by 7 percent. Total operating expenses increased 2 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>2014</u>	<u>2013</u>	<u>Percentage Change</u>
<b>Operating revenues</b>			
Tenant revenue	\$ 5,004,997	\$ 4,653,066	8%
Other income	<u>1,420,057</u>	<u>2,263,927</u>	<u>(38)%</u>
Total operating revenues	<u>6,425,054</u>	<u>6,916,993</u>	<u>(7)%</u>
<b>Operating expenses</b>			
Operating expenses	61,972,262	60,964,916	2%
Depreciation	<u>6,108,799</u>	<u>5,697,611</u>	<u>7%</u>
Total operating expenses	<u>68,081,061</u>	<u>66,662,527</u>	<u>2%</u>
<b>Operating loss</b>	(61,656,007)	(59,745,534)	3%
<b>Non-operating revenues (expenses) and capital contributions</b>			
Intergovernmental	56,397,904	52,486,627	7%
Interest income from investments	38,441	40,848	(6)%
Interest income from loans	895,116	845,553	6%
Interest expense	(1,083,016)	(1,522,471)	(29)%
Gain (loss) on disposition of assets	173,480	(51,498)	(437)%
Other revenue	1,010,272	1,078,158	(6)%
HUD capital grants	908,187	317,965	186%
Other capital contributions	<u>11,934,735</u>	<u>52,289,591</u>	<u>(77)%</u>
	<u>70,275,119</u>	<u>105,484,773</u>	<u>(33)%</u>
<b>Change in net position</b>	8,619,112	45,739,239	(81)%
<b>Net position, beginning of year</b>	<u>175,507,602</u>	<u>129,768,363</u>	<u>35%</u>
<b>Total net position, end of year</b>	<u>\$ 184,126,714</u>	<u>\$ 175,507,602</u>	<u>5%</u>

(Continued)

INDIANAPOLIS HOUSING AGENCY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2014

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

	<u>2014</u>	<u>2013</u>	<u>Percentage Change</u>
Administration	\$ 8,310,776	\$ 7,910,422	5%
Tenant services	988,855	705,082	40%
Utilities	2,144,241	1,737,329	23%
Maintenance	3,796,562	3,212,272	18%
Protective services	1,122,691	1,222,806	(8)%
Insurance premiums	786,378	737,476	7%
General	2,046,982	953,094	115%
Housing assistance payments	42,775,777	44,486,435	(4)%
Depreciation	6,108,799	5,697,611	7%
Total operating expenses	<u>\$ 68,081,061</u>	<u>\$ 66,662,527</u>	<u>2%</u>

**Table 4**  
**Budget Analysis**  
**(Financial Statement Presentation**  
**excluding depreciation)**

	<u>2014 Budget</u>	<u>2014 Actual</u>	<u>Percentage Variance</u>
Administration	\$ 7,903,385	\$ 8,310,776	(5)%
Tenant services	695,783	988,855	(42)%
Utilities	1,526,418	2,144,241	(40)%
Maintenance	3,551,039	3,796,562	(7)%
Protective services	1,095,266	1,122,691	(3)%
Insurance premium	817,444	786,378	4%
General	754,595	2,046,982	(171)%
Housing assistance payments	46,287,849	42,775,777	8%
Total operating expenses	<u>\$ 62,631,779</u>	<u>\$ 61,972,262</u>	<u>1%</u>

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(Continued)

INDIANAPOLIS HOUSING AGENCY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
December 31, 2014

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**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

As of December 31, 2014, the Agency and Insight had \$171.1 million in capital assets, net of accumulated depreciation. Current year capital additions relate primarily to tax credit transactions. As of December 31, 2013, the Agency and Insight had \$170.8 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 \$0.3 million as shown in Note 5 of the financial statements. This total increase includes a net decrease in capital assets of IHA of \$1.1 million and a net increase in capital assets of Insight of \$1.4 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, 2014

	(Primary Government) Housing Agency	(Component Unit) Insight Development Corporation	(Memorandum Only) Total
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents:			
Cash-unrestricted (Note 2)	\$ 4,751,562	\$ 1,885,288	\$ 6,636,750
Cash—restricted (Notes 2 & 3)	12,223,382	4,875,623	17,099,005
Receivables:			
Due from governmental units (Note 4)	527,733	1,161,520	1,689,253
Due from affiliate (Housing Agency)	125,311	-	125,311
Accounts receivable – miscellaneous	212,811	84,499	297,310
Accounts receivable – tenants, net (Note 1)	62,052	54,295	116,347
Fraud recovery, net	30,045	-	30,045
Investments:			
Investments-restricted (Note 2 & 3)	2,957,941	-	2,957,941
Prepaid expense and other assets	<u>212,425</u>	<u>118,960</u>	<u>331,385</u>
Total current assets	21,103,162	8,180,185	29,283,347
Noncurrent assets			
Capital assets (Note 5):			
Non-depreciable property	16,873,499	4,699,654	21,573,153
Depreciable property	148,588,607	56,489,855	205,078,462
Accumulated depreciation	<u>(48,108,000)</u>	<u>(7,442,495)</u>	<u>(55,550,495)</u>
Net capital assets	117,354,106	53,747,014	171,101,120
Loans receivable, net (Note 8):			
Due from affiliate (Insight)	12,299,918	-	12,299,918
Due from non-affiliates	6,245,140	219,566	6,464,706
Other assets	<u>266,563</u>	<u>2,605,681</u>	<u>2,872,244</u>
Total non-current assets	<u>136,165,727</u>	<u>56,572,261</u>	<u>192,737,988</u>
Total assets	<u>\$ 157,268,889</u>	<u>\$ 64,752,446</u>	<u>\$ 222,021,335</u>

See accompanying notes to financial statements.

INDIANAPOLIS HOUSING AGENCY  
STATEMENTS OF NET POSITION  
December 31, 2014

	(Primary Government Housing Agency)	(Component Unit) Insight Development Corporation	(Memorandum Only) Total
<b>LIABILITIES AND NET POSITION</b>			
<b>Current liabilities</b>			
Accounts payable and accrued expenses:			
Vendors and contractors	\$ 900,748	\$ 2,379,130	\$ 3,279,878
Accrued salaries and benefits payable	208,256	4,992	213,248
Accrued compensated absences (Note 6)	22,295	742	23,037
Interest payable	258	-	258
Due to other governmental units (Note 6)	129,107	-	129,107
Tenant security deposits	153,517	27,535	181,052
Unearned revenues	83,535	15,687	99,222
Capital lease (Note 6 and 7)	80,446	-	80,446
Loans and interest payable (Note 6):			
Due to non-affiliates	2,100,875	472,000	2,572,875
Other liabilities – FSS Escrow (Note 6)	723,836	19,152	742,988
Other accrued liabilities – due to affiliate (Insight)	-	125,311	125,311
Other accrued liabilities – miscellaneous	<u>149,962</u>	<u>373,317</u>	<u>523,279</u>
<b>Total current liabilities</b>	<b>4,552,835</b>	<b>3,417,866</b>	<b>7,970,701</b>
<b>Non-current liabilities</b>			
Capital lease (Note 6 and 7)	99,719	-	99,719
Loans and interest payable (Note 6):			
Due to affiliate (Housing Agency)	-	12,299,918	12,299,918
Due to non-affiliates	7,020,348	5,192,019	12,212,367
Other liabilities:			
Due to other governmental units (Note 6)	1,627,302	-	1,627,302
Unearned revenues (Note 5 and 6)	2,605,683	-	2,605,683
FSS Escrow (Note 6)	871,637	-	871,637
Accrued compensated absences (Note 6)	<u>200,614</u>	<u>6,680</u>	<u>207,294</u>
<b>Total non-current liabilities</b>	<b><u>12,425,303</u></b>	<b><u>17,498,617</u></b>	<b><u>29,923,920</u></b>
<b>Total liabilities</b>	<b><u>16,978,138</u></b>	<b><u>20,916,483</u></b>	<b><u>37,894,621</u></b>
<b>Net position</b>			
Net investment in capital assets	108,052,460	35,783,077	143,835,537
Restricted for Section 8 vouchers and VASH	494,844	-	494,844
Unrestricted	<u>31,743,447</u>	<u>8,052,886</u>	<u>39,796,333</u>
<b>Total net position</b>	<b><u>140,290,751</u></b>	<b><u>43,835,963</u></b>	<b><u>184,126,714</u></b>
<b>Total liabilities and net position</b>	<b><u>\$ 157,268,889</u></b>	<b><u>\$ 64,752,446</u></b>	<b><u>\$ 222,021,335</u></b>

See accompanying notes to financial statements.

INDIANAPOLIS HOUSING AGENCY  
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
Year ended December 31, 2014

	(Primary Government) Housing Agency	(Component Unit) Insight Development Corporation	(Memorandum Only) Total
<b>Operating revenues</b>			
Tenant revenue	\$ 3,122,980	\$ 1,882,017	\$ 5,004,997
Other income	<u>1,036,828</u>	<u>383,229</u>	<u>1,420,057</u>
Total operating revenues	4,159,808	2,265,246	6,425,054
<b>Operating expenses</b>			
Administration	6,865,436	1,445,340	8,310,776
Tenant services	899,360	89,495	988,855
Utilities	1,788,979	355,262	2,144,241
Maintenance	3,141,531	655,031	3,796,562
Protective services	1,019,794	102,897	1,122,691
Insurance premiums	604,840	181,538	786,378
General	1,757,828	289,154	2,046,982
Housing assistance payments	42,775,777	-	42,775,777
Depreciation	<u>4,347,198</u>	<u>1,761,601</u>	<u>6,108,799</u>
Total operating expenses	<u>63,200,743</u>	<u>4,880,318</u>	<u>68,081,061</u>
<b>Operating loss</b>	(59,040,935)	(2,615,072)	(61,656,007)
<b>Non-operating revenues (expenses)</b>			
Intergovernmental grants	53,771,082	2,626,822	56,397,904
Interest income from investments	34,188	4,253	38,441
Interest income from loans	881,590	13,526	895,116
Interest expense	(162,619)	(920,397)	(1,083,016)
Other revenue	538,271	472,001	1,010,272
Gain (loss) on disposition of assets	<u>177,728</u>	<u>(4,248)</u>	<u>173,480</u>
Total non-operating revenues (expenses)	<u>55,240,240</u>	<u>2,191,957</u>	<u>57,432,197</u>
<b>Loss before capital contributions</b>	(3,800,695)	(423,115)	(4,223,810)
<b>Capital grants and contributions</b>			
HUD capital grants	908,187	-	908,187
Other capital contributions	<u>2,891,873</u>	<u>9,042,862</u>	<u>11,934,735</u>
Total capital grants and contributions	<u>3,800,060</u>	<u>9,042,862</u>	<u>12,842,922</u>
<b>Change in net position</b>	(635)	8,619,747	8,619,112
<b>Net position, beginning of year</b>	<u>140,291,386</u>	<u>35,216,216</u>	<u>175,507,602</u>
<b>Net position, end of year</b>	<u>\$ 140,290,751</u>	<u>\$ 43,835,963</u>	<u>\$184,126,714</u>

See accompanying notes to financial statements.

INDIANAPOLIS HOUSING AGENCY  
STATEMENTS OF CASH FLOWS  
Year ended December 31, 2014

	(Primary Government) Housing Agency	(Component Unit) Insight Development Corporation	(Memorandum Only) Total
<b>Cash flows from operating activities</b>			
Rental receipts	\$ 3,324,550	\$ 1,761,971	\$ 5,086,521
Other operating receipts	935,008	684,763	1,619,771
Payments for personnel – salaries and benefits	(6,800,436)	(654,433)	(7,454,869)
Payments for other operating activities	(8,823,848)	(3,716,786)	(12,540,634)
Housing assistance payments	(42,775,777)	-	(42,775,777)
Tenant security and other deposits	359,881	24,060	383,941
Net cash from operating activities	<u>(53,780,622)</u>	<u>(1,900,425)</u>	<u>(55,681,047)</u>
<b>Cash flows from non-capital financing activities</b>			
Intergovernmental revenues received	<u>53,824,926</u>	<u>1,466,090</u>	<u>55,291,016</u>
Net cash from non-capital financing activities	<u>53,824,926</u>	<u>1,466,090</u>	<u>55,291,016</u>
<b>Cash flows from capital and related financing activities</b>			
Capital asset purchases	(3,163,831)	(2,244,190)	(5,408,021)
Proceeds from sale of capital assets	185,110	-	185,110
Non-operating receipts, net	269,134	-	269,134
Proceeds from issuance of loan	-	(50,000)	(50,000)
Interest paid	(2,327)	(342,528)	(344,855)
Principal payment – loan and capital lease	(2,262,382)	(7,246,367)	(9,508,749)
Capital contributions	<u>3,800,060</u>	<u>9,042,862</u>	<u>12,842,922</u>
Net cash from capital and related financing activities	<u>(1,174,236)</u>	<u>(840,223)</u>	<u>(2,014,459)</u>
<b>Cash flows from investing activities</b>			
Loans receivable issued	(275,059)	-	(275,059)
Proceeds from repayment of loan	34,452	-	34,452
Proceeds from sale of investments	9,987	-	9,987
Interest on cash, investments and loans	<u>142,352</u>	<u>7,207</u>	<u>149,559</u>
Net cash from investing activities	<u>(88,268)</u>	<u>7,207</u>	<u>(81,061)</u>
<b>Net change in cash and cash equivalents</b>	<b>(1,218,200)</b>	<b>(1,267,351)</b>	<b>(2,485,551)</b>
<b>Cash and cash equivalents, beginning</b>	<b><u>18,193,044</u></b>	<b><u>8,028,262</u></b>	<b><u>26,221,306</u></b>
<b>Cash and cash equivalents, ending</b>	<b><u>\$ 16,974,844</u></b>	<b><u>\$ 6,760,911</u></b>	<b><u>\$ 23,735,755</u></b>
<b>Reconciliation of operating loss to net cash from operating activities:</b>			
Operating loss	\$ (59,040,935)	\$ (2,615,072)	\$ (61,656,007)
Adjustments to reconcile operating loss to net cash from operating activities:			
Depreciation expense	4,347,198	1,761,601	6,108,799
Uncollectible loans	225,059	-	225,059
Change in assets and liabilities:			
Decrease (increase) in accounts receivable	209,703	(113,062)	96,641
Decrease (increase) in other assets	(101,820)	301,534	199,714
Increase (decrease) in accounts payable and other accrued liabilities	288,994	(1,234,203)	(945,209)
Decrease in unearned revenue	(8,133)	(6,984)	(15,117)
Increase in tenant security deposits	33,838	4,908	38,746
Increase in FSS Escrow	326,043	19,152	345,195
Decrease in accrued salaries and benefits payable	(73,069)	(15,588)	(88,657)
Increase (decrease) in accrued compensated absences	12,500	(2,711)	9,789
Net cash from operating activities	<u>\$ (53,780,622)</u>	<u>\$ (1,900,425)</u>	<u>\$ (55,681,047)</u>
<b>Non-cash transactions:</b>			
Vendor and contractors payable on capital assets	-	965,602	965,602

See accompanying notes to financial statements.

INDIANAPOLIS HOUSING AGENCY  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2014

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**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 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.

- **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.

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(Continued)

INDIANAPOLIS HOUSING AGENCY  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2014

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**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.

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(Continued)

INDIANAPOLIS HOUSING AGENCY  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2014

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**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.

- **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.

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(Continued)

INDIANAPOLIS HOUSING AGENCY  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2014

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**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. See "Subsequent Events" in Note 1 for details of a permanent reduction in credits in 2015.
- **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 is expected to be complete in 2015.

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 and Insight conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. All of the activities 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.

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(Continued)

INDIANAPOLIS HOUSING AGENCY  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2014

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**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, 2014 is as follows:

<u>Agency:</u>	<u>2014</u>
Tenant account receivable - gross	\$ 105,163
Allowance for uncollectible accounts	<u>(43,111)</u>
	<u>\$ 62,052</u>
<u>Insight:</u>	
Tenant account receivable - gross	\$ 92,887
Allowance for uncollectible accounts	<u>(38,592)</u>
	<u>\$ 54,295</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.

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(Continued)

INDIANAPOLIS HOUSING AGENCY  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2014

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**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, 2014.

**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 of \$1,645,616 at December 31, 2014. Insight has no provision for loan loss at December 31, 2014.

**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 \$494,844 in 2014 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.

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(Continued)

INDIANAPOLIS HOUSING AGENCY  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2014

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**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.

Subsequent Events: Management has performed an analysis of the activities and transactions subsequent to December 31, 2014, to determine the need for any adjustments or disclosures to the financial statements for the year ended December 31, 2014. Management has performed their analysis through May 26, 2015, the date the financial statements were available to be issued.

In late February 2014, IHEDA communicated that 16 Park, LP (the Partnership) would lose \$6,504,493 of 2013 low-income housing tax credits due to an administrative error based on correspondence from the Internal Revenue Service (IRS). As a result of a loss in tax credits, a clause in the partnership agreement requires that the Partnership return \$4,065,308 of capital contributions to the Investor Limited Partner (\$315,002 of capital contributions had not yet been provided by the Investor Limited Partner, therefore the net amount to be returned is \$3,750,306).

In February 2015, the Partnership obtained a \$3,000,000 loan from IHEDA and a \$750,000 loan from the Agency. The proceeds from these two loans were used to pay down \$3,750,000 of the Agency capital funds note payable. The Agency was admitted to the Partnership as a Class B Limited Partner and used the proceeds from the loan payment to make a capital contribution of \$3,750,000. With the proceeds from this capital contribution, a distribution of \$3,750,306 was made to the Investor Limited Partner to fulfill the partnership agreement requirement.

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(Continued)

INDIANAPOLIS HOUSING AGENCY  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2014

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**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, 2014 is as follows:

<u>Agency:</u>	2014	
	<u>Carrying Value</u>	<u>Bank Balance</u>
Insured by FDIC	\$ 1,934,014	\$ 1,934,014
Insured by Indiana Public Deposits Insurance Fund	8,974,679	9,125,828
Insured by Securities Investor Protection Corporation	1,053,569	1,029,800
Uninsured	5,012,582	5,155,257
	\$ 16,974,844	\$ 17,244,899
 Cash and cash equivalents:		
Unrestricted	\$ 4,500,416	
Restricted (Note 3)	12,474,428	
	\$ 16,974,844	

<u>Insight:</u>	2014	
	<u>Carrying Value</u>	<u>Bank Balance</u>
Insured by FDIC	\$ 2,052,966	\$ 2,058,757
Insured by Indiana Public Deposits Insurance Fund	1,871,909	1,877,033
Insured by Securities Investor Protection Corporation	750,000	750,000
Uninsured	2,086,036	2,136,460
	\$ 6,760,911	\$ 6,822,250
 Cash and cash equivalents:		
Unrestricted	\$ 1,866,156	
Restricted (Note 3)	4,894,755	
	\$ 6,760,911	

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.

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(Continued)

INDIANAPOLIS HOUSING AGENCY  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2014

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**NOTE 2 - CASH AND INVESTMENTS (Continued)**

**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 \$250,028 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 \$92,736 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, 2014:

<u>Investment Type</u>	<u>Fair Value</u>	<u>% (rounded)</u>
Government obligations:		
Federal Home Loan Mortgage Corporation	\$ 988,674	33%
Federal Home Loan Banks	979,040	33%
Federal National Mortgage Association	<u>990,227</u>	34%
	<u>\$ 2,957,941</u>	

Insight has one institutional money market deposit account at Invesco, valued at \$92,736, which represents 100% of uninsured deposits and investment accounts.

**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, 2014, 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	\$ 2,957,941	\$ 990,228	\$ 1,967,713
Investments:			
Restricted (Note 3)	<u>\$ 2,957,941</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.

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(Continued)

INDIANAPOLIS HOUSING AGENCY  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2014

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**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, 2014, tenant security deposits were \$153,518.

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, 2014, the cash restricted for the FSS escrow was \$1,614,624.

Section 8 Vouchers and Veterans Affairs Supporting Housing (VASH): As discussed in Note 1, overdrafts of Section 8 Housing Assistance and VASH funds are restricted and are to be applied to subsequent years voucher/program payments. At December 31, 2014, cash restricted for Section 8 vouchers and VASH was \$1,218,634.

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, 2014, cash restricted for these programs was \$989,732. Other program income received by the Agency has been committed to be utilized for various housing projects and programs. At December 31, 2014, cash restricted for these programs was \$2,498,954.

Reserve Accounts for Operating, Replacement, ACC and Tax Escrow: Reserve accounts per the terms of Regulatory and Operating partnership agreements. At December 31, 2014, the cash account balances totaled \$5,747,920 and the investment account balances totaled \$2,957,941.

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, 2014, tenant security deposits were \$27,535.

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, 2014, the cash restricted for the FSS escrow was \$19,152.

Reserve Accounts for Operating, Replacement, Construction, ACC and Tax Escrow: Reserve accounts per the terms of Regulatory and Operating partnership agreements. At December 31, 2014, the cash account balances totaled \$4,867,240.

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INDIANAPOLIS HOUSING AGENCY  
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**NOTE 4 - DUE FROM OTHER GOVERNMENTAL UNITS**

A summary of amounts due from other governmental units at December 31, 2014 follows:

	<u>Agency</u>	<u>Insight</u>	<u>Total</u>
U.S. Department of Housing and Urban Development	\$ 495,051	\$ 34,582	\$ 529,633
Department of Justice	29,764	-	29,764
U.S. Department of Health and Human Services	-	463,977	463,977
City of Indianapolis	<u>2,918</u>	<u>662,961</u>	<u>665,879</u>
	<u>\$ 527,733</u>	<u>\$ 1,161,520</u>	<u>\$ 1,689,253</u>

**NOTE 5 - CAPITAL ASSETS**

A summary of capital assets at December 31, 2014 follows:

	<u>Agency</u>	<u>Insight</u>	<u>Total</u>
<b>Non-depreciable:</b>			
Land	\$ 16,446,878	\$ 2,105,009	\$ 18,551,887
Construction in progress	426,621	2,594,645	3,021,266
Total	<u>16,873,499</u>	<u>4,699,654</u>	<u>21,573,153</u>
<b>Depreciable:</b>			
Buildings and improvements	142,847,946	55,337,915	198,185,861
Equipment	<u>5,740,661</u>	<u>1,151,940</u>	<u>6,892,601</u>
Total	148,588,607	56,489,855	205,078,462
<b>Accumulated depreciation:</b>			
Buildings and improvements	(44,215,003)	(7,102,102)	(51,317,105)
Equipment	<u>(3,892,997)</u>	<u>(340,393)</u>	<u>(4,233,390)</u>
Total	<u>(48,108,000)</u>	<u>(7,442,495)</u>	<u>(55,550,495)</u>
Net depreciable	<u>100,480,607</u>	<u>49,047,360</u>	<u>149,527,967</u>
<b>Net capital assets</b>	<u>\$ 117,354,106</u>	<u>\$ 53,747,014</u>	<u>\$ 171,101,120</u>

Capital asset activity consisted of the following:

<u>Agency:</u>	<u>December 31,</u> <u>2013</u>	<u>Increases</u>	<u>Decreases</u>	<u>December 31,</u> <u>2014</u>
<b>Non-depreciable:</b>				
Land	\$ 16,019,701	\$ 427,177	\$ -	\$ 16,446,878
Construction in progress	3,000	423,621	-	426,621
Total	<u>16,022,701</u>	<u>850,798</u>	<u>-</u>	<u>16,873,499</u>
<b>Depreciable:</b>				
Buildings and improvements	140,903,374	1,944,572	-	142,847,946
Equipment	<u>5,423,588</u>	<u>362,634</u>	<u>(45,561)</u>	<u>5,740,661</u>
Total	146,326,962	2,307,206	(45,561)	148,588,607
<b>Less: Accumulated depreciation:</b>				
Buildings and improvements	(40,443,696)	(3,771,307)	-	(44,215,003)
Equipment	<u>(3,362,664)</u>	<u>(575,894)</u>	<u>45,561</u>	<u>(3,892,997)</u>
Total	<u>(43,806,360)</u>	<u>(4,347,201)</u>	<u>45,561</u>	<u>(48,108,000)</u>
Net depreciable	<u>102,520,602</u>	<u>(2,039,995)</u>	<u>-</u>	<u>100,480,607</u>
<b>Total capital assets – net</b>	<u>\$ 118,543,303</u>	<u>\$ (1,189,197)</u>	<u>\$ -</u>	<u>\$ 117,354,106</u>

(Continued)

INDIANAPOLIS HOUSING AGENCY  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 5 - CAPITAL ASSETS (Continued)**

<u>Insight:</u>	December 31, <u>2013</u>	<u>Increases</u>	<u>Decreases</u>	December 31, <u>2014</u>
<b>Non-depreciable:</b>				
Land	\$ 2,105,008	\$ -	\$ -	\$ 2,105,008
Construction in progress	<u>640,136</u>	<u>2,530,635</u>	<u>(576,126)</u>	<u>2,594,645</u>
Total	<u>2,745,144</u>	<u>2,530,635</u>	<u>(576,126)</u>	<u>4,699,653</u>
<b>Depreciable:</b>				
Buildings and improvements	54,126,658	1,211,257	-	55,337,915
Equipment	<u>1,117,468</u>	<u>74,861</u>	<u>(40,389)</u>	<u>1,151,940</u>
Total	55,244,126	1,286,118	(40,389)	56,489,855
<b>Less: Accumulated depreciation</b>				
Buildings and improvements	(5,456,699)	(1,645,403)	-	(7,102,102)
Equipment	<u>(229,500)</u>	<u>(116,200)</u>	<u>5,307</u>	<u>(340,393)</u>
Total	<u>(5,686,199)</u>	<u>(1,761,603)</u>	<u>5,307</u>	<u>(7,442,495)</u>
Net depreciable	<u>49,557,927</u>	<u>(475,485)</u>	<u>(35,082)</u>	<u>49,047,360</u>
<b>Total capital assets – net</b>	<u>\$ 52,303,071</u>	<u>\$ 2,055,150</u>	<u>\$ (611,208)</u>	<u>\$ 53,747,013</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 \$2,108,085 at December 31, 2014 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 \$497,596 at December 31, 2014 to be recognized over the remainder of the lease term.

**NOTE 6 - NON-CURRENT LIABILITIES**

Changes in non-current liabilities were as follows:

**Agency:**

	Balance December 31, <u>2013</u>	<u>Increases</u>	<u>Decreases</u>	Balance December 31, <u>2014</u>	Amounts Due within <u>One Year</u>	Amounts Due <u>Thereafter</u>
Capital lease (Note 7)	\$ 465,385	\$ 80,446	\$ (365,666)	\$ 180,165	\$ 80,446	\$ 99,719
Loans and interest payable (*)	11,110,387	-	(1,989,164)	9,121,223	2,100,875	7,020,348
Due to other governmental units (**)	1,756,409	-	-	1,756,409	129,107	1,627,302
Unearned revenues	2,697,351	75,748	(83,881)	2,689,218	83,535	2,605,683
FSS escrow (***)	1,269,430	717,215	(391,172)	1,595,473	723,836	871,637
Accrued compensated absences	<u>210,409</u>	<u>352,974</u>	<u>(340,474)</u>	<u>222,909</u>	<u>22,295</u>	<u>200,614</u>
	<u>\$17,509,371</u>	<u>\$ 1,226,383</u>	<u>\$(3,170,357)</u>	<u>\$15,565,397</u>	<u>\$3,140,094</u>	<u>\$ 12,425,303</u>

(Continued)

INDIANAPOLIS HOUSING AGENCY  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2014

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**NOTE 6 - NON-CURRENT LIABILITIES (Continued)**

**\*Loans and Interest Payable:**

Agency loans payable consist of five zero interest loans at December 31, 2014 between three tax credit limited partnerships controlled by the Agency and Indiana Housing Community Development Agency (IHCDA) related to tax credit assistance program and Section 1602 tax credit exchange programs. Tax credit assistance program (TCAP) note payments begin on the Conversion Date (or no later than December 31, 2014). One fifteenth of the principal balance of Section 1602 tax credit exchange program notes will be forgiven each year beginning with the first anniversary of the Conversion Date if 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, 2014 were \$4,582,500 and \$3,029,630, 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 \$4,564 at December 31, 2014. The total balance outstanding at December 31, 2014 was \$1,509,093.

Scheduled maturities on loans and interest payable as of December 31, 2014 are as follows:

<u>Year Ended</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 2,013,810	\$ 87,065	\$ 2,100,875
2016	1,961,222	-	1,961,222
2017	1,953,909	-	1,953,909
2018	491,880	-	491,880
2019	500,147	-	500,147
Thereafter:			
2020-2024	1,774,920	-	1,774,920
2025-2026	<u>338,270</u>	<u>-</u>	<u>338,270</u>
	<u>\$ 9,034,158</u>	<u>\$ 87,065</u>	<u>\$ 9,121,223</u>

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(Continued)

INDIANAPOLIS HOUSING AGENCY  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2014

**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 overdraws in equal installments over ten-year periods originally beginning in 2006 and 2016. In 2011, HUD approved to defer two payments and extend the repayment agreements to 2018 and 2028. Future minimum payments on these repayment agreements as of December 31, 2014 are as follows:

<u>Year Ended</u>		
2015	\$	129,107
2016		129,107
2017		129,107
2018		129,109
2019		129,109
Thereafter:		
2020-2024		818,038
2025-2028		<u>818,037</u>
Total future minimum payments		2,281,614
Less: amount representing present value discount		<u>(525,205)</u>
		<u>\$ 1,756,409</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>2013</u>	<u>Increases</u>	<u>Decreases</u>	Balance December 31, <u>2014</u>	Amounts Due within <u>One Year</u>	Amounts Due Thereafter
Loans and interest payable (***)	\$25,154,436	\$ 627,868	\$ (7,818,367)	\$ 17,963,937	\$ 472,000	\$ 17,491,937
Accrued compensated absences	<u>10,133</u>	<u>20,267</u>	<u>(22,978)</u>	<u>7,422</u>	<u>742</u>	<u>6,680</u>
	<u>\$25,164,569</u>	<u>\$ 648,135</u>	<u>\$ (7,841,345)</u>	<u>\$ 17,971,359</u>	<u>\$ 472,742</u>	<u>\$ 17,498,617</u>

(Continued)

INDIANAPOLIS HOUSING AGENCY  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2014

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**NOTE 6 - NON-CURRENT LIABILITIES (Continued)**

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

Insight loans payable consist of three loans at December 31, 2014:

- IHA Housing Partners I, LP (an affiliate) has entered into a loan with the Agency in the original amount of \$5,066,979. As of December 31, 2014, 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 \$1,513,489 at December 31, 2014. The total balance outstanding at December 31, 2014 was \$6,580,468.
- 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 \$825,530 at December 31, 2014. The total balance outstanding at December 31, 2014 was \$5,287,996.
- 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, 2014 was \$5,664,019.
- Barton Block LP (an affiliate) entered into a \$100,000 loan with Local Initiatives Support Corporation with an interest rate of 0%. The loan was paid off in 2014.
- In 2013, Barton Block LP entered into a construction loan with Merchants Bank for up to \$8,500,000. The loan carried a LIBOR-based variable interest rate. No principal payments were due until the maturity date of May 1, 2015; however this note was paid off in 2014 from Limited Partner capital contributions.
- 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, 2014 totaled \$31,454. The total outstanding principal and accrued interest balance at December 31, 2014 was \$431,454.

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(Continued)

INDIANAPOLIS HOUSING AGENCY  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2014

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**NOTE 6 - NON-CURRENT LIABILITIES (Continued)**

Scheduled maturities on loans and interest payable as of December 31, 2014 are as follows:

<u>Year Ended</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 472,000	\$ -	\$ 472,000
2016	472,002	-	472,002
2017	472,002	-	472,002
2018	472,002	-	472,002
2019	472,002	-	472,002
Thereafter:			
2020-2024	2,360,008	-	2,360,008
2025-2029	944,002	-	944,002
2055-2059	5,066,979	1,513,489	6,580,468
2060-2064	4,425,470	862,527	5,287,997
2065-2067	400,000	31,454	431,454
	<u>\$ 15,556,467</u>	<u>\$ 2,407,470</u>	<u>\$ 17,963,937</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, 2014, the total capitalized cost of the equipment was \$131,645 and accumulated depreciation was \$65,822. The capital lease obligation was \$32,789 at December 31, 2014. Payments in 2014 totaled approximately \$27,068.

**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, 2014, the total capitalized cost of the phone system was \$260,647 and accumulated depreciation was \$130,323. The capital lease obligation was \$147,376 at December 31, 2014. Payments in 2014 totaled approximately \$51,129.

**Energy Savings Project:** The Agency had an agreement with Energy Systems Group (ESG) for capital improvements to Agency owned properties to enhance energy efficiency and decrease related utility expenses. The agreement called for the project to be financed through a separate lease purchase agreement with payments made semi-annually over a 12-year period. Payments for the Energy Savings Project were to be made from energy cost savings achieved through the capital improvements or from guaranteed payments from ESG should the desired energy costs savings not be achieved. In 2014 the remaining capital lease obligation of \$187,637 was paid off.

Future minimum payments on the capital leases as of December 31, 2014 are as follows:

<u>Year Ended</u>	<u>Payment</u>
2015	\$ 84,230
2016	60,298
2017	41,634
Total future minimum payments	186,162
Less: amounts representing interest	(5,997)
Present value of net minimum lease payments	<u>\$ 180,165</u>

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(Continued)

INDIANAPOLIS HOUSING AGENCY  
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**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:**

	<u>Interest Rate</u>	<u>Principal</u>	<u>Accrued Interest</u>	<u>Unamortized Discount</u>	<u>Allowance Loan Loss</u>	<u>Net Loans Receivable</u>	<u>Notes</u>
Red Maple Grove:							
Phase I	4.84%	\$ 346,700	\$ 229,920	\$ -	\$ -	\$ 576,620	(a)
Phase IIA-Perm A	5.36%	772,616	391,349	-	-	1,163,965	(a)
Phase IIA-Perm B	0.00%	3,103,412	-	(2,549,374)	-	554,038	(a)
Phase IIB-Perm A	5.25%	2,078,454	684,100	-	-	2,762,554	(a)
Phase IIB-Perm B	0.00%	2,009,813	-	(1,656,953)	-	352,860	(a)
Second Mortgages	0.00%	1,145,616	-	-	(1,145,616)	-	(g)
Georgetown IHA							
Partners II	4.90%	5,066,979	1,513,489	-	-	6,580,468	(b)
16 Park, LP – Capital	5.00%	4,425,466	862,530	-	-	5,287,996	(c)
Trail Side	0.00%	1,650,987	-	(1,120,782)	-	530,205	(d)
St. Clair	0.00%	1,574,691	-	(1,269,793)	-	304,898	(e)
Tibbs I	0.00%	200,000	-	-	(200,000)	-	(f)
Tibbs II	5.74%	300,000	-	-	(300,000)	-	(f)
Barton Block	5.00%	400,000	31,454	-	-	431,454	(h)
		<u>\$ 23,074,734</u>	<u>\$ 3,712,842</u>	<u>\$ (6,596,902)</u>	<u>\$ (1,645,616)</u>	<u>\$ 18,545,058</u>	

At December 31, 2014, of these loan amounts, the Georgetown IHA Partners II, 16 Park, LP, and Barton Block, LP loans totaling \$12,299,918 are affiliate loans and the remainder are non-affiliate loans.

**Insight:**

	<u>Interest Rate</u>	<u>Principal</u>	<u>Accrued Interest</u>	<u>Unamortized Discount</u>	<u>Allowance Loan Loss</u>	<u>Net Loans Receivable</u>	<u>Notes</u>
Red Maple Grove:							
Phase I –							
Insight (AHP)	0.00%	\$ 300,000	\$ -	\$ (193,945)	\$ -	\$ 106,055	(i)
Phase I –							
Insight (INHP)	0.00%	31,650	-	(20,460)	-	11,190	(i)
Phase IIA –							
Insight (AHP)	0.00%	318,000	-	(264,117)	-	53,883	(i)
Phase IIB –							
Insight (INHP)	0.00%	15,146	-	(12,581)	-	2,565	(i)
Phase IIB –							
Insight (AHP)	0.00%	275,000	-	(229,127)	-	45,873	(i)
		<u>\$ 939,796</u>	<u>\$ -</u>	<u>\$ (720,230)</u>	<u>\$ -</u>	<u>\$ 219,566</u>	

All Insight loans are non-affiliate loans at December 31, 2014.

(Continued)

INDIANAPOLIS HOUSING AGENCY  
NOTES TO FINANCIAL STATEMENTS  
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**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. 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, 2014, 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.

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(Continued)

INDIANAPOLIS HOUSING AGENCY  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2014

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**NOTE 8 - LOANS RECEIVABLE (Continued)**

(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.

(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

**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 2014 of \$739,540. The Agency has an investment of \$266,563 in the Group at December 31, 2014.

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 2014, the Agency paid \$393,760 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 2014, the Agency received \$1,723,151 of tax increment financing (TIF) for two development projects.

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(Continued)

INDIANAPOLIS HOUSING AGENCY  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2014

**NOTE 11 - PENSION PLAN (City of Indianapolis)**

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. The plan is a cost sharing plan and a contribution of 3% of each employee's annual compensation is required. The separate PERF report may be obtained by writing to Public Employees' Retirement Fund, Harrison Building, Room 800, 143 West Market Street, Indianapolis, IN 46204.

The Agency remitted employer and employee contributions of approximately \$661,000, \$629,000 and \$600,000 to the plan for the years ended December 31, 2014, 2013, and 2012.

**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, 2014.

	Agency	L and R Housing, LP	TH and B, LP	B and H Housing, LP	Lugar, LP	Eliminations	Combined
<b>ASSETS</b>							
Other current assets	\$ 10,396,310	\$ 1,896,170	\$ 3,253,377	\$ 3,922,811	\$ 1,519,792	\$ (10,609)	\$ 20,977,851
Due (to)/from	646,956	(86,137)	(119,373)	(63,701)	(242,134)	(10,300)	125,311
Total current assets	<u>11,043,266</u>	<u>1,810,033</u>	<u>3,134,004</u>	<u>3,859,110</u>	<u>1,277,658</u>	<u>(20,909)</u>	<u>21,103,162</u>
Capital assets	42,028,661	14,514,550	16,929,146	18,361,988	25,519,761	-	117,354,106
Other noncurrent assets	53,214,460	650,239	697,702	435,214	482,559	(36,668,553)	18,811,621
Total noncurrent assets	<u>95,243,121</u>	<u>15,164,789</u>	<u>17,626,848</u>	<u>18,797,202</u>	<u>26,002,320</u>	<u>(36,668,553)</u>	<u>136,165,727</u>
Total assets	<u>106,286,387</u>	<u>16,974,822</u>	<u>20,760,852</u>	<u>22,656,312</u>	<u>27,279,978</u>	<u>(36,689,462)</u>	<u>157,268,889</u>
<b>LIABILITIES</b>							
Current liabilities	2,137,908	999,729	1,023,968	268,697	143,442	(20,909)	4,552,835
Noncurrent liabilities	8,902,092	11,291,162	11,637,172	9,785,013	7,478,417	(36,668,553)	12,425,303
Total liabilities	<u>11,040,000</u>	<u>12,290,891</u>	<u>12,661,140</u>	<u>10,053,710</u>	<u>7,621,859</u>	<u>(36,689,462)</u>	<u>16,978,138</u>
<b>NET POSITION</b>							
Net investment in capital assets	40,339,145	2,395,941	4,408,641	6,455,566	18,053,838	34,399,329	108,052,460
Restricted for Section 8 vouchers and VASH	494,844	-	-	-	-	-	494,844
Unrestricted	54,412,398	2,287,990	3,691,071	4,147,036	1,604,281	(34,399,329)	31,743,447
Total net position	<u>95,246,387</u>	<u>4,683,931</u>	<u>8,099,712</u>	<u>12,602,602</u>	<u>19,658,119</u>	<u>-</u>	<u>140,290,751</u>
Total liabilities and net position	<u>\$ 106,286,387</u>	<u>\$ 16,974,822</u>	<u>\$ 20,760,852</u>	<u>\$ 22,656,312</u>	<u>\$ 27,279,978</u>	<u>\$ (36,689,462)</u>	<u>\$ 157,268,889</u>

(Continued)

**INDIANAPOLIS HOUSING AGENCY  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2014**

**NOTE 12 – CONDENSED COMBINING INFORMATION (Continued)**

The following summarizes the combining information for the statements of revenues, expenses, and changes in net position for the year ended December 31, 2014.

	Agency	L and R Housing, LP	TH and B, LP	B and H Housing, LP	Lugar, LP	Eliminations	Combined
Operating revenue	\$ 2,367,170	\$ 1,383,701	\$ 1,735,219	\$ 2,161,748	\$ 1,300,458	\$ (4,788,488)	\$ 4,159,808
Operating expenses	58,544,562	1,234,345	1,213,203	1,352,712	1,297,211	(4,788,488)	58,853,545
Deprecation expense	2,145,352	443,469	503,735	521,914	732,728	-	4,347,198
Total operating expenses	<u>60,689,914</u>	<u>1,677,814</u>	<u>1,716,938</u>	<u>1,874,626</u>	<u>2,029,939</u>	<u>(4,788,488)</u>	<u>63,200,743</u>
Operating loss	(58,322,744)	(294,113)	18,281	287,122	(729,481)	-	(59,040,935)
Intergovernmental grants	53,678,539	-	-	-	92,543	-	53,771,082
Other non-operating revenues (expenses)	2,895,810	(319,028)	(330,692)	(317,287)	(459,645)	-	1,469,158
Total non-operating revenues (expenses)	<u>56,574,349</u>	<u>(319,028)</u>	<u>(330,692)</u>	<u>(317,287)</u>	<u>(367,102)</u>	<u>-</u>	<u>55,240,240</u>
Loss before capital contributions	(1,748,395)	(613,141)	(312,411)	(30,165)	(1,096,583)	-	(3,800,695)
Capital grants and contributions	<u>908,187</u>	<u>810,000</u>	<u>810,000</u>	<u>-</u>	<u>1,271,873</u>	<u>-</u>	<u>3,800,060</u>
Change in net position	(840,208)	196,859	497,589	(30,165)	175,290	-	(635)
Net position, beginning of year	<u>96,086,595</u>	<u>4,487,072</u>	<u>7,602,123</u>	<u>12,632,767</u>	<u>19,482,829</u>	<u>-</u>	<u>140,291,386</u>
Net position, end of year	<u>\$ 95,246,387</u>	<u>\$ 4,683,931</u>	<u>\$ 8,099,712</u>	<u>\$ 12,602,602</u>	<u>\$ 19,658,119</u>	<u>\$ -</u>	<u>\$ 140,290,751</u>

**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.

**SUPPLEMENTARY INFORMATION**

INDIANAPOLIS HOUSING AGENCY  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 Year ended December 31, 2014

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<b>Federal Grantor/Pass-Through Grantor /Program Title</b>	<b>CFDA Number</b>	<b>Total Federal Expenditures</b>
<b>Department of Housing and Urban Development</b>		
Public and Indian Housing	14.850	\$ 7,202,021
Resident Opportunity and Supportive Services	14.870	89,678
Section 8 Housing Choice Vouchers	14.871	45,637,986
Public Housing Capital Fund	14.872	<u>1,593,547</u>
Total Department of Housing and Urban Development		54,523,232
<b>Department of Justice</b>		
Public Safety Partnership & Community Policing Grants	16.710	63,494
<b>Department of Health and Human Services</b>		
Community Economic Development	93.570	<u>684,686</u>
<b>Total Federal Expenditures</b>		<b><u>\$ 55,271,412</u></b>

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

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See accompanying notes to schedule of expenditures of federal awards.

INDIANAPOLIS HOUSING AGENCY  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
December 31, 2014

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**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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. 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), while all other federal grants listed on the schedule of expenditures of federal awards are the responsibility of the Agency.

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, 2014, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements and have issued our report thereon dated May 26, 2015.

**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.

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(Continued)

## 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  
May 26, 2015

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 Circular A-133 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, 2014. 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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, 2014.

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(Continued)

## 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 OMB Circular A-133, 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 a deficiency in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as item 2014-001, which we consider to be a significant deficiency.

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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Crowe Horwath LLP  
Crowe Horwath LLP

Indianapolis, Indiana  
May 26, 2015

INDIANAPOLIS HOUSING AGENCY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
December 31, 2014

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**SECTION 1 - SUMMARY OF AUDITORS' RESULTS**

***Financial Statements:***

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? \_\_\_\_\_ Yes      X   No

Significant deficiencies identified not considered to be material weaknesses? \_\_\_\_\_ 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 deficiencies identified not considered to be material weaknesses?   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 Section .510(a) of OMB Circular A-133?   X   Yes    \_\_\_\_\_ No

Identification of major programs:

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

Dollar threshold used to distinguish type A and B programs:   \$ 1,658,142  

Auditee qualified as low-risk auditee? \_\_\_\_\_ Yes      X   No

INDIANAPOLIS HOUSING AGENCY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
December 31, 2014

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**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 OMB CIRCULAR A-133 SECTION 510(A):**

**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 IHA 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.

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 IHA UNP balance as of December 31, 2011 and at December 31, 2014, the negative UNP had decreased to \$4.3 million. 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 IHA 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 Indianapolis Housing Agency to determine a course of action for repayment of the negative UNP balance.

Management Response and Corrective Action Plan: Management acknowledges the finding. We are transferring \$180,000 per year from unrestricted non-federal funds, if funding is available, to reduce the negative unrestricted net position. We are also closely monitoring the budgets for this program to ensure that this does not recur. This finding falls under the responsibility of Chris Rodabough, Deputy Director of Operations and CFO, and Valarie Calhoun, Deputy Director of Programs.

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(Continued)

INDIANAPOLIS HOUSING AGENCY  
PRIOR YEAR FINDINGS AND QUESTIONED COSTS  
December 31, 2014

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**2013-001 Negative Section 8 Unrestricted Net Position Balance (Section 8 Housing Choice Vouchers – CFDA # 14.871) (Significant Deficiency)**

Condition: The Department of Housing and Urban Development conducted a Financial Management Review in 2011 and noted that IHA has maintained a negative Unrestricted Net Position balance for numerous years. As of December 31, 2013 the cumulative UNP balance was negative \$4.5 million. This establishes an ongoing trend of over-spending program funds.

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 IHA UNP balance as of December 31, 2011 and at December 31, 2013, the negative UNP had grown to \$4.5 million. 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 IHA 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 Indianapolis Housing Agency to determine a course of action for repayment of the negative UNP balance.

Management Response and Corrective Action Plan: Management acknowledges the finding. We are transferring \$180,000 per year from unrestricted non-federal funds to reduce the negative unrestricted net position. We are also closely monitoring the budgets for this program to ensure that this does not recur. This finding falls under the responsibility of Chris Rodabough, Deputy Director of Operations and CFO, and Valarie Calhoun, Deputy Director of Programs.

Status: Similar finding in current year, see Finding 2014-001.