



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

B48584

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2765

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

August 30, 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, 2016 to December 31, 2016. 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, 2016 and the results of its operations for the period then ended, on the basis of accounting described in the report.

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

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, 2016

INDIANAPOLIS HOUSING AGENCY

Indianapolis, Indiana

FINANCIAL STATEMENTS

December 31, 2016

CONTENTS

INDEPENDENT AUDITOR'S REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
BASIC FINANCIAL STATEMENTS	
STATEMENTS OF NET POSITION	8
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION	10
STATEMENTS OF CASH FLOWS.....	11
NOTES TO FINANCIAL STATEMENTS	12
REQUIRED SUPPLEMENTARY INFORMATION	
SCHEDULE OF THE AGENCY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY	40
SCHEDULE OF THE AGENCY'S CONTRIBUTIONS	41
SUPPLEMENTARY INFORMATION	
SCHEDULE OF EXPENDITURES OF FEDERAL, STATE, AND LOCAL AWARDS	42
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL, STATE, AND LOCAL AWARDS.....	43
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 <i>GOVERNMENT AUDITING STANDARDS</i>	44
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE	46
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	48
PRIOR YEAR FINDINGS AND QUESTIONED COSTS.....	50

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, 2016, 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 did not audit the financial statements of 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, the Limited Partnership blended component units described in Note 1, whose statements reflect total assets constituting 54 and 77 percent of total assets at December 31, 2016, and total revenues constituting 7 and 79 percent of total revenues for the year then ended of the business-type activities and the discretely presented component unit, respectively. Those statements were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for those entities, is based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standard applicable to financial audits contained in *Government Auditing Standards*, issues 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. The financial statements of the Limited Partnership blended component units listed above were not audited in accordance with *Government Auditing Standards*.

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.

(Continued)

Opinions

In our opinion, based on our audit and the reports of other auditors, 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, 2016, and the respective changes in financial position and, where applicable, 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, the schedule of the Agency's proportionate share of the net pension liability on page 40 and the schedule of the Agency's contributions on page 41 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the basic financial statements that collectively comprise the Agency's basic financial statements. The accompanying schedule of expenditures of federal, state, and local awards as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal, state, and local awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 16, 2017 on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Agency's internal control over financial reporting and compliance.

Crowe Horwath LLP

Crowe Horwath LLP

Indianapolis, Indiana
June 16, 2017

INDIANAPOLIS HOUSING AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2016

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, 2016. 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 increased by \$6.2 million or 30 percent from 2015 to 2016. This was primarily due to the receipt of approximately \$4.0 million of 2017 HUD operating subsidy in 2016.
- **Unearned revenue (current):** Total unearned revenue (current) increased by \$4.0 million from 2015 to 2016 due to the receipt of approximately \$4.0 million of 2017 HUD operating subsidy in 2016.
- **Loans Payable Due to Non-affiliates (current):** Loans payable due to non-affiliates (current) decreased by \$6.3 million or 71 percent from 2015 to 2016. This is primarily due to the refinancing of a construction bridge loan that was to fund construction period costs for the Millikan II project. The refinancing loan is now reflected as non-current, resulting in a \$6.5 million or 51% increase in loans payable due to non-affiliates (non-current).
- **Other Capital Contributions:** Other capital contributions increased by \$3 million from 2015 to 2016. This was primarily because 2015 included \$3.7 million that the Agency contributed to 16 Park to return investor capital contributions.

OTHER HIGHLIGHTS

- Total operating revenue for all programs, net of interfund eliminations, was approximately \$64.5 million for the year. Tenant rental revenue generated approximately \$7.5 million and HUD operating subsidy and grants provided approximately \$57.9 million.
- Total Operating Expenses for all programs, net of interfund eliminations, was approximately \$70.0 million. Housing Assistance Payments to Landlords on behalf of tenants represented approximately \$42.6 million, while administrative expenses represented approximately \$10.2 million, maintenance expenses represented approximately \$3.4 million, and tenant services expenses represented \$0.64 million as other significant expense categories.
- The assets of the Housing Agency exceeded its liabilities at the close of the year by \$178 million. Of that amount, \$33 million was considered unrestricted and \$0.77 million was restricted with the remaining balance of \$145 million representing net investment in capital assets.
- The Housing Agency's total net position decreased by \$1.7 million (Table 2) as a result of current year activities.

(Continued)

INDIANAPOLIS HOUSING AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2016

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

FINANCIAL ANALYSIS

Net Position

The Agency's and Insight's total assets and deferred outflows of resources reached \$228.4 million at December 31, 2016. This represents an increase of 1 percent from the prior year. Total liabilities and deferred inflows of resources amounted to \$49.9 million, representing an increase of 8 percent, and total net position was \$178.4 million, representing a decrease of 1 percent (See Table 1).

Table 1
Net Position – Agency and Insight

	<u>2016</u>	<u>2015</u>	<u>Percentage Change</u>
Assets and Deferred Outflows of Resources			
Current assets	\$ 30,469,492	\$ 26,224,581	16%
Capital assets (net)	174,418,688	178,377,025	(2)
Other non-current assets	21,374,061	20,502,312	4
Deferred outflows of resources	<u>1,727,695</u>	<u>1,326,038</u>	<u>30</u>
Total assets and deferred outflows of resources	<u>\$ 227,989,936</u>	<u>\$ 226,429,956</u>	<u>1</u>
Liabilities and Deferred Inflows of Resources			
Current liabilities	\$ 9,957,435	\$ 13,842,508	(28)
Non-current liabilities	39,402,792	32,131,490	23
Deferred inflows of resources	<u>181,795</u>	<u>194,916</u>	<u>(7)</u>
Total liabilities and deferred inflows of resources	<u>49,542,022</u>	<u>46,168,914</u>	<u>7</u>
Net position			
Net investment in capital assets	144,882,451	147,118,244	(2)
Restricted for Section 8 vouchers and VASH	768,742	783,768	(2)
Unrestricted	<u>32,796,721</u>	<u>32,359,030</u>	<u>1</u>
Total net position	<u>178,447,914</u>	<u>180,261,042</u>	<u>(1)</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 227,989,936</u>	<u>\$ 226,429,956</u>	<u>1%</u>

(Continued)

INDIANAPOLIS HOUSING AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2016

Changes in Net Position

The Agency's and Insight's net position at December 31, 2016 decreased 1 percent over the prior year. The Agency's and Insight's total operating revenues increased 1 percent. Total operating expenses increased 4 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>2016</u>	<u>2015</u>	<u>Percentage Change</u>
Operating revenues			
Tenant revenue	\$ 5,899,691	\$ 5,382,369	10%
Other income	<u>1,918,703</u>	<u>2,048,590</u>	<u>(6)</u>
Total operating revenues	<u>7,818,394</u>	<u>7,430,959</u>	<u>5</u>
Operating expenses			
Operating expenses	63,425,007	61,004,022	4
Depreciation	<u>6,788,982</u>	<u>6,355,057</u>	<u>7</u>
Total operating expenses	<u>70,213,989</u>	<u>67,359,079</u>	<u>4</u>
Operating loss	(62,395,595)	(59,928,120)	4
Non-operating revenues (expenses) and capital contributions			
Intergovernmental	55,007,868	53,299,512	3
Interest income from investments	109,725	34,404	219
Interest income from loans	878,209	837,209	5
Interest expense	(985,779)	(638,958)	44
Gain on disposition of assets	150	20,199	(99)
Other revenue	1,265,004	1,772,906	(29)
HUD capital grants	2,812,290	5,412,682	(48)
Other capital contributions (distributions)	<u>1,495,000</u>	<u>(1,553,540)</u>	<u>(196)</u>
	<u>60,582,467</u>	<u>59,184,414</u>	<u>2</u>
Change in net position	(1,813,128)	(743,706)	144
Net position, beginning of year	<u>180,261,042</u>	<u>181,004,748</u>	<u>(2)</u>
Total net position, end of year	<u>\$ 178,447,914</u>	<u>\$ 180,261,042</u>	<u>(1)%</u>

(Continued)

INDIANAPOLIS HOUSING AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2016

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

	<u>2016</u>	<u>2015</u>	<u>Percentage Change</u>
Administration	\$ 10,222,241	\$ 9,215,830	11%
Tenant services	650,190	727,469	(11)
Utilities	2,400,679	2,175,937	10
Maintenance	3,453,033	3,741,964	(8)
Protective services	865,125	899,699	(4)
Insurance premiums	925,098	846,570	9
General	1,899,447	2,136,569	(11)
Pension expense	330,068	119,173	177
Housing assistance payments	42,679,126	41,140,811	4
Depreciation	<u>6,788,982</u>	<u>6,355,057</u>	<u>7</u>
Total operating expenses	<u>\$ 70,213,989</u>	<u>\$ 67,359,079</u>	<u>4%</u>

Table 4
Budget Analysis
(Financial Statement Presentation
excluding depreciation)

	<u>2016 Budget</u>	<u>2016 Actual</u>	<u>Percentage Variance</u>
Administration	\$ 9,973,637	\$ 10,222,241	(2)%
Tenant services	366,661	650,190	(77)
Utilities	1,996,679	2,400,679	(20)
Maintenance	3,577,207	3,453,033	3
Protective services	866,086	865,125	2
Insurance premium	783,662	925,098	(18)
General	787,383	2,229,515	(183)
Housing assistance payments	<u>44,682,132</u>	<u>42,679,126</u>	<u>4</u>
Total operating expenses	<u>\$ 63,053,447</u>	<u>\$ 63,425,007</u>	<u>(1)%</u>

(Continued)

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of December 31, 2016, the Agency and Insight had \$174.4 million in capital assets, net of accumulated depreciation. As of December 31, 2015, the Agency and Insight had \$178.4 million in capital assets, net of accumulated depreciation. As compared to the prior year, this amount represents a net decrease (including additions and disposals) of \$4.0 million as shown in Note 5 of the financial statements. This total increase includes a net decrease in capital assets of IHA of \$2.6 million and a net decrease 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, 2016

	(Primary Government) Housing Agency	(Component Unit) Insight Development Corporation	(Memorandum Only) Total
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES			
Current assets			
Cash and cash equivalents:			
Cash-unrestricted (Note 2)	\$ 9,211,713	\$ 2,627,051	\$ 11,838,764
Cash-restricted (Notes 2 & 3)	12,415,688	2,329,278	14,744,966
Receivables:			
Due from governmental units (Note 4)	118,872	-	118,872
Due from affiliate (Insight)	96,183	-	96,183
Accounts receivable – miscellaneous	381,907	-	381,907
Accounts receivable – tenants, net (Note 1)	152,448	185,977	338,425
Fraud recovery, net	23,410	-	23,410
Investments:			
Investments-restricted (Note 2 & 3)	1,973,044	-	1,973,044
Loans receivable, net (Note 8):			
Due from non-affiliates	445,000	-	445,000
Prepaid expense and other assets	<u>126,244</u>	<u>382,677</u>	<u>508,921</u>
Total current assets	24,944,509	5,524,983	30,469,492
Noncurrent assets			
Capital assets (Note 5):			
Non-depreciable property	18,244,076	2,202,535	20,446,611
Depreciable property	151,984,397	70,206,073	222,190,470
Accumulated depreciation	<u>(56,682,126)</u>	<u>(11,536,267)</u>	<u>(68,218,393)</u>
Net capital assets	113,546,347	60,872,341	174,418,688
Loans receivable, net (Note 8):			
Due from affiliate (Insight)	10,250,990	-	10,250,990
Due from non-affiliates	8,021,022	242,348	8,263,370
Other assets	<u>316,900</u>	<u>2,542,801</u>	<u>2,859,701</u>
Total non-current assets	<u>132,135,259</u>	<u>63,657,490</u>	<u>195,792,749</u>
Total assets	157,079,768	69,182,473	226,262,241
Deferred outflows of resources			
Deferred outflows from pension	<u>1,727,695</u>	-	<u>1,727,695</u>
Total assets and deferred outflows of resources	<u>\$ 158,807,463</u>	<u>\$ 69,182,473</u>	<u>\$ 227,989,936</u>

(Continued)

INDIANAPOLIS HOUSING AGENCY
STATEMENTS OF NET POSITION
December 31, 2016

	(Primary Government) Housing Agency	(Component Unit) Insight Development Corporation	(Memorandum Only) Total
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION			
Current liabilities			
Accounts payable and accrued expenses:			
Vendors and contractors	\$ 802,208	\$ 328,193	\$ 1,130,401
Accrued salaries and benefits payable	443,700	30,469	474,169
Accrued compensated absences (Note 6)	23,545	2,166	25,711
Due to other governmental units (Note 6)	64,554	-	64,554
Tenant security deposits	204,981	38,419	243,400
Unearned revenues	4,089,490	130,704	4,220,194
Capital lease (Note 6 and 7)	41,203	-	41,203
Loans and interest payable (Note 6):			
Due to non-affiliates	2,014,791	814,879	2,829,670
Other liabilities – FSS Escrow (Note 6)	312,971	21,971	334,942
Due to affiliate (Housing Agency)	-	96,183	96,183
Other accrued liabilities – miscellaneous	<u>156,800</u>	<u>340,208</u>	<u>497,008</u>
Total current liabilities	8,154,243	1,803,192	9,957,435
Non-current liabilities			
Loans and interest payable (Note 6):			
Due to affiliate (Housing Agency)	-	10,250,990	10,250,990
Due to non-affiliates	3,105,774	15,855,024	18,960,798
Other liabilities:			
Due to other governmental units (Note 6)	1,456,862	-	1,456,862
Unearned revenues (Note 5 and 6)	2,542,802	-	2,542,802
FSS Escrow (Note 6)	842,934	-	842,934
Accrued compensated absences (Note 6)	211,815	19,495	231,310
Net pension liability (Note 11)	<u>5,117,096</u>	<u>-</u>	<u>5,117,096</u>
Total non-current liabilities	<u>13,277,283</u>	<u>26,125,509</u>	<u>39,402,792</u>
Total liabilities	<u>21,431,526</u>	<u>27,928,701</u>	<u>49,360,227</u>
Deferred inflows of resources			
Deferred inflows from pension	181,795	-	181,795
Net position			
Net investment in capital assets	108,415,404	36,467,047	144,882,451
Restricted for Section 8 vouchers and VASH	768,742	-	768,742
Unrestricted	<u>28,009,996</u>	<u>4,786,725</u>	<u>32,796,721</u>
Total net position	<u>137,194,142</u>	<u>41,253,772</u>	<u>178,447,914</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 158,807,463</u>	<u>\$ 69,182,473</u>	<u>\$ 227,989,936</u>

See accompanying notes to financial statements.

INDIANAPOLIS HOUSING AGENCY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
Year ended December 31, 2016

	(Primary Government) Housing Agency	(Component Unit) Insight Development Corporation	(Memorandum Only) Total
Operating revenues			
Tenant revenue	\$ 3,699,036	\$ 2,200,655	\$ 5,899,691
Other income	<u>1,530,278</u>	<u>388,425</u>	<u>1,918,703</u>
Total operating revenues	5,229,314	2,589,080	7,818,394
Operating expenses			
Administration	8,576,224	1,646,017	10,222,241
Tenant services	613,061	37,129	650,190
Utilities	1,980,038	420,641	2,400,679
Maintenance	2,762,807	690,226	3,453,033
Protective services	808,574	56,551	865,125
Insurance premiums	720,215	204,883	925,098
General	1,558,941	340,506	1,899,447
Housing assistance payments	42,679,126	-	42,679,126
Pension expense	330,068	-	330,068
Depreciation	<u>4,497,862</u>	<u>2,291,120</u>	<u>6,788,982</u>
Total operating expenses	<u>64,526,916</u>	<u>5,687,073</u>	<u>70,213,989</u>
Operating loss	(59,297,602)	(3,097,993)	(62,395,595)
Non-operating revenues (expenses)			
Intergovernmental grants	53,990,700	1,017,168	55,007,868
Interest income from investments	102,835	6,890	109,725
Interest income from loans	866,221	11,988	878,209
Interest expense	(143,971)	(841,808)	(985,779)
Other revenue	705,522	559,482	1,265,004
Gain on disposition of assets	150	-	150
Total non-operating revenues (expenses)	<u>55,521,457</u>	<u>753,720</u>	<u>56,275,177</u>
Loss before capital contributions	(3,776,145)	(2,344,273)	(6,120,418)
Capital grants and contributions			
HUD capital grants	2,812,290	-	2,812,290
Other capital contributions	<u>1,603,895</u>	<u>(108,895)</u>	<u>1,495,000</u>
Total capital grants and contributions	<u>4,416,185</u>	<u>(108,895)</u>	<u>4,307,290</u>
Change in net position	640,040	(2,453,168)	(1,813,128)
Net position, beginning of year	<u>136,554,102</u>	<u>43,706,940</u>	<u>180,261,042</u>
Net position, end of year	<u>\$ 137,194,142</u>	<u>\$ 41,253,772</u>	<u>\$ 178,447,914</u>

See accompanying notes to financial statements.

INDIANAPOLIS HOUSING AGENCY
STATEMENTS OF CASH FLOWS
Year ended December 31, 2016

	(Primary Government) Housing Agency	(Component Unit) Insight Development Corporation	(Memorandum Only) Total
Cash flows from operating activities			
Rental receipts	\$ 3,649,876	\$ 2,185,703	\$ 5,835,579
Other operating receipts	1,519,364	77,577	1,596,941
Payments for personnel – salaries and benefits	(7,113,325)	(751,809)	(7,865,134)
Payments for other operating activities	(9,169,209)	(2,682,274)	(11,851,483)
Housing assistance payments	(42,679,126)	-	(42,679,126)
Tenant security and other deposits	(222,226)	12,034	(210,192)
Net cash from operating activities	<u>(54,014,646)</u>	<u>(1,158,769)</u>	<u>(55,173,415)</u>
Cash flows from non-capital financing activities			
Intergovernmental revenues received	<u>58,007,714</u>	<u>1,414,685</u>	<u>59,422,399</u>
Net cash from non-capital financing activities	58,007,714	1,414,685	59,422,399
Cash flows from capital and related financing activities			
Capital asset purchases	(2,247,275)	(2,455,303)	(4,702,578)
Non-operating receipts, net	572,188	87,479	659,667
Proceeds from issuance of loan	111,682	8,862,388	8,974,070
Interest paid	(132,305)	(365,336)	(497,641)
Principal payment – loan and capital lease	(1,909,091)	(6,205,982)	(8,115,073)
Capital contributions	<u>4,416,185</u>	<u>(108,895)</u>	<u>4,307,290</u>
Net cash from capital and related financing activities	811,384	(185,649)	625,735
Cash flows from investing activities			
Proceeds from sale of investments	978,552	-	978,552
Interest on cash, investments and loans	<u>299,497</u>	<u>7,206</u>	<u>306,703</u>
Net cash from investing activities	<u>1,278,049</u>	<u>7,206</u>	<u>1,285,255</u>
Net change in cash and cash equivalents	6,082,501	77,473	6,159,974
Cash and cash equivalents, beginning	<u>15,544,900</u>	<u>4,878,856</u>	<u>20,423,756</u>
Cash and cash equivalents, ending	<u>\$ 21,627,401</u>	<u>\$ 4,956,329</u>	<u>\$ 26,583,730</u>
Reconciliation of operating loss to net cash from operating activities:			
Operating loss	\$ (59,297,602)	\$ (3,097,993)	\$ (62,395,595)
Adjustments to reconcile operating loss to net cash from operating activities:			
Depreciation expense	4,497,862	2,291,120	6,788,982
Uncollectible loans	310,222	-	310,222
Bad debt expense	968,049	100,554	1,068,603
Change in assets and liabilities:			
Increase in accounts receivable	(859,565)	(177,960)	(1,037,525)
Increase in other assets	(10,914)	(310,848)	(321,762)
Increase in deferred outflows	(401,657)	-	(401,657)
Decrease in accounts payable and other accrued liabilities	262,690	(68,415)	194,275
Increase (decrease) in unearned revenue	(157,644)	62,454	(95,190)
Increase in tenant security deposits	22,463	5,443	27,906
Increase (decrease) in FSS Escrow	(244,689)	6,591	(238,098)
Decrease in accrued salaries and benefits payable	181,850	21,226	203,076
Decrease in deferred inflows	(13,121)	-	(13,121)
Increase in net pension liability	744,835	-	744,835
Increase (decrease) in accrued compensated absences	(17,425)	9,059	(8,366)
Net cash from operating activities	<u>\$ (54,014,646)</u>	<u>\$ (1,158,769)</u>	<u>\$ (55,173,415)</u>

See accompanying notes to financial statements.

INDIANAPOLIS HOUSING AGENCY
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

(Continued)

INDIANAPOLIS HOUSING AGENCY
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

(Continued)

INDIANAPOLIS HOUSING AGENCY
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

- **Concord Homes, Inc.** is authorized to serve as the General Partner of IHA Housing Partners I, LP, an Indiana Limited Partnership, which was formed to develop, rehabilitate, own, maintain and operate a 61 unit scattered site community known as Concord Homes located in Indianapolis, Indiana. The project consists of 43 buildings. The partnership generated an allocation of low-income housing tax credits from the State of Indiana totaling \$4,400,390. Each building of the project qualified for and was 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 initial compliance period was completed during 2016, though the partnership agreed to maintain and operate the project as low-income housing for an additional 25 years beyond the initial 15 year compliance period. On November 30, 2016, Insight purchased the limited partner rights, title, and interest for \$65,000.
- **IHA Housing Partners II GP, Inc.** is authorized to serve as the General Partner of IHA Housing Partners II, LP, an Indiana Limited Partnership, which was formed to develop, rehabilitate, own, maintain and operate a 90 unit scattered site community known as The Georgetown Apartments located in Indianapolis, Indiana. The partnership has received an allocation of low-income housing tax credits from the State of Indiana totaling \$7,796,080. Each building of the project has qualified for and been allocated low-income housing tax credits pursuant to IRC Section 42, which regulates the use of the project as to occupant eligibility and unit gross rent, among other requirements. Each building of the project must meet the provisions of these regulations during each of 15 consecutive years in order to remain qualified to receive the credits. The credit allocation is spread over 10 years and will be \$589,562 for the first year, \$779,608 annually for the next nine years and \$190,046 in the eleventh year, if the project remains in compliance.

(Continued)

INDIANAPOLIS HOUSING AGENCY
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- **16 Park GP, Inc.** is authorized to serve as the General Partner of 16 Park, LP, an Indiana Limited Partnership, which was formed to develop, rehabilitate, own, maintain and operate a 155 unit multi-family rental housing development known as 16 Park Apartments located in Indianapolis, Indiana. The partnership has received an allocation of low-income housing tax credits from the State of Indiana totaling \$33,531,920. Each building of the project has qualified for and been allocated low-income housing tax credits pursuant to IRC Section 42, which regulates the use of the project as to occupant eligibility and unit gross rent, among other requirements. Each building of the project must meet the provisions of these regulations during each of 15 consecutive years, beginning in 2011, in order to remain qualified to receive the credits. The credits began in 2012 and increased in 2013 to the full year annual credit of \$3,353,192. The total credits will be spread over an eleven year period, if the Project remains in compliance.
- **Barton Block GP, Inc.** is authorized to serve as the General Partner of Barton Block, LP, an Indiana Limited Partnership, which was formed to acquire, construct, own, and operate a residential rental project in Indianapolis, Indiana. The partnership has received an allocation of low-income housing tax credits from the State of Indiana totaling \$11,703,770. Each building of the project has qualified for and been allocated low-income housing tax credits pursuant to IRC Section 42, which regulates the use of the project as to occupant eligibility and unit gross rent, among other requirements. Each unit of the project must meet the provisions of these regulations during each of 15 consecutive years, beginning in 2013, in order to remain qualified to receive the credits. The credit allocation is spread over 11 years, beginning in 2014, and was \$941,685 for the first year, and will be \$1,170,377 for the next nine years, and \$228,692 in the eleventh year, if the project remains in compliance.
- **Millikan II LLC** is a single member LLC formed to acquire, construct, own, and operate a residential rental project in Indianapolis, Indiana. Construction at the project began in 2014 and was completed in 2016. There was no allocation of low-income housing tax credits for this project.

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

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

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

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

(Continued)

INDIANAPOLIS HOUSING AGENCY
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

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, 2016 is as follows:

<u>Agency:</u>	<u>2016</u>
Tenant account receivable - gross	\$ 187,545
Allowance for uncollectible accounts	<u>(35,097)</u>
	<u>\$ 152,448</u>
<u>Insight:</u>	
Tenant account receivable - gross	\$ 249,656
Allowance for uncollectible accounts	<u>(63,679)</u>
	<u>\$ 185,977</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 acquisition value on the date donated and a corresponding contribution is recognized as revenue. Depreciation is recognized on operations over the estimated useful lives using the straight-line method. The estimated useful lives are:

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

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

(Continued)

INDIANAPOLIS HOUSING AGENCY
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

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, 2016.

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

Allowance for Loan Losses: The allowance for loan losses is a valuation allowance for probable incurred losses. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. The Agency has recorded an allowance for loan loss of \$500,000 at December 31, 2016, and an additional allowance of \$1,107,308 at December 31, 2016 for loans which have been forgiven. Insight has no provision for loan loss at December 31, 2016.

Net Position: GASB requires the classification of net position into three components – net investment in capital assets; 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 \$768,742 in 2016 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.” For an expense incurred for which both restricted and unrestricted net position is available, the Agency will expend restricted net position.

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

(Continued)

INDIANAPOLIS HOUSING AGENCY
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

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

Subsequent Events: Management has performed an analysis of the activities and transactions subsequent to December 31, 2016, to determine the need for any adjustments or disclosures to the financial statements for the year ended December 31, 2016. Management has performed their analysis through June 16, 2017, the date the financial statements were available to be issued.

(Continued)

INDIANAPOLIS HOUSING AGENCY
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

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, 2016 is as follows:

<u>Agency:</u>	-----2016-----	
	<u>Carrying Value</u>	<u>Bank Balance</u>
Insured by FDIC	\$ 2,173,595	\$ 2,173,595
Insured by Indiana Public Deposits Insurance Fund	250,000	250,000
Insured by Securities Investor Protection Corporation	12,025,243	12,036,491
Uninsured	<u>7,178,563</u>	<u>8,615,263</u>
	<u>\$ 21,627,401</u>	<u>\$ 23,075,349</u>
 Cash and cash equivalents:		
Unrestricted	\$ 9,211,713	
Restricted (Note 3)	<u>12,415,688</u>	
	<u>\$ 21,627,401</u>	

<u>Insight:</u>	-----2016-----	
	<u>Carrying Value</u>	<u>Bank Balance</u>
Insured by FDIC	\$ 1,531,690	\$ 1,412,442
Insured by Securities Investor Protection Corporation	1,791,063	1,791,063
Uninsured	<u>1,633,576</u>	<u>1,372,163</u>
	<u>\$ 4,956,329</u>	<u>\$ 4,575,668</u>
 Cash and cash equivalents:		
Unrestricted	\$ 2,627,051	
Restricted (Note 3)	<u>2,329,278</u>	
	<u>\$ 4,956,329</u>	

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.

(Continued)

INDIANAPOLIS HOUSING AGENCY
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

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 \$250,679 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 \$92,916 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, 2016:

<u>Investment Type</u>	<u>Fair Value</u>	<u>% (rounded)</u>
Government obligations:		
Federal Home Loan Mortgage Corporation	\$ 982,439	49.79%
Federal Farm Credit Banks	<u>990,605</u>	50.21%
	<u>\$ 1,973,044</u>	

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, 2016, the Agency had the following investments and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>-----Maturities (in Years)-----</u>	
		<u>Less than 1</u>	<u>1 - 3</u>
Government obligations	\$ <u>1,973,044</u>	\$ <u>982,439</u>	\$ <u>990,605</u>
Investments:			
Restricted (Note 3)	\$ <u>1,973,044</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.

Fair Values: The Agency categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. The hierarchy is based on the valuation inputs used to measure fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using the net asset value (NAV) per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy.

The government obligations of the Agency are valued using the securities' relationship to other benchmark quoted securities or on models using market information (Level 2 inputs).

(Continued)

INDIANAPOLIS HOUSING AGENCY
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

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, 2016, tenant security deposits were \$218,050.

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, 2016, the cash restricted for the FSS escrow was \$1,177,876.

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, 2016, cash restricted for Section 8 vouchers and VASH was \$783,238.

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, 2016, cash restricted for these programs was \$501,131. Other program income received by the Agency has been committed to be utilized for various housing projects and programs. At December 31, 2016, cash restricted for these programs was \$2,302,186.

Reserve Accounts for Operating, Replacement, ACC and Tax Escrow: Reserve accounts per the terms of Regulatory and Operating partnership agreements. At December 31, 2016, the cash account balances totaled \$7,433,207 and the investment account balances totaled \$1,973,044.

Insight has three 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, 2016, tenant security deposits were \$38,419.

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, 2016, the cash restricted for the FSS escrow was \$21,971.

Reserve Accounts for Operating, Replacement, Construction, ACC and Tax Escrow: Reserve accounts per the terms of Regulatory and Operating partnership agreements. At December 31, 2016, the cash account balances totaled \$2,268,888.

NOTE 4 - DUE FROM OTHER GOVERNMENTAL UNITS

A summary of amounts due from other governmental units at December 31, 2016 follows:

	<u>Agency</u>	<u>Insight</u>	<u>Total</u>
U.S. Department of Housing and Urban Development	\$ 114,699	\$ -	\$ 114,699
Department of Justice	4,173	-	4,173
	<u>\$ 118,872</u>	<u>\$ -</u>	<u>\$ 118,872</u>

(Continued)

INDIANAPOLIS HOUSING AGENCY
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 5 - CAPITAL ASSETS

A summary of capital assets at December 31, 2016 follows:

	<u>Agency</u>	<u>Insight</u>	<u>Total</u>
Non-depreciable:			
Land	\$ 18,235,901	\$ 2,156,070	\$ 20,391,971
Construction in progress	8,175	46,465	54,640
Total	<u>18,244,076</u>	<u>2,202,535</u>	<u>20,446,611</u>
Depreciable:			
Buildings and improvements	145,553,365	68,029,011	213,582,376
Equipment	6,431,032	2,177,062	8,608,094
Total	<u>151,984,397</u>	<u>70,206,073</u>	<u>222,190,470</u>
Accumulated depreciation:			
Buildings and improvements	(51,960,270)	(10,717,039)	(62,677,309)
Equipment	(4,721,856)	(819,228)	(5,541,084)
Total	<u>(56,682,126)</u>	<u>(11,536,267)</u>	<u>(68,218,393)</u>
Net depreciable	<u>95,302,271</u>	<u>58,669,806</u>	<u>153,972,077</u>
Net capital assets	<u>\$ 113,546,347</u>	<u>\$ 60,872,341</u>	<u>\$ 174,418,688</u>

Capital asset activity consisted of the following:

<u>Agency:</u>	<u>December 31,</u> <u>2015</u>	<u>Increases</u>	<u>Decreases</u>	<u>December 31,</u> <u>2016</u>
Non-depreciable:				
Land	\$ 16,945,577	\$ 1,290,324	\$ -	\$ 18,235,901
Construction in progress	93,678	8,175	(93,678)	8,175
Total	<u>17,039,255</u>	<u>1,298,499</u>	<u>(93,678)</u>	<u>18,244,076</u>
Depreciable:				
Buildings and improvements	145,046,123	507,242	-	145,553,365
Equipment	6,407,061	235,067	(211,096)	6,431,032
Total	<u>151,453,184</u>	<u>742,309</u>	<u>(211,096)</u>	<u>151,984,397</u>
Less: Accumulated depreciation:				
Buildings and improvements	(48,157,858)	(3,802,412)	-	(51,960,270)
Equipment	(4,237,502)	(695,450)	211,096	(4,721,856)
Total	<u>(52,395,360)</u>	<u>(4,497,862)</u>	<u>211,096</u>	<u>(56,682,126)</u>
Net depreciable	<u>99,057,824</u>	<u>(3,755,553)</u>	<u>-</u>	<u>95,302,271</u>
Total capital assets – net	<u>\$ 116,097,079</u>	<u>\$ (2,457,054)</u>	<u>\$ (93,678)</u>	<u>\$ 113,546,347</u>

(Continued)

INDIANAPOLIS HOUSING AGENCY
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 5 - CAPITAL ASSETS (Continued)

Insight:	December 31, <u>2015</u>	<u>Increases</u>	<u>Decreases</u>	December 31, <u>2016</u>
Non-depreciable:				
Land	\$ 2,149,790	\$ 6,280	\$ -	\$ 2,156,070
Construction in progress	<u>46,465</u>	<u>-</u>	<u>-</u>	<u>46,465</u>
Total	<u>2,196,255</u>	<u>6,280</u>	<u>-</u>	<u>2,202,535</u>
Depreciable:				
Buildings and improvements	67,175,794	853,217	-	68,029,011
Equipment	<u>2,153,044</u>	<u>24,018</u>	<u>-</u>	<u>2,177,062</u>
Total	69,328,838	877,235	-	70,206,073
Less: Accumulated depreciation				
Buildings and improvements	(8,775,781)	(1,941,258)	-	(10,717,039)
Equipment	<u>(469,366)</u>	<u>(349,862)</u>	<u>-</u>	<u>(819,228)</u>
Total	<u>(9,245,147)</u>	<u>(2,291,120)</u>	<u>-</u>	<u>(11,536,267)</u>
Net depreciable	<u>60,083,691</u>	<u>(1,413,885)</u>	<u>-</u>	<u>58,669,806</u>
Total capital assets – net	<u>\$ 62,279,946</u>	<u>\$ (1,407,605)</u>	<u>\$ -</u>	<u>\$ 60,872,341</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 \$2,058,869 at December 31, 2016 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 \$483,932 at December 31, 2016 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>2015</u>	<u>Increases</u>	<u>Decreases</u>	Balance December 31, <u>2016</u>	Amounts Due within <u>One Year</u>	Amounts Due <u>Thereafter</u>
Capital lease (Note 7)	\$ 99,719	\$ 41,203	\$ (99,719)	\$ 41,203	\$ 41,203	\$ -
Loans and interest payable (*)	7,124,912	2,014,790	(4,019,137)	5,120,565	2,014,791	3,105,774
Due to other governmental units (**)	1,519,536	1,880	-	1,521,416	64,554	1,456,862
Unearned revenues	2,771,042	4,089,490	(228,240)	6,632,292	4,089,490	2,542,802
FSS escrow (***)	1,400,594	479,188	(723,877)	1,155,905	312,971	842,934
Accrued compensated absences	<u>252,785</u>	<u>388,118</u>	<u>(405,543)</u>	<u>235,360</u>	<u>23,545</u>	<u>211,815</u>
	<u>\$ 13,168,588</u>	<u>\$ 7,014,669</u>	<u>\$ (5,476,516)</u>	<u>\$ 14,706,741</u>	<u>\$ 6,546,554</u>	<u>\$ 8,160,187</u>

(Continued)

INDIANAPOLIS HOUSING AGENCY
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 6 - NON-CURRENT LIABILITIES (Continued)

***Loans and Interest Payable:**

Agency loans payable consist of five zero interest loans at December 31, 2016 between three tax credit limited partnerships controlled by the Agency and Indiana Housing Community Development Agency (IHCDA) related to tax credit assistance program (TCAP) and Section 1602 tax credit exchange programs. One fifteenth of the principal balance of Section 1602 tax credit exchange program notes are forgiven each year as long as the Projects stay in compliance. The mortgages are secured by the buildings of the Projects located in Indianapolis, Indiana. Balances of TCAP and 1602 loans, including accrued interest, at December 31, 2016 were \$1,527,500 and \$2,491,414, 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 \$3,326 at December 31, 2016. The total balance outstanding at December 31, 2016 was \$1,101,651.

Scheduled maturities on loans and interest payable as of December 31, 2016 are as follows:

<u>Year Ended</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 1,983,909	\$ 30,882	\$ 2,014,791
2018	491,880	-	491,880
2019	500,147	-	500,147
2020	508,722	-	508,722
2021	459,347	-	459,347
Thereafter			
2022-2026	1,145,678	-	1,145,678
	\$ 5,089,683	\$ 30,882	\$ 5,120,565

****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 2015. In 2015, HUD amended the agreements and extended the due dates to 2025 and 2040, respectively. Future minimum payments on these repayment agreements as of December 31, 2016 are as follows:

<u>Year Ended</u>	
2017	\$ 64,554
2018	64,554
2019	64,554
2020	64,554
2021	64,554
Thereafter:	
2022-2026	367,287
2027-2031	545,360
2032-2036	545,360
2037-2040	436,283
Total future minimum payments	2,217,060
Less: amount representing present value discount	(695,644)
	\$ 1,521,416

(Continued)

INDIANAPOLIS HOUSING AGENCY
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 6 - NON-CURRENT LIABILITIES (Continued)

*****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, 2015	<u>Increases</u>	<u>Decreases</u>	Balance December 31, 2016	Amounts Due within One Year	Amounts Due Thereafter
Loans and interest payable (***)	\$24,260,018	\$13,062,913	\$(10,402,038)	\$26,920,893	\$ 814,879	\$26,106,014
Accrued compensated absences	<u>12,602</u>	<u>37,873</u>	<u>(28,814)</u>	<u>21,661</u>	<u>2,166</u>	<u>19,495</u>
	<u>\$24,272,620</u>	<u>\$13,100,786</u>	<u>\$(10,430,852)</u>	<u>\$26,942,554</u>	<u>\$ 817,045</u>	<u>\$26,125,509</u>

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

Insight loans payable consist of three loans at December 31, 2016:

- Insight entered into a loan with Local Initiatives Support Corporation (LISC) for \$50,000 with an interest rate of 0%. The principal balance is due in 2016. The loan is unsecured. The total balance outstanding at December 31, 2016 was \$50,000.
- IHA Housing Partners I, LP (an affiliate) entered into a loan with the Agency in the original amount of \$5,066,979. As of December 31, 2016, 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 \$2,174,174 at December 31, 2016. The total balance outstanding at December 31, 2016 was \$7,241,153.
- 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 \$151,319 at December 31, 2016. The total balance outstanding at December 31, 2016 was \$1,715,392.

(Continued)

INDIANAPOLIS HOUSING AGENCY
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 6 - NON-CURRENT LIABILITIES (Continued)

- 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, 2016 was \$4,720,014.
- 16 Park, LP entered into a loan with IHA for up to \$750,000 with a simple fixed interest rate of 5% per annum on the outstanding principal balance. No principal or interest payments are due until the maturity date of December 31, 2060. Accrued interest payable totaled \$72,991 at December 31, 2016. The balance outstanding at December 31, 2016 was \$822,991.
- 16 Park, LP entered into a loan with IHEDA for up to \$3,000,000 with a simple fixed interest rate of 1% per annum on the outstanding principal balance. Principal payments of \$91,367, to the extent of available cash flow start April 1, 2016 and continue to the maturity date of January 31, 2055. Accrued interest payable totaled \$15,135 at December 31, 2016. The balance outstanding at December 31, 2016 was \$3,011,095.
- 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, 2016 totaled \$71,454. The total outstanding balance at December 31, 2016 was \$471,454.
- During 2014, Millikan II, LLC entered into a construction loan with Merchants Bank for up to \$8,900,000. Effective September 1, 2016, the maturity date of the \$8,900,000 loan was extended to September 1, 2019 at an interest rate of 4%. The mortgage is secured by the apartment buildings of the Project located in Indianapolis, Indiana. Accrued interest payable at December 31, 2016 totaled \$30,526. The total outstanding balance at December 31, 2016 was \$8,888,794.

Scheduled maturities on loans and interest payable as of December 31, 2016 are as follows:

<u>Year Ended</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 675,303	\$ 139,576	\$ 814,879
2018	631,637	-	631,637
2019	9,017,334	-	9,017,334
2020	472,002	-	472,002
2021	472,002	-	472,002
Thereafter:			
2022-2026	2,355,964	-	2,355,964
2027-2031	-	-	-
2052-2056	9,631,052	2,270,766	11,901,818
2057-2061	750,000	33,801	783,801
2066-2067	<u>400,000</u>	<u>71,456</u>	<u>471,456</u>
	<u>\$ 24,405,294</u>	<u>\$ 2,515,599</u>	<u>\$ 26,920,893</u>

(Continued)

INDIANAPOLIS HOUSING AGENCY
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

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, 2016, the total capitalized cost of the equipment was \$131,645 and accumulated depreciation was \$103,435. The capital lease obligation was \$0 at December 31, 2016. Payments in 2016 totaled approximately \$4,765.

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, 2016, the total capitalized cost of the phone system was \$260,647 and accumulated depreciation was \$234,582. The capital lease obligation was \$41,203 at December 31, 2016. Payments in 2016 totaled approximately \$53,750.

Future minimum payments on the capital leases as of December 31, 2016 are as follows:

<u>Year Ended</u>	<u>Payment</u>
2017	\$ 41,634
Total future minimum payments	
Less: amounts representing interest	(431)
Present value of net minimum lease payments	<u>\$ 41,203</u>

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	\$ 287,088	\$ -	\$ -	\$ 633,788	(a)
Phase IIA-Perm A	5.36%	772,616	519,470	-	-	1,292,086	(a)
Phase IIA-Perm B	0.00%	3,103,412	-	(2,488,390)	-	615,022	(a)
Phase IIB-Perm A	5.25%	2,078,454	949,554	-	-	3,028,008	(a)
Phase IIB-Perm B	0.00%	2,009,814	-	(1,618,930)	-	390,884	(a)
Second Mortgages	0.00%	1,107,308	-	-	(1,107,308)	-	(g)
Georgetown IHA							
Partners II	4.90%	5,066,979	2,174,174	-	-	7,241,153	(b)
16 Park, LP – Capital	5.00%	1,564,073	151,319	-	-	1,715,392	(c)
16 Park, LP – RHF	5.00%	750,000	72,991	-	-	822,991	(k)
Trail Side	0.00%	1,650,987	-	(1,075,421)	-	575,566	(d)
St. Clair	0.00%	1,574,691	-	(1,243,708)	-	330,983	(e)
Tibbs I	0.00%	200,000	-	-	(200,000)	-	(f)
Tibbs II	5.74%	300,000	-	-	(300,000)	-	(f)
Penn Place, LP	5.00%	1,545,000	54,685	-	-	1,599,685	(j)
Barton Block	5.00%	400,000	71,454	-	-	471,454	(h)
		<u>\$ 22,470,034</u>	<u>\$ 4,280,735</u>	<u>\$ (6,426,449)</u>	<u>\$ (1,607,308)</u>	<u>\$ 18,717,012</u>	

At December 31, 2016, of these loan amounts, the Georgetown IHA Partners II, 16 Park, LP, and Barton Block, LP loans totaling \$10,250,990 are affiliate loans and the remainder are non-affiliate loans.

(Continued)

INDIANAPOLIS HOUSING AGENCY
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 8 - LOANS RECEIVABLE (Continued)

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	\$ -	\$ (183,431)	\$ -	\$ 116,569	(i)
Phase I –							
Insight (INHP)	0.00%	31,650	-	(19,351)	-	12,299	(i)
Phase IIA –							
Insight (AHP)	0.00%	318,000	-	(258,185)	-	59,815	(i)
Phase IIB –							
Insight (INHP)	0.00%	15,146	-	(12,298)	-	2,848	(i)
Phase IIB –							
Insight (AHP)	0.00%	<u>275,000</u>	<u>-</u>	<u>(224,183)</u>	<u>-</u>	<u>50,817</u>	<u>(i)</u>
		<u>\$ 939,796</u>	<u>\$ -</u>	<u>\$ (697,448)</u>	<u>\$ -</u>	<u>\$ 242,348</u>	

All Insight loans are non-affiliate loans at December 31, 2016.

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 \$4,203,676. 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 2008, the construction loan of \$1,000,000 was repaid.
 - During 2009, the Agency loaned HOPE VI money to BRINDY-I LP in the amount of \$5,088,267 due on December 31, 2049.
- (b) The Georgetown IHA Partners II: The Agency entered into an agreement with IHA Housing Partners II, LP (an affiliate) on January 15, 2009 for an original amount of \$5,066,979, of which all has been drawn as of December 31, 2009. Annual payments of interest shall be made in an amount equal to the lesser of all accrued and unpaid interest on the loan or the net available operating cash flow amount as defined in the partnership agreement. The loan is due on December 31, 2055.
- (c) 16 Park, LP: The Agency entered into a Capital funds loan with 16 Park, LP (an affiliate) for up to \$4,425,466 with a fixed interest rate of 5%, compounding annually. No principal or interest payments are due until the maturity date of December 31, 2060; however, during 2015 a payment of \$3,750,000 (including accrued interest) was received which reduced the outstanding principal balance to \$1,564,073. The mortgage is secured by the apartment buildings of the Project located in Indianapolis, Indiana.
- (d) Trail Side: The Agency entered into a non-interest bearing loan agreement for \$1,650,987 with Trail Side on Mass Ave., LP in 2011. No payments are due until the maturity date of September 1, 2042.

(Continued)

INDIANAPOLIS HOUSING AGENCY
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 8 - LOANS RECEIVABLE (Continued)

- (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, 2016, the Agency has not accrued any interest revenue on either loan due to uncertainty of collection.
- (g) Red Maple Grove Second Mortgages: From 2009 through 2014, the Agency entered into several second mortgage agreements with individuals to purchase low-income housing properties. These mortgages are subordinate to first mortgages and are not collateralized. These loans are expected to be forgiven over five years. Therefore, a provision for allowance has been recorded for the balance of the loans.
- (h) Barton Block: The Agency entered into a loan with Barton Block, LP (an affiliate) for up to \$400,000 with a simple fixed rate of 5% per annum. No principal or interest payments are due until the maturity date of December 31, 2067. The mortgage is secured by the apartment buildings of the Project located in Indianapolis, Indiana.
- (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 \$242,348. Activity included:
- \$300,000 and \$31,650 which are due upon demand or December 31, 2036
 - \$318,000 which is due upon demand or December 31, 2047
 - \$15,146 which is due upon demand or December 31, 2048
 - \$275,000 which is due upon demand or December 31, 2049
- (j) Penn Place, LP: The Agency entered into a loan agreement with Penn Place, LP for up to \$1,545,000 with a simple fixed rate of 5% per annum. The borrower is required to make a principal reduction payment of \$445,000 dollars two years from the effective date. Following this payment, all principal and interest payments will be paid annually with any unpaid amounts being due at the maturity date of December 31, 2054. The Agency plans on building 38 unit residential rental apartment complexes.
- (k) 16 Park, LP: The Agency entered into a loan with 16 Park, LP (an affiliate) for up to \$750,000 with a simple fixed rate of 5% per annum. No principal or interest payments are due until the maturity date of December 31, 2060.

(Continued)

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 2016 of \$855,062. The Agency has an investment of \$316,900 in the Group at December 31, 2016.

Management believes that the number of outstanding claims and potential claims outstanding do not materially affect the financial statements of the Agency. For the current year and prior two fiscal years, the amount of settlements did not exceed insurance coverage.

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 2016, the Agency paid \$1,231,728 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 2016, the Agency received no tax increment financing (TIF) for development projects.

NOTE 11 - PENSION PLAN

Plan Description: The Agency contributes to the Public Employees' Retirement Fund (PERF), which is administered by the Indiana Public Retirement System (INPRS). PERF is a cost-sharing, multiple-employer defined benefit plan based on 35 IAC 21-1-1, 35 IAC 21-1-2 and amended IC 5-10.2-2-11(b). PERF was established to provide retirement, disability, and survivor benefits to full-time employees of the State not covered by another plan, those political subdivisions that elect to participate in the retirement plan, and certain INPRS employees. Political subdivisions mean a county, city, town, township, political body corporate, public school corporation, public library, public utility of a county, city, town, township, and any department of, or associated with, a county, city, town, or township, which department receives revenue independently of, or in addition to, funds obtained from taxation. There are two (2) tiers to the PERF Plan. The first is the Public Employees' Defined Benefit Plan (PERF Hybrid Plan) and the second is the Public Employees' Annuity Savings Account Only Plan (PERF ASA Only Plan). Details of the PERF Hybrid Plan and PERF ASA Only Plan are described below.

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

(Continued)

INDIANAPOLIS HOUSING AGENCY
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 11 - PENSION PLAN (Continued)

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

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

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

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

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

(Continued)

INDIANAPOLIS HOUSING AGENCY
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 11 - PENSION PLAN (Continued)

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

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

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

The monthly pension benefits for members in pay status may be increased periodically as cost of living adjustments (COLA). Such increases are not guaranteed by statute and have historically been provided on an "ad hoc" basis and can only be granted by the Indiana General Assembly. There was no COLA for the year ended June 30, 2016; however, eligible members received a one-time check (a.k.a. 13th check) in September 2015. The amount of the one-time check ranged from \$150 to \$450, depending upon a member's years of service. The September 2014 one-time check was for a member who retired or was disabled on or before December 1, 2014, and who was entitled to receive a monthly benefit on July 1, 2015.

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

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

(Continued)

INDIANAPOLIS HOUSING AGENCY
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2016

NOTE 11 - PENSION PLAN (Continued)

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

During fiscal year 2016, all participating employers were required to contribute 11.2 percent of covered payroll for members employed by the State. For political subdivisions, an average contribution rate of 11.19 percent was required from employers during the period of July 1 – December 31, 2015, and an average contribution rate of 11.2 percent was required for the period of January 1 – June 30, 2016. For the PERF ASA Only Plan, all participating employers were also required to contribute 11.2 percent of covered payroll. In accordance to IC 5-10.3-12-24, the amount credited from the employer's contribution rate to the member's account shall not be less than 3 percent and not be greater than the normal cost of the fund which was 4.6 percent for fiscal year 2016, and any amount not credited to the member's account shall be applied to the pooled assets of the PERF Hybrid Plan.

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

The contribution requirement, which was made by the Agency, was \$603,028 for 2016. These total contributions represent 11.1% of covered payroll for 2016.

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

<u>Year Ended</u> <u>December 31</u>	<u>Annual Required</u> <u>Contribution</u>	<u>Percentage</u> <u>Contributed</u>
2016	\$ 603,028	100%
2015	598,945	100%

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

(Continued)

INDIANAPOLIS HOUSING AGENCY
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 11 - PENSION PLAN (Continued)

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuations are presented below:

- Asset valuation date June 30, 2016
- Liability valuation date June 30, 2015 – Member census data as of June 30, 2015 was used in the valuation and adjusted, where appropriate, to reflect changes between June 30, 2015 and June 30, 2016. Standard actuarial rollforward techniques were then used to project the total pension liability computed as of June 30, 2015 to the June 30, 2016 measurement date.
- Experience study date Period of 4 years ended June 30, 2014
- Actuarial cost method Entry age normal (level percent of payroll)
- Investment rate of return 6.75%
- COLA 1.00%
- Future salary increases 2.50% - 4.25% (including inflation)
- Inflation 2.25%
- Mortality RP-2014 Total Data Set Mortality Tables, with Social Security generational improvements from 2006 based on the Social Security Administration's 2014 Trustee Report

There were no changes in actuarial assumptions or plan pensions for the June 30, 2016 fiscal year. The INPRS Board approved the following changes in actuarial methods effective for June 30, 2016:

- For funding purposes and when the plan is below 100% funded, gains and losses occurring from census experience different than assumed, assumption changes, and benefit changes will be amortized over a 20-year period with level payments each year, rather than a 30-year period.
- For the funding purposes, the smoothing period of investment gains and losses in the development of the Actuarial Value of Assets was increased from four years to five years at June 30, 2016.

The most recent assumption study was performed in April 2015 resulting in an update to the following assumptions:

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

(Continued)

INDIANAPOLIS HOUSING AGENCY
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 11 - PENSION PLAN (Continued)

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

<u>Asset Class</u>	<u>Target Allocation %</u>	<u>Geometric Basis Long-Term Expected Real Rate of Return</u>
Public equity	22.0%	5.7%
Private equity	10.0	6.2
Fixed income – ex inflation - linked	24.0	2.7
Fixed income – inflation - linked	7.0	0.7
Commodities	8.0	2.0
Real estate	7.0	2.7
Absolute return	10.0	4.0
Risk parity	<u>12.0</u>	5.0
Total	<u>100.0%</u>	

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

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

	1% Decrease <u>(5.75%)</u>	Current Rate <u>(6.75%)</u>	1% Increase <u>(7.75%)</u>
Proportionate share of the Collective Net Pension Liability	\$ 7,349,362	\$ 5,117,096	\$ 3,261,746

(Continued)

INDIANAPOLIS HOUSING AGENCY
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 11 - PENSION PLAN (Continued)

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

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

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

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

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

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

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

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

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: At December 31, 2016, the Agency reported a liability of \$5,117,096 for its proportionate share of the net pension liability. The Agency's proportionate share of the net pension liability was based on the Agency's wages as a proportion of total wages for the PERF Hybrid Plan. The proportionate share used at the June 30, 2016 measurement date was 0.0011275, which compared to 0.0010735 at June 30, 2015, an increase of 5%. Management is not aware of any significant changes to its proportionate share since the measurement date.

(Continued)

INDIANAPOLIS HOUSING AGENCY
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE 11 - PENSION PLAN (Continued)

For the year ended December 31, 2016, the Agency recognized pension expense of \$987,536, which included net amortization of deferred amounts from changes in proportion and differences between employer contributions and proportionate share of contributions of \$20,470.

At December 31, 2016, the Agency reported deferred outflows of resources and deferred inflows of resources related to the PERF Hybrid Plan from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 114,642	\$ 9,444
Net difference between projected and actual earnings on pension plan investments	837,565	-
Changes in assumptions	225,770	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	<u>214,011</u>	<u>172,351</u>
Total that will be recognized in pension expense (income) based on table below	1,391,988	181,795
Pension contributions subsequent to measurement date	<u>335,707</u>	<u>-</u>
Total	<u>\$ 1,727,695</u>	<u>\$ 181,795</u>

Deferred outflows of resources resulting from employer contributions subsequent to the June 30, 2016 measurement date is recognized as a reduction of net pension liability in the year ending December 31, 2017. Deferred inflows of resources resulting from the differences between projected and actual investment earnings on Plan investments are amortized over a 5 year period. A change in an employer's proportionate share represents the change as of the current year measurement date versus the prior year measurement date, and is amortized over the average expected remaining service lives of the plan. The difference between an employer's contributions and the employer's proportionate share of the collective contributions is amortized over the average expected remaining service lives of the plan. Amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2017	\$ 445,632
2018	294,746
2019	333,624
2020	<u>136,189</u>
Total	<u>\$ 1,210,191</u>

(Continued)

INDIANAPOLIS HOUSING AGENCY
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

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, 2016.

	Agency	L and R Housing, LP	TH and B, LP	B and H Housing, LP	Lugar, LP	Eliminations	Combined
ASSETS							
Other current assets	\$ 48,747,573	\$ 2,217,609	\$ 3,772,529	\$ 4,316,876	\$ 1,800,772	\$ (36,007,033)	\$ 24,848,326
Due (to)/from	168,829	(10,134)	(16,492)	(1,886)	(44,134)	-	96,183
Total current assets	<u>48,916,402</u>	<u>2,207,475</u>	<u>3,756,037</u>	<u>4,314,990</u>	<u>1,756,638</u>	<u>(36,007,033)</u>	<u>24,944,509</u>
Capital assets (net)	42,435,185	13,632,818	16,035,387	17,368,179	24,074,778	-	113,546,347
Other noncurrent assets	18,588,912	634,941	681,282	429,471	486,130	(2,231,824)	18,588,912
Total noncurrent assets	<u>61,024,097</u>	<u>14,267,759</u>	<u>16,716,669</u>	<u>17,797,650</u>	<u>24,560,908</u>	<u>(2,231,824)</u>	<u>132,135,259</u>
Total assets	<u>109,940,499</u>	<u>16,475,234</u>	<u>20,472,706</u>	<u>22,112,640</u>	<u>26,317,546</u>	<u>(38,238,857)</u>	<u>157,079,768</u>
DEFERRED OUTFLOWS OF RESOURCES							
Deferred outflows from pension	1,727,695	-	-	-	-	-	1,727,695
Total assets and deferred outflows of resources	<u>\$ 111,668,194</u>	<u>\$ 16,475,234</u>	<u>\$ 20,472,706</u>	<u>\$ 22,112,640</u>	<u>\$ 26,317,546</u>	<u>\$ (38,238,857)</u>	<u>\$ 158,807,463</u>
LIABILITIES							
Current liabilities	\$ 5,856,944	\$ 1,000,498	\$ 956,407	\$ 151,516	\$ 231,969	\$ (43,091)	\$ 8,154,243
Noncurrent liabilities	13,019,588	9,973,701	10,273,881	9,997,206	8,208,673	(38,195,766)	13,277,283
Total liabilities	<u>18,876,532</u>	<u>10,974,199</u>	<u>11,230,288</u>	<u>10,148,722</u>	<u>8,440,642</u>	<u>(38,238,857)</u>	<u>21,431,526</u>
DEFERRED INFLOWS OF RESOURCES							
Deferred inflows from pension	181,795	-	-	-	-	-	181,795
NET POSITION							
Net investment in capital assets	70,176,547	-	-	-	-	38,238,857	108,415,404
Restricted for Section 8 vouchers and VASH	768,742	-	-	-	-	-	768,742
Unrestricted	21,664,578	5,501,035	9,242,418	11,963,918	17,876,904	(38,238,857)	28,009,996
Total net position	<u>92,609,867</u>	<u>5,501,035</u>	<u>9,242,418</u>	<u>11,963,918</u>	<u>17,876,904</u>	<u>-</u>	<u>137,194,142</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 111,668,194</u>	<u>\$ 16,475,234</u>	<u>\$ 20,472,706</u>	<u>\$ 22,112,640</u>	<u>\$ 26,317,546</u>	<u>\$ (38,238,857)</u>	<u>\$ 158,807,463</u>

The following summarizes the combining information for the statements of revenues, expenses, and changes in net position for the year ended December 31, 2016.

	Agency	L and R Housing, LP	TH and B, LP	B and H Housing, LP	Lugar, LP	Eliminations	Combined
Operating revenue	\$ 2,927,462	\$ 1,552,201	\$ 1,867,339	\$ 2,014,059	\$ 1,413,983	\$ (4,545,730)	\$ 5,229,314
Operating expenses	58,978,226	1,321,908	1,474,081	1,641,953	1,158,616	(4,545,730)	60,029,054
Depreciation expense	2,270,013	444,822	521,619	527,100	734,308	-	4,497,862
Total operating expenses	<u>61,248,239</u>	<u>1,766,730</u>	<u>1,995,700</u>	<u>2,169,053</u>	<u>1,892,924</u>	<u>(4,545,730)</u>	<u>64,526,916</u>
Operating loss	(58,320,777)	(214,529)	(128,361)	(154,994)	(478,941)	-	(59,297,602)
Intergovernmental grants	53,890,251	2,634	3,815	-	94,000	-	53,990,700
Other non-operating revenues (expenses)	2,210,434	(145,165)	(70,468)	(139,889)	(324,155)	-	1,530,757
Total non-operating revenues (expenses)	<u>56,100,685</u>	<u>(142,531)</u>	<u>(66,653)</u>	<u>(139,889)</u>	<u>(230,155)</u>	<u>-</u>	<u>55,521,457</u>
Loss before capital contributions	(2,220,092)	(357,060)	(195,014)	(294,883)	(709,096)	-	(3,776,145)
Capital grants and contributions	2,856,185	780,000	780,000	-	-	-	4,416,185
Change in net position	636,093	422,940	584,986	(294,883)	(709,096)	-	640,040
Net position, beginning of year	91,973,774	5,078,095	8,657,432	12,258,801	18,586,000	-	136,554,102
Net position, end of year	<u>\$ 92,609,867</u>	<u>\$ 5,501,035</u>	<u>\$ 9,242,418</u>	<u>\$ 11,963,918</u>	<u>\$ 17,876,904</u>	<u>\$ -</u>	<u>\$ 137,194,142</u>

(Continued)

NOTE 13 - CONTINGENCIES AND COMMITMENTS

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

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

REQUIRED SUPPLEMENTARY INFORMATION

INDIANAPOLIS HOUSING AGENCY
 SCHEDULE OF THE AGENCY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
 December 31, 2016

	<u>2016</u>	<u>2015</u>
Agency's proportion of the net pension liability	0.0011275	0.0010735
Agency's proportionate share of the net pension liability	\$ 5,117,096	\$ 4,372,261
Agency's covered-employee payroll	\$ 5,403,647	\$ 5,131,057
Agency's proportionate share of the net pension liability as a percentage of its covered-employee payroll	94.70%	85.21%
Plan fiduciary net position as a percentage of the total pension liability	75.30%	77.30%

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

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

* The amounts presented for each calendar year were determined as of the June 30 fiscal year-end that occurred within the calendar year. The most recent comprehensive experience study was performed in April 2015 and was based on member experience between June 30, 2010 and June 30, 2014.

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

INDIANAPOLIS HOUSING AGENCY
SCHEDULE OF THE AGENCY'S CONTRIBUTIONS
December 31, 2016

	<u>2016</u>	<u>2015</u>
Statutorily required contribution	\$ 603,028	598,945
Contributions in relation to the statutorily required contribution	<u>(603,028)</u>	<u>(598,945)</u>
Annual contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Agency's contributions as a percentage of statutorily required contribution for pension	100%	100%
Agency's covered-employee payroll	\$ 5,384,179	\$ 5,347,719
Contributions as a percentage of covered-employee payroll	11.20%	11.20%

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

Valuation date: June 30, 2016

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

Amortization method: Level dollar

Remaining amortization period: 30 years, closed

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

Inflation: 2.25%

Salary increases: 2.50% - 4.25%

Investment rate of return: 6.75%

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

Other information:

The INPRS Board sets, at its discretion, the State's employer contribution rate upon considering the results of the actuarial valuation and other analysis as appropriate. The actuarially determined contribution rate for the State for the fiscal year ended 6/30/15 was 9.88%; however, the INPRS Board approved a State employer contribution rate of 11.20%. The actuarially determined contribution rate for the State for the fiscal year ended 6/30/16 was 9.96%; however, the INPRS Board approved the State employer contribution rate of 11.20%. The actual dollar amount of the State's contributions depends on the actual payroll for the fiscal year.

Member census data as of June 30, 2014 was used in the valuation and adjusted, where appropriate, to reflect changes between June 30, 2014 and June 30, 2016. Standard actuarial roll forward techniques were then used to project the liabilities computed as of June 30, 2014 to June 30, 2016. Prior to the June 30, 2014 valuation, census data as of the valuation date was used.

SUPPLEMENTARY INFORMATION

INDIANAPOLIS HOUSING AGENCY
 SCHEDULE OF EXPENDITURES OF FEDERAL, STATE, AND LOCAL AWARDS
 Year ended December 31, 2016

Federal Grantor/Pass-Through Grantor /Program Title	CFDA Number	Total Federal Expenditures	Total Paid to Subrecipients
Department of Housing and Urban Development			
Housing Voucher Cluster			
Section 8 Housing Choice Vouchers	14.871	\$ 46,915,541	\$ -
Public and Indian Housing	14.850	6,799,903	-
Resident Opportunity and Supportive Services	14.870	220,636	-
Public Housing Capital Fund	14.872	<u>2,812,290</u>	<u>-</u>
Total Department of Housing and Urban Development		56,748,370	-
Department of Justice			
Public Safety Partnership & Community Policing Grants	16.710	<u>54,620</u>	<u>-</u>
Total Federal Expenditures		<u>\$ 56,802,990</u>	<u>\$ -</u>

The Agency did not receive any funding from state or local governmental sources for the year ended December 31, 2016.

The accompanying notes are an integral part of the Schedule of Expenditures of Federal, State, and Local Awards.

INDIANAPOLIS HOUSING AGENCY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL, STATE, AND LOCAL AWARDS
December 31, 2016

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

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

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

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

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

Board of Commissioners
Indianapolis Housing Agency
Indianapolis, Indiana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and the discretely presented component unit of the Indianapolis Housing Agency (the Agency), a component unit of the City of Indianapolis, Indiana, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements and have issued our report thereon dated June 16, 2017. Our report includes a reference to other auditors who audited the financial statements of 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 as described in our report on the Agency's financial statements. The financial statements of these Limited Partnership blended component units were not audited in accordance with *Government Auditing Standards*.

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.

(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
June 16, 2017

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

Board of Commissioners
Indianapolis Housing Agency
Indianapolis, Indiana

Report on Compliance for Each Major Federal Program

We have audited the Indianapolis Housing Agency's (the Agency) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Agency's major federal programs for the year ended December 31, 2016. 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Agency's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Agency's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Agency's compliance.

Opinion on Each Major Federal Program

In our opinion, the Agency complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2016.

(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 the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Crowe Horwath LLP

Crowe Horwath LLP

Indianapolis, Indiana
June 16, 2017

INDIANAPOLIS HOUSING AGENCY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
December 31, 2016

SECTION 1 - SUMMARY OF AUDITORS' RESULTS

Financial Statements:

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

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

_____ Yes X No

Significant deficiency(ies) identified?

_____ Yes X None reported

Noncompliance material to financial statements noted?

_____ Yes X No

Federal Awards:

Internal Control over major programs:

Material weakness(es) identified?

_____ Yes X No

Significant deficiency(ies) identified?

_____ Yes X None reported

Type of auditor's report issued on compliance for major programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

_____ Yes X 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:

 \$ 1,704,090

Auditee qualified as low-risk auditee?

 X Yes _____ No

(Continued)

INDIANAPOLIS HOUSING AGENCY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
December 31, 2016

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

None

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

None

INDIANAPOLIS HOUSING AGENCY
PRIOR YEAR FINDINGS AND QUESTIONED COSTS
December 31, 2016

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

Compliance Requirement: Eligibility and Special Tests

Condition: In 2015, during our testing of 60 participants who received assistance through the PIH program, we noted missing documentation related to the determination and verification of participant eligibility in the participant's file. During our testing of eligibility, documentation significant for the verification of eligibility requirements was missing or incomplete in 12 of the 60 files examined.

Status: Corrected. In performing tenant file testing for a sample of 60 participants, improved documentation was noted at a level adequate to determine eligibility for those selected at a rate deemed satisfactory to remove this finding.

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

Compliance Requirement: Eligibility and Special Tests

Condition: In 2015, during our testing of 60 participants who received assistance through the Section 8 Housing Choice Vouchers program, we noted missing documentation related to the determination and verification of participant eligibility in the participant's file. During our testing of eligibility, documentation significant for verification of eligibility requirements was missing or incomplete in 8 of the 60 files examined.

Status: Corrected. In performing tenant file testing for a sample of 60 participants, improved documentation was noted at a level adequate to determine eligibility for those selected at a rate deemed satisfactory to remove this finding.

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

Compliance Requirement: Reporting

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

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

Status: An updated Financial Management Review was conducted as of December 31, 2016 and determined that the cumulative UNP balance had been reduced to negative \$1.6 million through actions taken by the Agency to reduce the balance. As a result of the update from the HUD QAD, it was determined that this matter represents an instance of noncompliance and deficiency in internal control in a prior year, thus this was not repeated as a finding.