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July 12, 2018

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, 2017 to December 31, 2017. 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, 2017 and the results of its operations for the period then ended, on the basis of accounting described in the report.

We call your attention to the finding in the report on page 43. Please see the Schedule of Findings and Questioned Costs as listed in the table of contents for complete details related to the finding. The Agency's planned corrective action is included in the Management's Response section of the finding.

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, 2017

INDIANAPOLIS HOUSING AGENCY

Indianapolis, Indiana

FINANCIAL STATEMENTS

December 31, 2017

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INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Indianapolis Housing Agency
Indianapolis, Indiana

Report on the Financial Statements

We have audited the accompanying financial statements of the Indianapolis Housing Agency (the Agency), a component unit of the City of Indianapolis, Indiana, as of and for the year ended December 31, 2017, 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 an opinion 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 52 percent of total assets at December 31, 2017, and total revenues constituting 16 percent of total revenues for the year then ended. 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 opinion.

(Continued)

Opinion

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 financial position of the Indianapolis Housing Agency, as of December 31, 2017, and the changes in its financial position and its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, during the year ended December 31, 2017, the Agency adopted new accounting guidance, GASB Statement No. 80, *Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 7, the schedule of the Agency's proportionate share of the net pension liability on page 34 and the schedule of the Agency's contributions on page 35 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 expenditures 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 22, 2018 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 22, 2018

INDIANAPOLIS HOUSING AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2017

This section of the Indianapolis Housing Agency's (Agency's) annual financial statements presents a discussion and analysis of the Agency's financial performance for the year ended December 31, 2017. The Agency in this section refers to the Indianapolis Housing Agency and Insight Development Corporation (Insight). Please read it in conjunction with the Agency's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- **Cash:** Total cash decreased by \$2.0 million or 7.7 percent from 2016 to 2017. This was primarily due to the receipt of approximately \$4.0 million of Department of Housing and Urban Development (HUD) 2017 operating subsidy in 2016, which caused cash to be higher at December 31, 2016.
- **Unearned revenue (current):** Total unearned revenue (current) decreased by \$4.0 million from 2016 to 2017 due to the receipt of approximately \$4.0 million of 2017 HUD operating subsidy in 2016 above. In 2017, the 2018 HUD operating subsidy was not received until 2018.
- **Loans payable (current):** Loans payable (current) decreased by \$2.6 million, or 12 percent, from 2016 to 2017. This is primarily due to payments on tax credit assistance program (TCAP) loans of \$1.5 million and forgiveness of tax credit exchange program (TCE) loans of \$0.7 million held with the Indiana Housing & Community Development Authority.

OTHER HIGHLIGHTS

- During 2017, pursuant to the Agency's adoption of the Government Accounting Standards Board (GASB) Statement No. 80, Insight is now reflected in the financial reporting entity as a blended component unit due to being incorporated as a not-for-profit corporation in which the Agency is the sole corporate member.
- During 2017, the Agency converted certain properties to Rental Assistance Demonstration (RAD), a voluntary program of HUD. This resulted in an increase of Section 8 revenue for the converted properties due to the combination of operating subsidy and capital funds in 2017. In 2018, RAD contracts are expected to increase 2% for proration factors.
- Total operating revenue for all programs, net of interfund eliminations, was approximately \$68.6 million for the year. Tenant rental revenue generated approximately \$6.2 million and HUD operating subsidy and grants provided approximately \$62.4 million.
- Total operating expenses for all programs, net of interfund eliminations, was approximately \$75 million. Housing assistance payments to landlords on behalf of tenants represented approximately \$48.3 million, while administrative expenses represented approximately \$9.9 million, maintenance expenses represented approximately \$4.1 million, depreciation expense represented approximately \$6.6 million and tenant services expenses represented \$0.6 million as other significant expense categories.
- The assets of the Housing Agency exceeded its liabilities at the close of the year by \$174.9 million. Of that amount, \$12.4 million was considered unrestricted and \$15 million was restricted with the remaining balance of \$147.5 million representing net investment in capital assets.
- The Agency's total net position decreased by \$3.5 million (Table 2) as a result of current year activities.

(Continued)

INDIANAPOLIS HOUSING AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2017

OVERVIEW OF THE FINANCIAL STATEMENTS

The Agency'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 Statement of Revenues, Expenses, and Changes in Net Position.

All assets and liabilities associated with the operation of the Agency are included in the Statement 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 total assets and deferred outflows of resources reached \$204.6 million at December 31, 2017. This represents a decrease of 5 percent from the prior year. Total liabilities and deferred inflows of resources amounted to \$29.7 million, representing a decrease of 19 percent, and total net position was \$174.9 million, representing a decrease of 2 percent (See Table 1).

Table 1
Net Position – Agency and Insight

	<u>2017</u>	<u>2016</u>	<u>\$</u> <u>Change</u>	<u>%</u> <u>Change</u>
Assets and Deferred Outflows of Resources				
Current assets	\$ 27,440,488	\$ 30,469,492	(3,029,004)	(10)%
Capital assets (net)	166,677,847	174,418,688	(7,740,841)	(4)
Other non-current assets	8,967,397	8,653,133	314,264	4
Deferred outflows of resources	<u>1,236,884</u>	<u>1,727,695</u>	<u>(490,811)</u>	<u>(28)</u>
Total assets and deferred outflows of resources	<u>\$ 204,322,616</u>	<u>\$ 215,269,008</u>	<u>\$ (10,946,392)</u>	<u>(5)%</u>
Liabilities and Deferred Inflows of Resources				
Current liabilities	\$ 3,779,722	\$ 9,957,435	\$ (6,177,713)	(62)%
Non-current liabilities	25,519,934	26,681,864	(1,161,930)	(4)
Deferred inflows of resources	<u>74,690</u>	<u>181,795</u>	<u>(107,105)</u>	<u>(59)</u>
Total liabilities and deferred inflows of resources	<u>29,374,346</u>	<u>36,821,094</u>	<u>(7,446,748)</u>	<u>(20)</u>
Net position				
Net investment in capital assets	147,546,051	144,882,451	2,663,600	2
Restricted for Section 8 vouchers and VASH	401,309	768,742	(367,433)	(48)
Restricted for reserves and escrow	11,652,612	11,675,139	(22,527)	0
Restricted for programs	2,955,945	2,803,317	152,628	5
Unrestricted	<u>12,392,353</u>	<u>18,318,265</u>	<u>(5,925,912)</u>	<u>(32)</u>
Total net position	<u>174,948,270</u>	<u>178,447,914</u>	<u>(3,499,644)</u>	<u>(2)</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 204,322,616</u>	<u>\$ 215,269,008</u>	<u>\$ (10,946,392)</u>	<u>(5)%</u>

(Continued)

INDIANAPOLIS HOUSING AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2017

Changes in Net Position

The Agency's and Insight's net position at December 31, 2017 decreased 2 percent over the prior year. The Agency's and Insight's total operating revenues increased 11 percent. Total operating expenses increased 7 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>2017</u>	<u>2016</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
Operating revenues				
Tenant revenue	\$ 6,247,074	\$ 5,899,691	\$ 347,383	6%
Other income	<u>2,403,211</u>	<u>1,918,703</u>	<u>484,508</u>	<u>25</u>
Total operating revenues	<u>8,650,285</u>	<u>7,818,394</u>	<u>831,891</u>	<u>11</u>
Operating expenses				
Operating expenses	68,366,609	63,425,007	4,941,602	8
Depreciation	<u>6,622,084</u>	<u>6,788,982</u>	<u>(166,898)</u>	<u>(2)</u>
Total operating expenses	<u>74,988,693</u>	<u>70,213,989</u>	<u>4,774,704</u>	<u>7</u>
Operating loss	(66,338,408)	(62,395,595)	(3,942,813)	(6)
Non-operating revenues (expenses) and capital grants and contributions				
Intergovernmental	60,347,947	55,007,868	5,340,079	10
Interest income from investments	83,130	109,725	(26,594)	(24)
Interest income from loans	404,082	336,325	67,757	20
Interest expense	(487,671)	(443,895)	(43,776)	10
(Loss) gain on disposition of assets	(2,219,884)	150	(2,219,734)	(100)
Other revenue	1,565,974	1,265,004	300,970	24
HUD capital grants	1,615,186	2,812,290	(1,197,104)	(43)
Other capital contributions	<u>1,530,000</u>	<u>1,495,000</u>	<u>35,000</u>	<u>2</u>
	<u>62,838,764</u>	<u>60,582,467</u>	<u>2,256,297</u>	<u>4</u>
Change in net position	(3,499,644)	(1,813,128)	(1,686,516)	(93)
Net position, beginning of year	<u>178,447,914</u>	<u>180,261,042</u>	<u>(1,813,128)</u>	<u>(1)</u>
Total net position, end of year	<u>174,948,270</u>	<u>\$ 178,447,914</u>	<u>\$ (3,499,644)</u>	<u>(2)%</u>

(Continued)

INDIANAPOLIS HOUSING AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2017

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

	<u>2017</u>	<u>2016</u>	<u>Dollar</u> <u>Change</u>	<u>Percentage</u> <u>Change</u>
Administration	\$ 9,900,001	\$ 10,222,241	\$ (322,240)	(3)%
Tenant services	594,317	650,190	(55,873)	(9)
Utilities	2,411,846	2,400,679	11,167	0
Maintenance	4,104,330	3,453,033	651,297	19
Protective services	711,018	865,125	(154,107)	(18)
Insurance premiums	919,326	925,098	(5,772)	(1)
General	934,641	1,899,447	(964,806)	(51)
Pension expense	442,885	330,068	112,817	34
Housing assistance payments	48,348,245	42,679,126	5,669,119	13
Depreciation	<u>6,622,084</u>	<u>6,788,982</u>	<u>(166,898)</u>	<u>(2)</u>
Total operating expenses	<u>\$ 74,988,693</u>	<u>\$ 70,213,989</u>	<u>\$ 4,774,704</u>	<u>7%</u>

Table 4
Budget Analysis
(Financial Statement Presentation
excluding depreciation and pension)

	<u>2017</u> <u>Budget</u>	<u>2017</u> <u>Actual</u>	<u>Dollar</u> <u>Variance</u>	<u>Percentage</u> <u>Variance</u>
Administration	\$ 10,526,368	\$ 9,900,001	\$ 626,367	6%
Tenant services	418,629	594,317	(175,688)	(30)
Utilities	1,597,060	2,411,846	(814,786)	(34)
Maintenance	4,105,073	4,104,330	743	0
Protective services	283,908	711,018	(427,110)	(60)
Insurance premium	581,564	919,326	(337,762)	(37)
General	1,680,493	934,641	745,852	80
Housing assistance payments	<u>43,982,510</u>	<u>48,348,245</u>	<u>(4,365,735)</u>	<u>(9)</u>
Total operating expenses	<u>\$ 63,175,605</u>	<u>\$ 67,923,724</u>	<u>\$ (4,748,119)</u>	<u>(7)%</u>

(Continued)

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of December 31, 2017, the Agency and Insight had \$166.7 million in capital assets, net of accumulated depreciation. As of December 31, 2016, the Agency and Insight had \$174.4 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 \$7.7 million as shown in Note 5 of the financial statements. This total decrease includes a net decrease in capital assets of IHA of \$5.8 million and a net decrease in capital assets of Insight of \$1.9 million.

Debt Administration

The Agency has long term obligations with various terms and conditions. Disclosures related to debt obligations are included in the basic financial disclosures in Note 5.

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
- RAD conversion and impact on grant funding

INDIANAPOLIS HOUSING AGENCY
STATEMENT OF NET POSITION
December 31, 2017

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

Current assets

Cash and cash equivalents:

Cash - unrestricted (Note 2)	\$ 8,975,210
Cash - restricted (Notes 2 & 3)	15,560,229

Receivables:

Due from HUD	237,393
Accounts receivable - miscellaneous	324,527
Accounts receivable - tenants, net (Note 1)	329,003

Investments:

Investments - restricted (Note 2 & 3)	984,932
Loans receivable and accrued interest, net (Note 6)	245,000
Prepaid expense and other assets	<u>784,194</u>

Total current assets	27,440,488
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Noncurrent assets

Capital assets (Note 4):

Non-depreciable property	20,927,235
Depreciable property	218,078,959
Accumulated depreciation	<u>(72,328,347)</u>
Net capital assets	166,677,847

Loans receivable and accrued interest, net (Note 6)	8,650,498
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Other assets (Note 7)	<u>316,899</u>
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Total non - current assets	<u>175,645,244</u>
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Total assets	203,085,732
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Deferred outflows of resources

Pension (Note 9)	<u>1,236,884</u>
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Total assets and deferred outflows of resources	<u>\$ 204,322,616</u>
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(Continued)

INDIANAPOLIS HOUSING AGENCY
STATEMENT OF NET POSITION
December 31, 2017

**LIABILITIES, DEFERRED INFLOWS OF
RESOURCES AND NET POSITION**

Current liabilities

Accounts payable and accrued expenses:	
Vendors and contractors	\$ 884,573
Accrued salaries and benefits payable	144,514
Accrued compensated absences (Note 5)	28,024
Due to other governmental units (Note 5)	64,554
Tenant security deposits	274,032
Unearned revenues	178,661
Loans and interest payable (Note 5)	1,204,042
Other liabilities – FSS Escrow (Note 5)	420,721
Other accrued liabilities – miscellaneous	<u>580,601</u>
 Total current liabilities	 3,779,722

Non-current liabilities

Loans and interest payable (Note 5)	17,927,754
Other liabilities:	
Due to other governmental units (Note 5)	1,458,743
FSS Escrow (Note 5)	704,934
Accrued compensated absences (Note 5)	252,219
Net pension liability (Note 9)	<u>5,176,284</u>
 Total non-current liabilities	 <u>25,519,934</u>

Total liabilities 29,299,656

Deferred inflows of resources

Pension (Note 9)	74,690
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Net position

Net investment in capital assets	147,546,051
Restricted:	
Section 8 vouchers and VASH	401,309
Reserves and escrow (Note 3)	11,652,612
Programs (Note 3)	2,955,945
Unrestricted	<u>12,392,353</u>
 Total net position	 <u>174,948,270</u>

Total liabilities, deferred inflows of resources
and net position

\$ 204,322,616

See accompanying notes to financial statements.

INDIANAPOLIS HOUSING AGENCY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
Year ended December 31, 2017

Operating revenues	
Tenant revenue	\$ 6,247,074
Other income	<u>2,403,211</u>
Total operating revenues	8,650,285
Operating expenses	
Administration	9,900,001
Tenant services	594,317
Utilities	2,411,846
Maintenance	4,104,330
Protective services	711,018
Insurance premiums	919,326
General	934,641
Housing assistance payments	48,348,245
Pension expense related to actuarial assumptions	442,885
Depreciation	<u>6,622,084</u>
Total operating expenses	<u>74,988,693</u>
Operating loss	(66,338,408)
Non-operating revenues (expenses)	
Intergovernmental grants	60,347,947
Interest income from investments	83,130
Interest income from loans	404,082
Interest expense	(487,671)
Other revenue	1,565,973
Loss on disposition of assets	<u>(2,219,883)</u>
Total non-operating revenues (expenses)	<u>59,693,578</u>
Loss before capital grants and contributions	(6,644,830)
Capital grants and contributions	
HUD capital grants	1,615,186
Other capital contributions	<u>1,530,000</u>
Total capital grants and contributions	<u>3,145,186</u>
Change in net position	(3,499,644)
Net position, beginning of year, as restated	<u>178,447,914</u>
Net position, end of year	<u>\$ 174,948,270</u>

See accompanying notes to financial statements.

INDIANAPOLIS HOUSING AGENCY
STATEMENT OF CASH FLOWS
Year ended December 31, 2017

Cash flows from operating activities	
Rental receipts	\$ 6,313,876
Other operating receipts	2,127,938
Payments for personnel – salaries and benefits	(5,880,433)
Payments for other operating activities	(14,163,705)
Housing assistance payments	(48,348,245)
Tenant security and other deposits	(21,589)
Net cash from operating activities	<u>(59,972,158)</u>
Cash flows from non-capital financing activities	
Intergovernmental revenues received	<u>56,126,089</u>
Net cash from non-capital financing activities	56,126,089
Cash flows from capital and related financing activities	
Capital asset purchases	(1,101,126)
Non-operating receipts, net	824,836
Proceeds from issuance of loan	50,000
Interest paid on loans	(537,733)
Principal payments on loans	(1,944,445)
Capital contributions	<u>3,145,186</u>
Net cash from capital and related financing activities	436,718
Cash flows from investing activities	
Proceeds from sale of investments	988,112
Payments received from loans receivable	200,000
Interest on cash, investments and loans	<u>172,948</u>
Net cash from investing activities	<u>1,361,060</u>
Net change in cash and cash equivalents	(2,048,291)
Cash and cash equivalents, beginning	<u>26,583,730</u>
Cash and cash equivalents, ending	<u>\$ 24,535,439</u>
Reconciliation of operating loss to net cash from operating activities:	
Operating loss	\$ (66,338,408)
Adjustments to reconcile operating loss to net cash from operating activities:	
Depreciation expense	6,622,084
Bad debt expense	341,154
Change in assets and liabilities:	
Increase in accounts receivable	(274,352)
Increase in other assets	(275,273)
Decrease in deferred outflows of resources	490,811
Decrease in accounts payable and other accrued liabilities	(162,235)
Increase in tenant security deposits	30,632
Decrease in FSS Escrow	(52,221)
Decrease in accrued salaries and benefits payable	(329,655)
Increase in deferred inflows of resources	(107,105)
Increase in net pension liability	59,188
Increase in accrued compensated absences	<u>23,222</u>
Net cash from operating activities	<u>\$ (59,972,158)</u>

See accompanying notes to financial statements.

INDIANAPOLIS HOUSING AGENCY
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

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. Additionally, the Agency has formed a single member limited liability companies known as Barton Annex-Barton Tower, LLC. 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 and LLC are 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 units.

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

(Continued)

INDIANAPOLIS HOUSING AGENCY
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

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.
- **Barton Annex-Barton Tower, LLC** is a single member LLC formed to acquire, construct, own, and operate a residential rental project in Indianapolis, Indiana. The LLC did not have any financial activity in 2017.

(Continued)

INDIANAPOLIS HOUSING AGENCY
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Insight Development Corporation (Blended 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 6 members, 2 of which are Agency Board Members.

Pursuant to the adoption of the Government Accounting Standards Board (GASB) Statement No. 80, Insight has been included in the financial reporting entity as a blended component unit due to being incorporated as a not-for-profit corporation in which the Agency is the sole corporate member. The adoption of this standard resulted in a restatement to increase the beginning net position by the net position related to Insight of \$41,253,772, an increase from \$137,194,142 to \$178,447,914.

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 has formed three single member limited liability companies (LLCs) known as Millikan II LLC, Bethel Townhomes GP, LLC, and Indiana Avenue GP, LLC. The financial information of the limited partnerships and the LLCs 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 Insight and the management of Insight has operational responsibility for the component units.

- **Concord Homes, Inc.** is authorized to serve as the General Partner of IHA Housing Partners I, LP, an Indiana Limited Partnership, which was formed to develop, rehabilitate, own, maintain and operate a 61 unit scattered site community known as Concord Homes located in Indianapolis, Indiana. The project consists of 43 buildings. The partnership 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. During 2017, the Agency established Concord Housing, LLC, of which the Agency is the sole member. This LLC will assume operations of Concord Homes in a future year. The LLC had no financial activity in 2017.

- **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, 2017

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.
- **Bethel Townhomes GP, LLC** is a single member LLC formed to acquire, construct, own, and operate a residential rental project in Indianapolis, Indiana. The LLC did not have any financial activity in 2017.
- **Indiana Avenue GP, LLC** is a single member LLC formed to acquire, construct, own, and operate a residential rental project in Indianapolis, Indiana. The LLC did not have any financial activity in 2017.

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) in accordance with the Governmental Accounting Standards Board (GASB) as applicable to governmental units, while Insight is a not-for-profit organization that applies GAAP in accordance with the Financial Accounting Standards Board (FASB). 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.

(Continued)

INDIANAPOLIS HOUSING AGENCY
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 and between the Agency and Insight are eliminated.

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, 2017 is as follows:

Tenant account receivable - gross	\$ 547,110
Allowance for uncollectible accounts	<u>(218,107)</u>
	<u>\$ 329,003</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 maintains a capitalization threshold of \$1,000 for equipment and \$5,000 for land, dwellings and improvements. Ordinary maintenance and repairs are charged against to expense as incurred while betterments and additions are capitalized.

(Continued)

INDIANAPOLIS HOUSING AGENCY
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

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, 2017.

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 or 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 \$1,107,308 at December 31, 2017, and an additional allowance of \$500,000 at December 31, 2017 for loans which have been forgiven.

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 \$401,309 in 2017 for distribution of Section 8 Housing Choice Vouchers and Veterans Affairs Supportive Housing. Additionally, the Agency has restricted cash and investment balances related to reserves and escrow as discussed in Note 3.
- **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, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Agency typically utilizes 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.

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.

Subsequent Events: Management has performed an analysis of the activities and transactions subsequent to December 31, 2017, to determine the need for any adjustments or disclosures to the financial statements for the year ended December 31, 2017. Management has performed their analysis through June 22, 2018, the date the financial statements were available to be issued.

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INDIANAPOLIS HOUSING AGENCY
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

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, 2017 is as follows:

	<u>Carrying Value</u>	<u>Bank Balance</u>
Insured by FDIC	\$ 3,649,817	\$ 3,649,817
Insured by Indiana Public Deposits Insurance Fund	44,196	44,196
Insured by Securities Investor Protection Corporation	9,344,542	9,344,542
Uninsured	<u>11,496,884</u>	<u>11,886,710</u>
	<u>\$ 24,535,439</u>	<u>\$ 24,925,265</u>
Cash and cash equivalents:		
Unrestricted	\$ 8,975,210	
Restricted (Note 3)	<u>15,560,229</u>	
	<u>\$ 24,535,439</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.

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 two institutional money market deposit accounts to consider for credit risk and custodial credit risk. One valued at \$145,711 that had Standard and Poor credit rating of WR, a Moody's credit rating of P-2, and Fitch rating of F2 and one valued at \$93,501 that 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. At December 31, 2017, 100% of the investments were held in government obligations with Federal Farm Credit Banks.

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, 2017, the Agency's investments consisted of government obligations with maturities less than one year.

(Continued)

INDIANAPOLIS HOUSING AGENCY
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 2 - CASH AND INVESTMENTS (Continued)

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).

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, 2017, tenant security deposits were \$274,032.

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, 2017, the cash restricted for the FSS escrow was \$1,125,655.

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, 2017, cash restricted for Section 8 vouchers and VASH was \$401,309.

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, 2017, cash restricted for these programs was \$237,372. Other program income received by the Agency has been committed to be utilized for various housing projects and programs. At December 31, 2017, cash restricted for these programs was \$2,718,573.

Reserve Accounts for Operating, Replacement, ACC and Escrow: Reserve accounts per the terms of Regulatory and Operating partnership agreements. At December 31, 2017, the cash account balances totaled \$10,784,774 and the investment account balances totaled \$984,932.

(Continued)

INDIANAPOLIS HOUSING AGENCY
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 4 - CAPITAL ASSETS

Capital asset activity consisted of the following:

	January 1, <u>2017</u>	<u>Increases</u>	<u>Decreases</u>	December 31, <u>2017</u>
Non-depreciable:				
Land	\$ 20,391,971	\$ 12,884	\$ -	\$ 20,404,855
Construction in progress	<u>54,640</u>	<u>467,740</u>	<u>-</u>	<u>522,380</u>
Total	<u>20,446,611</u>	<u>480,624</u>	<u>-</u>	<u>20,927,235</u>
Depreciable:				
Buildings and improvements	213,582,376	560,939	(4,480,868)	209,662,447
Equipment	<u>8,608,094</u>	<u>59,563</u>	<u>(251,145)</u>	<u>8,416,512</u>
Total	<u>222,190,470</u>	<u>620,502</u>	<u>(4,732,013)</u>	<u>218,078,959</u>
Less: Accumulated depreciation:				
Buildings and improvements	(62,677,309)	(5,756,494)	2,266,234	(66,167,569)
Equipment	<u>(5,541,084)</u>	<u>(865,590)</u>	<u>245,896</u>	<u>(6,160,778)</u>
Total	<u>(68,218,393)</u>	<u>(6,622,084)</u>	<u>2,512,130</u>	<u>(72,328,347)</u>
Net depreciable	<u>153,972,077</u>	<u>(6,001,582)</u>	<u>(2,219,883)</u>	<u>145,750,612</u>
Total capital assets – net	<u>\$ 174,418,688</u>	<u>\$ (5,520,958)</u>	<u>\$ (2,219,883)</u>	<u>\$ 166,677,847</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.

NOTE 5 - NON-CURRENT LIABILITIES

Changes in non-current liabilities were as follows:

	January 1, <u>2017</u>	<u>Increases</u>	<u>Decreases</u>	December 31, <u>2017</u>	Amounts Due within <u>One Year</u>	Amounts Due <u>Thereafter</u>
Capital lease	\$ 41,203	\$ -	\$ (41,203)	\$ -	\$ -	\$ -
Loans and interest payable (*)	21,839,455	50,000	(2,757,659)	19,131,796	1,204,042	17,927,754
Net pension liability	5,117,096	1,135,803	(1,076,616)	5,176,283	-	5,176,283
Due to other governmental units (**)	1,521,416	1,881	-	1,523,297	64,554	1,458,743
Unearned revenues	4,220,192	315,051	(4,356,582)	178,661	178,661	-
FSS escrow (***)	1,177,876	1,061,979	(1,114,200)	1,125,655	420,721	704,934
Accrued compensated absences	<u>257,021</u>	<u>81,583</u>	<u>(58,361)</u>	<u>280,243</u>	<u>28,024</u>	<u>252,219</u>
	<u>\$ 34,174,259</u>	<u>\$ 2,646,297</u>	<u>\$ (9,404,621)</u>	<u>\$ 27,415,935</u>	<u>\$ 1,896,002</u>	<u>\$ 25,519,933</u>

***Loans and Interest Payable:**

The Agency has four zero interest loans at December 31, 2017 between four tax credit limited partnerships controlled by the Agency and Indiana Housing & Community Development Authority (IHCDA) related to 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 section 1602 loans at December 31, 2017 was \$6,470,233.

(Continued)

INDIANAPOLIS HOUSING AGENCY
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 5 - NON-CURRENT LIABILITIES (Continued)

16 Park, LP has a loan with IHCDA 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 \$22,930 at December 31, 2017. The balance outstanding at December 31, 2017 was \$2,927,370.

Millikan II, LLC has a construction loan with Merchants Bank for up to \$8,900,000. Effective September 1, 2016, the maturity date 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, 2017 totaled \$30,526. The total outstanding balance at December 31, 2017 was \$8,701,890.

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% and maturity date of September 1, 2021. The total balance outstanding, including accrued interest, at December 31, 2017 was \$878,847.

Insight has two loans with Local Initiatives Support Corporation (LISC) for \$50,000 each with an interest rate of 0%. One originated in 2015 and the other originated during 2017. The loans are unsecured. The total balance outstanding at December 31, 2017 was \$100,000. The principal is to be repaid upon the earlier of the completion of the project or the maturity date. Half of the principal balance was due in 2016 and the other half is due in 2018.

Scheduled maturities on loans and interest payable as of December 31, 2017 are as follows:

<u>Year Ended</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 1,173,516	\$ 30,526	\$ 1,204,042
2019	9,564,405	-	9,564,405
2020	980,724	-	980,724
2021	926,643	-	926,643
2022	741,136	-	741,136
2023-2027	2,764,545	-	2,764,545
2028-2032	-	-	-
2033-2037	-	-	-
2038-2042	-	-	-
2043-2047	-	-	-
2048-2052	-	-	-
2053-2057	<u>2,927,371</u>	<u>22,930</u>	<u>2,950,301</u>
	<u>\$ 19,078,340</u>	<u>\$ 53,456</u>	<u>\$ 19,131,796</u>

(Continued)

INDIANAPOLIS HOUSING AGENCY
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2017

NOTE 5 - NON-CURRENT LIABILITIES (Continued)

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

Due to other governmental units represents two agreements with HUD to repay Section 8 overdraws in equal installments over ten-year periods originally beginning in 2006 and 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, 2017, discounted at a rate of 3%, are as follows:

<u>Year Ended</u>	
2018	\$ 64,554
2019	64,554
2020	64,554
2021	64,554
2022	64,554
2023-2027	302,733
2028-2032	545,360
2033-2037	545,360
2038-2040	<u>436,283</u>
Total future minimum payments	2,152,506
Less: amount representing present value discount	<u>(629,209)</u>
	<u>\$ 1,523,297</u>

*****FSS Escrow:**

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

(Continued)

INDIANAPOLIS HOUSING AGENCY
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 6 - 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.

	Interest Rate	Principal	Accrued Interest	Unamortized Discount	Allowance Loan Loss	Net Loans Receivable	Notes
Red Maple Grove:							
Phase I	4.84%	\$ 346,700	\$ 317,173	\$ -	\$ -	\$ 663,873	(a)
Phase IIA-Perm A	5.36%	772,616	601,139	-	-	1,373,755	(a)
Phase IIA-Perm B	0.00%	3,103,412	-	(2,456,123)	-	647,289	(a)
Phase IIB-Perm A	5.25%	2,078,454	1,079,594	-	-	3,158,048	(a)
Phase IIB-Perm B	0.00%	2,009,813	-	(1,598,835)	-	410,978	(a)
Phase I –							
Insight (AHP)	0.00%	300,000	-	(178,368)	-	121,632	(b)
Phase I –							
Insight (INHP)	0.00%	31,650	-	(18,817)	-	12,833	(b)
Phase IIA –							
Insight (AHP)	0.00%	318,000	-	(255,314)	-	62,686	(b)
Phase IIB –							
Insight (INHP)	0.00%	15,146	-	(12,161)	-	2,985	(b)
Phase IIB –							
Insight (AHP)	0.00%	275,000	-	(221,793)	-	53,207	(b)
Second Mortgages	0.00%	1,107,308	-	-	(1,107,308)	-	(c)
Trail Side	0.00%	1,650,987	-	(1,046,681)	-	604,306	(d)
St. Clair	0.00%	1,574,691	-	(1,234,462)	-	340,229	(e)
Tibbs I	0.00%	200,000	-	-	(200,000)	-	(f)
Tibbs II	5.74%	300,000	-	-	(300,000)	-	(f)
Penn Place, LP	5.00%	<u>1,345,000</u>	<u>98,677</u>	<u>-</u>	<u>-</u>	<u>1,443,677</u>	(g)
		<u>\$ 15,428,777</u>	<u>\$ 2,096,593</u>	<u>\$ (7,022,554)</u>	<u>\$ (1,607,308)</u>	<u>\$ 8,895,498</u>	

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 a current principal outstanding balance of \$8,310,995 discounted to \$4,256,037. 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) 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 a current principal outstanding balance of \$939,796 discounted to \$253,343. 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

(Continued)

INDIANAPOLIS HOUSING AGENCY
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 6 - LOANS RECEIVABLE (Continued)

- (c) 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.
- (d) Trail Side: The Agency entered into a non-interest bearing loan agreement for \$1,650,987 with Trail Side on Mass Ave., LP in 2011. No payments are due until the maturity date of September 1, 2042.
- (e) St. Clair: The Agency entered into a non-interest bearing loan agreement for \$1,574,691 with St. Clair Senior Apartments, LP in 2011. No payments are due until the maturity date of December 31, 2054.
- (f) Tibbs Court: During 1998, the Agency entered into an agreement with Tibbs Court, LLP (Tibbs Court) to utilize HOPE VI federal funds to construct 50 housing units of which 19 will be public housing units. In addition to grant funds expended, the Agency loaned HOPE VI money to Tibbs Court. The loan included a \$200,000 non-interest bearing loan, which is due September 14, 2036, and a \$300,000 interest-bearing loan at 5.74%, which is due September 14, 2038. The entire amount of the loans plus accrued interest is due at the maturity dates. No public housing money can be used to repay the loans. The loans are secured by collateral assignment of the leases and rents of the mortgaged property. At December 31, 2017, the Agency has not accrued any interest revenue on either loan due to uncertainty of collection.
- (g) 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 for the purpose of acquiring, constructing, owning and operating a 38 unit residential rental apartment complex. The borrower was required to make a principal reduction payment of \$445,000 dollars two years from the effective date of April 13, 2014. A payment of \$200,000 was made during 2017 and the balance was paid subsequent to December 31, 2017. Following this payment, all principal and interest payments were to be paid annually with any unpaid amounts being due at the maturity date of December 31, 2054.

NOTE 7 - 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 2017 of \$909,527. The Agency has an investment of \$316,899 in the Group at December 31, 2017.

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.

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INDIANAPOLIS HOUSING AGENCY
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 8 - 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 2017, the Agency paid \$1,653,590 to the City of Indianapolis for fleet services, health insurance, and other services. In 2017, the Agency received \$1,035,000 of tax increment financing (TIF) for development projects from the Metropolitan Development Commission through a Interlocal Cooperation Agreement that is effective through December 31, 2020. Of this amount, \$320,000 was remitted to a subrecipient and is included in general expenses, while the balance is held by the Agency as of December 31, 2017 for use in future years.

NOTE 9 - 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 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 tiers to PERF. The first is the Public Employees' Defined Benefit Plan (PERF Hybrid) and the second is the My Choice: Retirement Savings Plan for Public Employees' (My Choice), formerly known as the Public Employees' Annuity Savings Account Only Plan. Details of the PERF Hybrid and My Choice 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 Indiana Code (IC) 5-10.2, IC 5-10.3 and IC 5-10.5. There are two aspects to the PERF Hybrid 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 benefit structure is the annuity savings account (ASA) that supplements the defined benefit at retirement.

Retirement Savings Plan for Public Employees (My Choice) was formerly known as the PERF ASA Only Plan. My Choice was established by the Indiana Legislature in 2011 and is governed by the INPRS Board of Trustees in accordance with IC 5-10.3-12 and IC 5-10.5. This plan is funded by an employer and a member for the use of the member, or the member's beneficiaries or survivors, after the member's retirement. My Choice members are full-time employees of the State (as defined in IC 5-10.3-7-1(d)), or a political subdivision who elected to participate in My Choice, and who are in a position eligible for membership in the PERF Hybrid Plan and who elect to become members of My Choice. Any government agency that pays employees through the Auditor of the State is a mandatory participant in My Choice and must offer eligible employees My Choice option. Quasi-government agencies and State educational institutions may choose to offer My Choice as an option to their employees.

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.

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INDIANAPOLIS HOUSING AGENCY
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 9 - PENSION PLAN (Continued)

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 annuity savings account (ASA). Pension benefits (non ASA) vest after 10 years of creditable service. The vesting period is eight years for certain elected officials. Members are immediately vested in their ASA. At retirement, a member may choose to receive a lump sum payment of the amount credited to the member's ASA, receive the amount as an annuity, or leave the contributions invested with INPRS. Vested PERF members leaving a covered position, who wait 30 days after termination, may withdraw their ASA and will not forfeit creditable service or a full retirement benefit. However, if a member is eligible for a full retirement at the time of the withdrawal request, he/she will have to begin drawing his/her pension benefit in order to withdraw the ASA.

A non-vested member who terminates employment prior to retirement may withdraw his/her ASA after 30 days, but by doing so, forfeits his/her creditable service. A member who returns to covered service and works no less than six (6) months in a covered position may reclaim his/her forfeited creditable service.

A member who has reached age 65 and has at least 10 years of creditable service is eligible for normal retirement and, as such, is entitled to 100 percent of the pension benefit component. This annual pension benefit is equal to 1.1 percent times the average annual compensation times the number of years of creditable service. The average annual compensation in this calculation uses the highest 20 calendar quarters of salary in a covered position. All 20 calendar quarters do not need to be continuous, but they must be in groups of four consecutive calendar quarters. The same calendar quarter may not be included in two different groups. For PERF members who serve as an elected official, the highest one year (total of four 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 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 years ended June 30, 2017.

The PERF Hybrid Plan also provides disability and survivor benefits. A member who has at least five 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.

(Continued)

INDIANAPOLIS HOUSING AGENCY
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 9 - PENSION PLAN (Continued)

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 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.

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 self-directed, as participants 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 direct changes to their investment fund allocations daily and investments are reported at fair value.

Contributions: 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 2017 and 2016, participating employers were required to contribute 11.2 percent of covered payroll for members employed by the State and Political Subdivisions.

For My Choice, the State was 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 3.3 percent for the State for the year ended June 30, 2017 and any amount not credited to the member's account shall be applied to the pooled assets of the PERF Hybrid Plan. The political subdivisions were required to contribute a supplemental cost of 5.4 percent of covered payroll as of July 1, 2016, which increased to 7.2 percent as of January 1, 2017. In addition, for political subdivisions, the amount credited to the members account for the normal cost ranged up to 5.8 percent as of July 1, 2016, and up to 4 percent as of January 1, 2017. The Agency contributed 11.2 percent for the 2017 and 2016, respectively.

PERF Hybrid Plan and My Choice members contribute three 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 My Choice. Political subdivisions may choose to pay part or all of the member's contributions on behalf of the member for My Choice. In addition, members of the PERF Hybrid Plan may elect to make additional voluntary contributions, under certain criteria, of up to 10 percent of their compensation into their ASA. Political subdivisions that participate in My Choice may elect to match voluntary contributions at a rate of 50 percent.

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INDIANAPOLIS HOUSING AGENCY
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 9 - PENSION PLAN (Continued)

The contribution requirement, which was made by the Agency, was \$644,756 and \$603,028 for 2017 and 2016. These total contributions represent 11.2% of covered payroll for 2017 and 2016.

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

- Asset valuation date – June 30, 2017
- Liability valuation date – June 30, 2016 – Member census data as of June 30, 2016 was used in the valuation and adjusted, where appropriate, to reflect changes between June 30, 2016 and June 30, 2017. Valuation results from June 30, 2016 were rolled-forward to June 30, 2017 to reflect benefit accruals during the year less benefits paid.
- 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%
- Cost of living increases – 1.00%
- Future salary increases, including inflation – 2.50% - 4.25%
- 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 methods or plan provisions for the June 30, 2017 fiscal year. The following changes in actuarial assumptions were made for the June 30, 2017 fiscal year:

- For vested members, a salary load of \$400 was added to approximate the impact on average monthly earnings of unused sick leave accumulated at termination of employment
- For disabled members, the mortality assumptions were updated from the RP-2014 Total Data Set Mortality tables to the RP-2014 Disability Mortality tables.

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.

(Continued)

INDIANAPOLIS HOUSING AGENCY
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 9 - PENSION PLAN (Continued)

The target allocation and best estimates of geometric real rates of return for each major asset class is summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation %</u>	<u>Geometric Basis Long-Term Expected Real Rate of Return</u>
Public equity	22.0%	4.9%
Private equity	14.0	5.7
Fixed income – ex inflation - linked	20.0	2.3
Fixed income – inflation - linked	7.0	0.6
Commodities	8.0	2.2
Real estate	7.0	3.7
Absolute return	10.0	3.9
Risk parity	<u>12.0</u>	5.1
Total	<u>100.0%</u>	

Discount rate: 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 for 2017 and 2016). 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.

Sensitivity: The following presents the Agency's share of the net pension liability calculated using the discount rate of 6.75 percent for 2017, as well as what the Agency'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	\$ 7,549,400	\$ 5,176,284	\$ 3,203,562

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INDIANAPOLIS HOUSING AGENCY
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 9 - 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, 2017, the Agency reported a liability of \$5,176,284 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, 2017 measurement date was 0.0011602, which compared to 0.0011275 at June 30, 2016, an increase of 3%. 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, 2017

NOTE 9 - PENSION PLAN (Continued)

For the year ended December 31, 2017, the Agency recognized pension expense of \$1,079,972, which included net amortization of deferred amounts from changes in proportion and differences between employer contributions and proportionate share of contributions of \$56,801.

At December 31, 2017, 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	\$ 98,303	\$ 4,017
Net difference between projected and actual earnings on pension plan investments	559,276	-
Changes in assumptions	83,109	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	<u>168,164</u>	<u>70,673</u>
Total that will be recognized in pension expense (income) based on table below	908,852	74,690
Pension contributions subsequent to measurement date	<u>328,032</u>	<u>-</u>
Total	<u>\$ 1,236,884</u>	<u>\$ 74,690</u>

Deferred outflows of resources resulting from employer contributions subsequent to the June 30, 2017 measurement date is recognized as a reduction of net pension liability in the year ending December 31, 2018. 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>
2018	\$ 350,872
2019	391,254
2020	119,883
2021	<u>(27,847)</u>
Total	<u>\$ 834,162</u>

(Continued)

INDIANAPOLIS HOUSING AGENCY
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 10 - 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, 2017.

	Agency	L and R Housing, LP	TH and B, LP	B and H Housing, LP	Lugar, LP	Eliminations	Agency Total	Insight	IHA I Concord Homes	IHA II Georgetown	16 Park	Barton Block Millikan I	Millikan II	Eliminations	Insight Total	Eliminations	Total
ASSETS																	
Current assets	\$ 9,207,897	\$ 2,255,249	\$ 4,002,089	\$ 4,674,944	\$ 2,009,697	\$ (204,275)	\$ 21,945,601	\$ 1,695,791	\$ 138,002	\$ 1,275,844	\$ 1,402,802	\$ 368,346	\$ 614,102	\$ -	\$ 5,494,887	\$ -	\$ 27,440,488
Due (to)/from	370,309	35,752	(29,044)	30,627	(1,095)	45,596	452,145	(372,248)	(57,910)	(14,273)	105,474	(66,168)	(47,020)	-	(452,145)	-	-
Total current assets	9,578,206	2,291,001	3,973,045	4,705,571	2,008,602	(158,679)	22,397,746	1,323,543	80,092	1,261,571	1,508,276	302,178	567,082	-	5,042,742	-	27,440,488
Capital assets (net)	38,621,658	13,263,148	15,526,343	16,839,770	23,473,585	-	107,724,504	502,995	1,519,334	8,784,825	25,887,379	9,873,290	12,385,520	-	58,953,343	-	166,677,847
Other noncurrent assets	55,800,944	627,291	673,074	424,845	487,916	(38,578,482)	19,435,588	4,550,559	-	-	2,034,261	477,100	-	(4,297,216)	2,764,704	(13,232,895)	8,967,397
Total assets	104,000,808	16,181,440	20,172,462	21,970,186	25,970,103	(38,737,161)	149,557,838	6,377,097	1,599,426	10,046,396	29,429,916	10,652,568	12,952,602	(4,297,216)	66,760,789	(13,232,895)	203,085,732
DEFERRED OUTFLOWS OF RESOURCES																	
Deferred outflows from pension	1,236,884	-	-	-	-	-	1,236,884	-	-	-	-	-	-	-	-	-	1,236,884
Total assets and deferred outflows of resources	\$ 105,237,692	\$ 16,181,440	\$ 20,172,462	\$ 21,970,186	\$ 25,970,103	\$ (38,737,161)	\$ 150,794,722	\$ 6,377,097	\$ 1,599,426	\$ 10,046,396	\$ 29,429,916	\$ 10,652,568	\$ 12,952,602	\$ (4,297,216)	\$ 66,760,789	\$ (13,232,895)	\$ 204,322,616
LIABILITIES																	
Current liabilities	\$ 5,533,972	\$ 218,939	\$ 209,842	\$ 290,437	\$ 312,599	\$ (2,267,810)	\$ 4,297,979	\$ (395,214)	\$ 157,856	\$ 74,995	\$ 958,082	\$ 247,252	\$ 473,033	\$ -	\$ 1,516,004	\$ (2,034,261)	\$ 3,779,722
Noncurrent liabilities	8,636,836	9,985,884	10,167,678	9,773,610	8,564,052	(36,469,351)	10,658,709	60,418	2,105,601	7,569,337	10,879,145	1,200,319	8,542,255	(4,297,216)	26,059,859	(11,198,634)	25,519,934
Total liabilities	14,170,808	10,204,823	10,377,520	10,064,047	8,876,651	(38,737,161)	14,956,688	(334,796)	2,263,457	7,644,332	11,837,227	1,447,571	9,015,288	(4,297,216)	27,575,863	(13,232,895)	29,299,656
DEFERRED INFLOWS OF RESOURCES																	
Deferred inflows from pension	74,690	-	-	-	-	-	74,690	-	-	-	-	-	-	-	-	-	74,690
NET POSITION																	
Net investment in capital assets	37,742,811	3,225,710	5,311,359	6,937,620	14,925,325	36,480,612	104,623,437	402,995	(586,267)	1,220,047	14,541,013	8,672,971	3,653,104	4,297,217	32,201,080	10,721,534	147,546,051
Restricted for Section 8 vouchers and VASH	401,309	-	-	-	-	-	401,309	-	-	-	-	-	-	-	-	-	401,309
Restricted for reserves and escrow	-	1,965,078	2,588,152	3,516,431	1,561,743	-	9,631,404	-	76,429	876,993	780,594	287,192	-	-	2,021,208	-	11,652,612
Restricted for programs	2,955,945	-	-	-	-	-	2,955,945	-	-	-	-	-	-	-	-	-	2,955,945
Unrestricted	49,892,129	785,829	1,895,431	1,452,088	606,384	(36,480,612)	18,151,249	6,308,898	(154,193)	305,024	2,271,082	244,834	284,210	(4,297,217)	4,962,638	(10,721,534)	12,392,353
Total net position	90,992,194	5,976,617	9,794,942	11,906,139	17,093,452	-	135,763,344	6,711,893	(664,031)	2,402,064	17,592,689	9,204,997	3,937,314	-	39,184,926	-	174,948,270
Total liabilities, deferred inflows of resources and net position	\$ 105,237,692	\$ 16,181,440	\$ 20,172,462	\$ 21,970,186	\$ 25,970,103	\$ (38,737,161)	\$ 150,794,722	\$ 6,377,097	\$ 1,599,426	\$ 10,046,396	\$ 29,429,916	\$ 10,652,568	\$ 12,952,602	\$ (4,297,216)	\$ 66,760,789	\$ (13,232,895)	\$ 204,322,616

The following summarizes the combining information for the statements of revenues, expenses, and changes in net position for the year ended December 31, 2017.

	Agency	L and R Housing, LP	TH and B, LP	B and H Housing, LP	Lugar, LP	Eliminations	Agency Total	Insight	IHA I Concord Homes	IHA II Georgetown	16 Park	Barton Block Millikan I	Millikan II	Eliminations	Insight Total	Eliminations	Total
Operating revenue	\$ 3,153,878	\$ 351,618	\$ 414,041	\$ 523,580	\$ 1,092,991	\$ -	\$ 5,536,108	\$ 292,757	\$ 102,447	\$ 353,371	\$ 817,089	\$ 410,411	\$ 1,138,102	\$ -	\$ 3,114,177	\$ -	\$ 8,650,285
Operating expenses	58,170,605	1,494,273	1,738,972	1,798,076	1,470,403	-	64,672,329	569,520	290,368	565,503	1,287,517	402,146	579,226	-	3,694,280	-	68,366,609
Depreciation expense	2,097,555	444,822	509,045	528,408	733,237	-	4,313,067	19,454	126,756	449,324	840,787	327,920	544,776	-	2,309,017	-	6,622,084
Total operating expenses	60,268,160	1,939,095	2,248,017	2,326,484	2,203,640	-	68,985,396	588,974	417,124	1,014,827	2,128,304	730,066	1,124,002	-	6,003,297	-	74,988,693
Operating loss	(57,114,282)	(1,587,477)	(1,833,976)	(1,802,904)	(1,110,649)	-	(63,449,288)	(296,217)	(314,677)	(661,456)	(1,311,215)	(319,655)	14,100	-	(2,889,120)	-	(66,338,408)
Intergovernmental grants	53,536,434	1,391,492	1,729,432	1,884,568	671,114	-	59,213,040	-	186,056	220,462	728,389	-	-	-	1,134,907	-	60,347,947
Other non-operating revenues (expenses)	344,989	(93,433)	(107,932)	(139,443)	(343,917)	-	(339,736)	180,610	(56,270)	(306,511)	283,399	(54,211)	(361,650)	-	(314,633)	-	(654,369)
Total non-operating revenues (expenses)	53,881,423	1,298,059	1,621,500	1,745,125	327,197	-	58,873,304	180,610	129,786	(86,049)	1,011,788	(54,211)	(361,650)	-	820,274	-	59,693,578
Loss before capital contributions	(3,232,859)	(289,418)	(212,476)	(57,779)	(783,452)	-	(4,575,984)	(115,607)	(184,891)	(747,505)	(299,427)	(373,866)	(347,550)	-	(2,068,846)	-	(6,644,830)
Capital grants and contributions	1,615,186	765,000	765,000	-	-	-	3,145,186	-	-	-	-	-	-	-	-	-	3,145,186
Change in net position	(1,617,673)	475,582	552,524	(57,779)	(783,452)	-	(1,430,798)	(115,607)	(184,891)	(747,505)	(299,427)	(373,866)	(347,550)	-	(2,068,846)	-	(3,499,644)
Net position, beginning of year	92,609,867	5,501,035	9,242,418	11,963,918	17,876,904	-	137,194,142	6,827,500	(479,140)	3,149,569	17,892,116	9,578,863	4,284,864	-	41,253,772	-	178,447,914
Net position, end of year	\$ 90,992,194	\$ 5,976,617	\$ 9,794,942	\$ 11,906,139	\$ 17,093,452	\$ -	\$ 135,763,344	\$ 6,711,893	\$ (664,031)	\$ 2,402,064	\$ 17,592,689	\$ 9,204,997	\$ 3,937,314	\$ -	\$ 39,184,926	\$ -	\$ 174,948,270

REQUIRED SUPPLEMENTARY INFORMATION

INDIANAPOLIS HOUSING AGENCY
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF THE AGENCY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
 December 31, 2017

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Agency's proportion of the net pension liability	0.0011602	0.0011275	0.0010735
Agency's proportionate share of the net pension liability	\$ 5,176,283	\$ 5,117,096	\$ 4,372,261
Agency's covered payroll	\$ 5,785,265	\$ 5,403,647	\$ 5,131,057
Agency's proportionate share of the net pension liability as a percentage of its covered payroll	89.47%	94.70%	85.21%
Plan fiduciary net position as a percentage of the total pension liability	76.60%	75.30%	77.30%

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

- Inflation decreased from 3.00% to 2.25%
- The future salary increase rate decreased from a table ranging from 3.25% to 4.50% to a table ranging from 2.50% to 4.25%
- Mortality changed from the 2013 IRS Static Mortality projected five (5) years with Scale AA to the RP-2014 (with MP-2014 improvement removed) Total Data Set mortality table projected on a fully generational basis using the future mortality improvement scale inherent in the mortality projection included in the Social Security Administration's 2014 Trustee Report
- Retirement, Termination and Disability rates were adjusted to reflect recent experience
- The ASA Annuitization was updated from 50% of members assumed to annuitize the ASA balance to 60% of members prior to January 1, 2018

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

Benefit changes: There were no changes to the plan that impacted pension benefits during the fiscal year.

Plan amendments. On January 1, 2017, the ASA annuities are allowed to be outsourced to a third party provider. In 2016, there were no changes to the plan that impacted pension benefits during the year. Effective October 1, 2015 the rate becomes the greater of 4.5% or market rate. 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.

* The amounts presented for each calendar year were determined as of the June 30 fiscal year-end that occurred within the calendar year.

** 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
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF THE AGENCY'S CONTRIBUTIONS
 December 31, 2017

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Statutorily required contribution	\$ 644,756	\$ 603,028	\$ 598,945
Contributions in relation to the statutorily required contribution	<u>(644,756)</u>	<u>(603,028)</u>	<u>(598,945)</u>
Annual contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
The Agency's contributions as a percentage of statutorily required contribution for pension	100%	100%	100%
Agency's covered payroll	\$ 5,756,750	\$ 5,384,179	\$ 5,347,719
Contributions as a percentage of covered payroll	11.2%	11.2%	11.2%

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, 2017

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

Amortization method: Level dollar

Remaining amortization period: 20 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 10.55%; 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 9.80%; however, the INPRS Board approved a State employer contribution rate of 11.2%. The actuarially determined contribution rate for the State for the fiscal year ended 6/30/17 was 10.11%; however, the INPRS Board approved a State employer contribution rate of 11.2%. 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, 2016 was used in the valuation and adjusted, where appropriate, to reflect changes between June 30, 2016 and June 30, 2017. Standard actuarial roll forward techniques were then used to project the liabilities computed as of June 30, 2016 to June 30, 2017.

SUPPLEMENTARY INFORMATION

INDIANAPOLIS HOUSING AGENCY
 SCHEDULE OF EXPENDITURES OF FEDERAL, STATE, AND LOCAL AWARDS
 Year ended December 31, 2017

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	\$ 51,915,418	\$ -
Public and Indian Housing	14.850	7,947,790	-
Resident Opportunity and Supportive Services	14.870	206,824	-
Public Housing Capital Fund	14.872	<u>1,615,185</u>	<u>-</u>
Total Department of Housing and Urban Development		<u>61,685,217</u>	<u>-</u>
Total Federal Expenditures		<u>\$ 61,685,217</u>	<u>\$ -</u>
State/Local Grantor/Pass-Through Grantor /Program Title		Total Expenditures	Total Paid to Subrecipients
Indianapolis Metropolitan Development Commission			
Interlocal agreement 2017-E-014			
Northwest Quality of Life Plan Coordinator		\$ 120,000	\$ 120,000
Charlie Wiggins Park		<u>200,000</u>	<u>200,000</u>
Total State/Local Expenditures		<u>\$ 320,000</u>	<u>\$ 320,000</u>

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, 2017

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 blended 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 Indianapolis Housing Agency (the Agency), a component unit of the City of Indianapolis, Indiana, as of and for the year ended December 31, 2017, 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 22, 2018. 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*. As discussed in Note 1 to the financial statements, during the year ended December 31, 2017, the Agency adopted new accounting guidance, GASB Statement No. 80, *Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14*. Our opinion is not modified with respect to this matter.

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 opinion 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs (2017-001) that we consider to be a significant deficiency.

(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*.

The Agency's Response to the Finding

The Agency's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Agency's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 22, 2018

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, 2017. 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, 2017.

(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 22, 2018

INDIANAPOLIS HOUSING AGENCY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
December 31, 2017

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?

 X Yes _____ 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 14.871 - Section 8 Housing Choice Vouchers

Dollar threshold used to distinguish type A and B programs:

 \$ 1,850,557

Auditee qualified as low-risk auditee?

 X Yes _____ No

(Continued)

INDIANAPOLIS HOUSING AGENCY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
December 31, 2017

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

2017-001 Public Housing Tenant Files – Missing and Post-Dated Documentation (Significant Deficiency)

Condition: During our revenue testing of 60 participants who received assistance through the PIH program, we noted missing documentation in 5 of the participant's files tested. This documentation is important to maintain as it provides the support required to substantiate the recognition of rental income and also for eligibility determination.

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

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

Cause: Each of the sampled tenants have been receiving PIH funding for a number of years and the document has either gone missing from the file or was never received. There was a change in the staffing position responsible for quality control verification of tenant files.

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

Management's Response:

Corrective Action Plan – Management will hire a Quality Control Auditor to develop and manage an additional layer of file audit processes to include an annual 100% file audit, spot audit of move out/move in files, and applicant processing procedure. Management will also work with an industry professional to develop a series of training sessions for all Management staff, including Managers, Assistant Managers, Property Clerks, and Leasing Agents.

Responsible Personnel – Duane Ingram, Director of Real Estate Management and Open, Director of Compliance and Internal Audit

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

None

INDIANAPOLIS HOUSING AGENCY
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS
December 31, 2017

There were no findings in the prior year.