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July 18, 2019

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

We have reviewed the audit report prepared by Crowe, LLP, Independent Public Accountants, for the period January 1, 2018 to December 31, 2018. 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, 2018 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 findings in the report on page 46 and 47. Please see the Schedule of Findings and Questioned Costs as listed in the table of contents for complete details related to the findings. The Agency's planned corrective action immediately follows page 47.

In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts.

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, 2018

INDIANAPOLIS HOUSING AGENCY

Indianapolis, Indiana

FINANCIAL STATEMENTS

December 31, 2018

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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, 2018, 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, Barton Block, LP, and Indiana Avenue Apartments, LP, the Limited Partnership blended component units described in Note 1, whose statements reflect total assets constituting 69 percent of total assets at December 31, 2018, 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.

## **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, 2018, 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.

## **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 37 and the schedule of the Agency's contributions on page 38 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 <> 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 LLP

Indianapolis, Indiana  
June 27, 2019

INDIANAPOLIS HOUSING AGENCY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)  
December 31, 2018

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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, 2018. 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 and Investments:** Total cash increased by \$8.6 million or 35 percent from 2017 to 2018. This increase was primarily due to the receipt of approximately \$4.3 million from trustee held bond funds for construction projects at Indiana Avenue Apartments and Bethel Townhomes and the receipt of other debt proceeds and funding related to these projects. Approximately \$3.8 million of trustee held bond funds were used to purchase investments in accordance with the terms of the trust indenture.
- **Accounts payable:** Accounts payable increased by \$2.5 million, or 281 percent, from 2017 to 2018. This is primarily due to accruals for payments owed to contractors related to the construction at Indiana Avenue Apartments and Bethel Townhomes.
- **Loans payable (current):** Loans payable (current) increased by \$8.4 million, or 698 percent, from 2017 to 2018. This is primarily due to the Millikan II financing having a maturity date in 2019. Management is in the process of refinancing this loan.
- **Loans payable (non-current):** Loans payable (non-current) decreased by \$1.9 million, or 11 percent, from 2017 to 2018. This is primarily due to the Millikan II financing having a maturity date in 2019 and becoming current as noted above, with that decrease being offset by new construction related financing for Indiana Avenue Apartments and Bethel Townhomes.

#### OTHER HIGHLIGHTS

- During 2018, the Agency sold Indiana Avenue Apartments and Bethel Townhomes to the Insight Development Corporation, a blended component unit, and converted these properties to Rental Assistance Demonstration (RAD), a voluntary program of HUD.
- Total revenue for all programs, net of interfund eliminations, was approximately \$81.3 million for the year. Tenant rental revenue generated approximately \$6.7 million and HUD operating subsidy and grants provided approximately \$68.6 million.
- Total operating expenses for all programs, net of interfund eliminations, was approximately \$80.1 million. Housing assistance payments to landlords on behalf of tenants represented approximately \$50.6 million, while administrative expenses represented approximately \$9.9 million, maintenance expenses represented approximately \$4.7 million, and depreciation expense represented approximately \$6.9 million as other significant expense categories.
- The assets of the Housing Agency exceeded its liabilities at the close of the year by \$176.6 million. Of that amount, \$12.7 million was considered unrestricted and \$14.3 million was restricted with the remaining balance of \$149.5 million representing net investment in capital assets.
- The Agency's total net position increased by \$1.6 million (Table 2) as a result of current year activities, including capital grant and equity contributions.

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(Continued)

INDIANAPOLIS HOUSING AGENCY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)  
December 31, 2018

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**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 \$215.8 million at December 31, 2018. This represents an increase of 6 percent from the prior year. Total liabilities and deferred inflows of resources amounted to \$39.3 million, representing a decrease of 34 percent, and total net position was \$176.6 million, representing a decrease of 1 percent (See Table 1).

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

	<u>2018</u>	<u>2017</u>	<u>\$</u> <u>Change</u>	<u>%</u> <u>Change</u>
<b>Assets and Deferred Outflows of Resources</b>				
Current assets	\$ 35,549,641	\$ 27,440,488	8,109,153	30%
Capital assets (net)	166,506,913	166,677,847	(170,934)	-
Other non-current assets	13,203,272	8,967,397	4,235,875	47
Deferred outflows of resources	<u>558,906</u>	<u>1,236,884</u>	<u>(677,978)</u>	<u>(55)</u>
Total assets and deferred outflows of resources	<u>\$ 215,818,732</u>	<u>\$ 204,322,616</u>	<u>\$ 11,496,116</u>	<u>6%</u>
<b>Liabilities and Deferred Inflows of Resources</b>				
Current liabilities	\$ 16,324,135	\$ 3,779,722	\$ 12,544,413	332%
Non-current liabilities	22,288,509	25,519,934	(3,231,425)	(13)
Deferred inflows of resources	<u>639,985</u>	<u>74,690</u>	<u>565,295</u>	<u>757</u>
Total liabilities and deferred inflows of resources	<u>39,252,629</u>	<u>29,374,346</u>	<u>9,878,283</u>	<u>34</u>
<b>Net position</b>				
Net investment in capital assets	149,498,847	147,546,051	1,952,796	1
Restricted for Section 8 vouchers and VASH	6,456	401,309	(394,853)	(98)
Restricted for reserves and escrow	12,220,155	11,652,612	567,543	5
Restricted for programs	2,108,631	2,955,945	(847,314)	(29)
Unrestricted	<u>12,732,014</u>	<u>12,392,353</u>	<u>339,661</u>	<u>3</u>
Total net position	<u>176,566,103</u>	<u>174,948,270</u>	<u>1,617,833</u>	<u>1</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 215,818,732</u>	<u>\$ 204,322,616</u>	<u>\$ 11,496,116</u>	<u>6%</u>

(Continued)

INDIANAPOLIS HOUSING AGENCY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)  
December 31, 2018

**Changes in Net Position**

The Agency's and Insight's net position at December 31, 2018 increased 1 percent over the prior year. The Agency's and Insight's total operating revenues increased 18 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.

Intergovernmental revenues of \$65.6 million and \$60.3 million during 2018 and 2017, respectively, primarily represents funding for housing assistance and voucher payments, which are classified as non-operating revenues for financial statement purposes, but are used to directly offset the operating expenses of the Agency.

**Table 2**  
**Changes in Net Position – Agency and Insight**

	<u>2018</u>	<u>2017</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
<b>Operating revenues</b>				
Tenant revenue	\$ 6,683,557	\$ 6,247,074	\$ 436,483	7%
Other income	<u>3,552,986</u>	<u>2,403,211</u>	<u>1,149,775</u>	<u>48</u>
Total operating revenues	<u>10,236,543</u>	<u>8,650,285</u>	<u>1,586,258</u>	<u>18</u>
<b>Operating expenses</b>				
Operating expenses	73,206,779	68,366,609	4,840,170	7
Depreciation	<u>6,946,272</u>	<u>6,622,084</u>	<u>324,188</u>	<u>5</u>
Total operating expenses	<u>80,153,051</u>	<u>74,988,693</u>	<u>5,164,358</u>	<u>7</u>
<b>Operating loss</b>	(69,916,508)	(66,338,408)	3,578,100	(5)
<b>Non-operating revenues (expenses) and capital grants and contributions</b>				
Intergovernmental	65,596,791	60,347,947	5,248,844	9
Interest income from investments	140,813	83,130	57,683	69
Interest income from loans	466,773	404,082	62,691	16
Interest expense	(485,044)	(487,671)	2,627	(1)
Loss on disposition of assets	(175,423)	(2,219,884)	2,044,461	(92)
Other revenue	1,043,106	1,565,974	(522,868)	(33)
HUD capital grants	3,057,711	1,615,186	1,442,525	89
Other capital contributions	<u>1,889,614</u>	<u>1,530,000</u>	<u>359,614</u>	<u>24</u>
	<u>71,534,341</u>	<u>62,838,764</u>	<u>8,695,577</u>	<u>14</u>
<b>Change in net position</b>	1,617,833	(3,499,644)	5,117,477	146
Net position, beginning of year	<u>174,948,270</u>	<u>178,447,914</u>	<u>(3,499,644)</u>	<u>(2)</u>
<b>Total net position, end of year</b>	<u>176,566,103</u>	<u>\$ 174,948,270</u>	<u>\$ 1,971,931</u>	<u>1%</u>

(Continued)

INDIANAPOLIS HOUSING AGENCY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)  
December 31, 2018

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

	<u>2018</u>	<u>2017</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
Administration	\$ 9,925,853	\$ 9,900,001	\$ 25,852	-%
Tenant services	598,172	594,317	3,855	-
Utilities	2,730,039	2,411,846	318,193	13
Maintenance	4,704,884	4,104,330	600,554	15
Protective services	819,778	711,018	108,760	15
Insurance premiums	1,128,595	919,326	209,269	23
General	925,739	934,641	(8,902)	(1)
FSS repayment	1,720,841	-	1,720,841	n/m
Pension expense	20,470	442,885	(422,415)	(95)
Housing assistance payments	50,632,408	48,348,245	2,284,163	5
Depreciation	<u>6,946,272</u>	<u>6,622,084</u>	<u>324,188</u>	<u>5</u>
Total operating expenses	<u>\$ 80,153,051</u>	<u>\$ 74,988,693</u>	<u>\$ 5,164,358</u>	<u>7%</u>

**Table 4**  
**Budget Analysis**  
**(Financial Statement Presentation**  
**excluding depreciation, FSS repayment, and pension)**

	<u>2018 Budget</u>	<u>2018 Actual</u>	<u>Dollar Variance</u>	<u>Percentage Variance</u>
Administration	\$ 8,069,526	\$ 9,925,853	\$ (1,856,327)	(19)%
Tenant services	575,985	598,172	(22,187)	(4)
Utilities	1,999,251	2,730,039	(730,788)	(27)
Maintenance	3,517,774	4,704,884	(1,187,110)	(25)
Protective services	651,434	819,778	(168,344)	(21)
Insurance premium	723,700	1,128,595	(404,895)	(36)
General	3,328,479	925,739	2,402,740	72
Housing assistance payments	<u>50,100,703</u>	<u>50,632,408</u>	<u>(531,705)</u>	<u>(11)</u>
Total operating expenses	<u>\$ 68,966,852</u>	<u>\$ 73,186,309</u>	<u>\$ (2,498,616)</u>	<u>(3)%</u>

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(Continued)

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

### **Capital Assets**

As of December 31, 2018, the Agency and Insight had \$166.5 million in capital assets, net of accumulated depreciation. As of December 31, 2017, the Agency and Insight had \$166.7 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 \$0.2 million as shown in Note 4 of the financial statements, as annual depreciation expense for the year was offset by capitalized construction costs related to Indiana Avenue Apartments and Bethel Townhomes.

### **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, 2018

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**ASSETS AND DEFERRED OUTFLOWS OF RESOURCES**

Current assets

Cash and cash equivalents:

Cash - unrestricted (Note 2)	\$ 7,679,966
Cash - restricted (Notes 2 & 3)	25,420,324

Receivables:

Due from HUD	553,789
Accounts receivable - miscellaneous	304,434
Accounts receivable - tenants, net (Note 1)	506,822

Loans receivable and accrued interest, net (Note 6)	20,000
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Prepaid expense and other assets	<u>1,064,306</u>
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Total current assets	35,549,641
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Noncurrent assets

Investments – restricted	3,795,000
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Capital assets (Note 4):

Non-depreciable property	26,462,639
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Depreciable property	214,008,707
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Accumulated depreciation	<u>(73,964,433)</u>
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Net capital assets	166,506,913
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Loans receivable and accrued interest, net (Note 6)	9,091,372
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Other assets (Note 7)	<u>316,900</u>
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Total non - current assets	<u>179,710,185</u>
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Total assets	215,259,826
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Deferred outflows of resources

Pension (Note 9)	<u>558,906</u>
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Total assets and deferred outflows of resources	<u>\$ 215,818,732</u>
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(Continued)

INDIANAPOLIS HOUSING AGENCY  
STATEMENT OF NET POSITION  
December 31, 2018

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

Current liabilities

Accounts payable and accrued expenses:	
Vendors and contractors	\$ 3,370,663
Accrued salaries and benefits payable	195,492
Accrued compensated absences (Note 5)	23,966
Due to other governmental units (Note 5)	64,554
Tenant security deposits	255,995
Unearned revenues	201,496
Loans and interest payable (Note 5)	9,611,958
Other liabilities – FSS Escrow (Note 5)	157,638
Other accrued liabilities:	
FSS repayment (Note 1)	1,720,841
Miscellaneous	<u>721,532</u>
Total current liabilities	16,324,135

Non-current liabilities

Loans and interest payable (Note 5)	16,020,044
Other liabilities:	
Due to other governmental units (Note 5)	1,394,189
FSS Escrow (Note 5)	704,934
Accrued compensated absences (Note 5)	215,862
Net pension liability (Note 9)	<u>3,953,480</u>
Total non-current liabilities	<u>22,288,509</u>

Total liabilities 38,612,644

Deferred inflows of resources

Pension (Note 9)	639,985
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Net position

Net investment in capital assets	149,498,847
Restricted:	
Section 8 vouchers and VASH	6,456
Reserves and escrow (Note 3)	12,220,155
Programs (Note 3)	2,108,631
Unrestricted	<u>12,732,014</u>
Total net position	<u>176,566,103</u>

Total liabilities, deferred inflows of resources  
and net position \$ 215,818,732

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See accompanying notes to financial statements.

INDIANAPOLIS HOUSING AGENCY  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
Year ended December 31, 2018

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<b>Operating revenues</b>	
Tenant revenue	\$ 6,683,557
Other income	<u>3,552,986</u>
Total operating revenues	10,236,543
<b>Operating expenses</b>	
Administration	9,925,853
Tenant services	598,172
Utilities	2,730,039
Maintenance	4,704,884
Protective services	819,778
Insurance premiums	1,128,595
General	925,739
FSS repayment	1,720,841
Housing assistance payments	50,632,408
Pension expense related to actuarial assumptions	20,470
Depreciation	<u>6,946,272</u>
Total operating expenses	<u>80,153,051</u>
<b>Operating loss</b>	(69,916,508)
<b>Non-operating revenues (expenses)</b>	
Intergovernmental grants	65,596,791
Interest income from investments	140,813
Interest income from loans	466,773
Interest expense	(485,044)
Other revenue	1,043,106
Loss on sale of other assets	<u>(175,423)</u>
Total non-operating revenues (expenses)	<u>66,587,016</u>
<b>Loss before capital grants and contributions</b>	(3,329,492)
<b>Capital grants and contributions</b>	
HUD capital grants	3,057,711
Other capital contributions	<u>1,889,614</u>
Total capital grants and contributions	<u>4,947,325</u>
<b>Change in net position</b>	1,617,833
Net position, beginning of year	<u>174,948,270</u>
<b>Net position, end of year</b>	<u>\$ 176,566,103</u>

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See accompanying notes to financial statements.

INDIANAPOLIS HOUSING AGENCY  
STATEMENT OF CASH FLOWS  
Year ended December 31, 2018

<b>Cash flows from operating activities</b>	
Rental receipts	\$ 6,548,666
Other operating receipts	3,272,874
Payments for personnel – salaries and benefits	(8,084,237)
Payments for other operating activities	(12,909,086)
Housing assistance payments	(50,632,408)
Tenant security and other deposits	(281,120)
Net cash from operating activities	<u>(62,085,311)</u>
<b>Cash flows from non-capital financing activities</b>	
Intergovernmental revenues received	<u>65,040,417</u>
Net cash from non-capital financing activities	65,040,417
<b>Cash flows from capital and related financing activities</b>	
Capital asset purchases	(3,977,492)
Non-operating receipts, net	301,968
Proceeds from issuance of loans	7,717,181
Interest paid on loans	(460,407)
Principal payments on loans	(500,474)
Capital grants and contributions	<u>4,947,325</u>
Net cash from capital and related financing activities	8,028,101
<b>Cash flows from investing activities</b>	
Loans receivable issued	(33,683)
Purchases of investments	(3,795,000)
Proceeds from sale of investments	984,932
Payments received from loans receivable	246,320
Interest on cash, investments and loans	<u>179,075</u>
Net cash from investing activities	<u>(2,418,356)</u>
<b>Net change in cash and cash equivalents</b>	8,564,851
<b>Cash and cash equivalents, beginning</b>	<u>24,535,439</u>
<b>Cash and cash equivalents, ending</b>	<u>\$ 33,100,290</u>
<b>Reconciliation of operating loss to net cash from operating activities:</b>	
Operating loss	\$ (69,916,508)
Adjustments to reconcile operating loss to net cash from operating activities:	
Depreciation expense	6,946,272
Loss on sale of other assets	175,423
Bad debt expense	399,045
Change in assets and liabilities:	
Increase in accounts receivable	(556,771)
Increase in other assets	(455,535)
Decrease in deferred outflows of resources	677,978
Increase in accounts payable and other accrued liabilities	1,550,016
Increase in deferred revenue	22,835
Decrease in tenant security deposits	(18,037)
Decrease in FSS Escrow	(263,083)
Increase in accrued salaries and benefits payable	50,978
Increase in deferred inflows of resources	565,295
Decrease in net pension liability	(1,222,804)
Decrease in accrued compensated absences	<u>(40,415)</u>
Net cash from operating activities	<u>\$ (62,085,311)</u>
Non-cash transactions:	
Construction and retainage payable for capital asset purchases	\$ 2,797,846

See accompanying notes to financial statements.

INDIANAPOLIS HOUSING AGENCY  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2018

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**Reporting Entity:** The Agency is considered a component unit of the City of Indianapolis (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.

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(Continued)

INDIANAPOLIS HOUSING AGENCY  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2018

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

- **THB Apartments, Inc.** is authorized to serve as the General Partner of TH and B, LP, an Indiana Limited Partnership, which was formed to develop, rehabilitate, own, maintain and operate a 307 unit multifamily project property for rental to individuals and families of low-income, known as Twin Hills and Blackburn Apartments located in Indianapolis, Indiana. The project consists of 84 buildings, and all have been placed in service as of December 31, 2013. The partnership has received an allocation of low-income housing tax credits from the State of Indiana totaling \$16,907,460. Each building of the project has qualified for and been allocated low-income housing tax credits pursuant to IRC Section 42, which regulates the use of the project as to occupant eligibility and unit gross rent, among other requirements. Each building of the project must meet the provisions of these regulations during each of 15 consecutive years in order to remain qualified to receive the credits. The credit allocation is spread over 10 years and will be \$1,033,272 for the first year, \$1,668,356 for the second year, \$1,690,733 annually for years three through ten, \$657,474 in the eleventh year, and \$22,494 in the twelfth year, if the project remains in compliance.
- **BH Apartments, Inc.** is authorized to serve as the General Partner of B and H Housing, LP, an Indiana Limited Partnership, which was formed to develop, rehabilitate, own, maintain and operate a 321 unit multifamily project property for rental to individuals and families of low-income, known as Beechwood Gardens and Hawthorne Place located in Indianapolis, Indiana. The partnership has received an allocation of low-income housing tax credits from the State of Indiana totaling \$19,671,810. Each building of the project has qualified for and been allocated low-income housing tax credits pursuant to IRC Section 42, which regulates the use of the project as to occupant eligibility and unit gross rent, among other requirements. Each building of the project must meet the provisions of these regulations during each of 15 consecutive years in order to remain qualified to receive the credits. The credit allocation is spread over 10 years, beginning in 2011, and will be \$1,152,638 for the first year, \$1,966,584 for the second year, \$1,967,181 annually for the next eight years, \$814,543 in the eleventh year, and \$597 in the twelfth year, if the project remains in compliance.
- **Lugar Apartments, Inc.** is authorized to serve as the General Partner of Lugar, LP, an Indiana Limited Partnership, which was formed to develop, rehabilitate, own, maintain and operate a 298 unit multifamily project property for rental to individuals and families of low-income, known as Lugar Towers and the Braxton located in Indianapolis, Indiana. The partnership has received an allocation of low-income housing tax credits from the State of Indiana totaling \$29,586,566. Each building of the project has qualified for and been allocated low-income housing tax credits pursuant to IRC Section 42, which regulates the use of the project as to occupant eligibility and unit gross rent, among other requirements. Each building of the project must meet the provisions of these regulations during each of 15 consecutive years in order to remain qualified to receive the credits. The credit allocation is spread over 10 years, beginning in 2012, and will be \$2,958,657 annually, if the project remains in compliance.
- **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 2018.

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(Continued)

INDIANAPOLIS HOUSING AGENCY  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2018

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**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 the Agency as its sole member. 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.

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 for the purpose of assuming operations of Concord Homes in a future year, though the LLC had no activity in 2017 or 2018.
- **IHA Housing Partners II GP, Inc.** is authorized to serve as the General Partner of IHA Housing Partners II, LP, an Indiana Limited Partnership, which was formed to develop, rehabilitate, own, maintain and operate a 90 unit scattered site community known as The Georgetown Apartments located in Indianapolis, Indiana. The partnership has received an allocation of low-income housing tax credits from the State of Indiana totaling \$7,796,080. Each building of the project has qualified for and been allocated low-income housing tax credits pursuant to IRC Section 42, which regulates the use of the project as to occupant eligibility and unit gross rent, among other requirements. Each building of the project must meet the provisions of these regulations during each of 15 consecutive years in order to remain qualified to receive the credits. The credit allocation is spread over 10 years and will be \$589,562 for the first year, \$779,608 annually for the next nine years and \$190,046 in the eleventh year, if the project remains in compliance.

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(Continued)

INDIANAPOLIS HOUSING AGENCY  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2018

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

- **16 Park GP, Inc.** is authorized to serve as the General Partner of 16 Park, LP, an Indiana Limited Partnership, which was formed to develop, rehabilitate, own, maintain and operate a 155 unit multi-family rental housing development known as 16 Park Apartments located in Indianapolis, Indiana. The partnership has received an allocation of low-income housing tax credits from the State of Indiana totaling \$33,531,920. Each building of the project has qualified for and been allocated low-income housing tax credits pursuant to IRC Section 42, which regulates the use of the project as to occupant eligibility and unit gross rent, among other requirements. Each building of the project must meet the provisions of these regulations during each of 15 consecutive years, beginning in 2011, in order to remain qualified to receive the credits. The credits began in 2012 and increased in 2013 to the full year annual credit of \$3,353,192. The total credits will be spread over an eleven year period, if the Project remains in compliance.
- **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.
- **Indiana Avenue GP, LLC** is a single member LLC authorized to serve as the General Partner of Indiana Avenue Apartments, LP, an Indiana Limited Partnership, which was formed to acquire, rehabilitate, own, maintain, and operate a 106-unit residential apartment complex for tenants age 55 years and older in Indianapolis, Indiana. During 2018, the partnership purchased property from the Agency and began rehabilitation of the units. The partnership expects to generate an allocation of low-income housing tax credits from the State of Indiana totaling \$5,366,760. Generally, such credits will become available for use over a ten-year period, which is expected to begin in 2019.
- **Bethel Townhomes GP, LLC** is a single member LLC authorized to serve as the General Partner of Bethel Townhome Apartments, LP, an Indiana Limited Partnership, which was formed to acquire, develop, finance, construct, rehabilitate, own, maintain, and operate a 94-unit residential rental project in Indianapolis, Indiana. During 2018, the partnership purchased property from the Agency and began construction. The partnership expects to generate an allocation of low-income housing tax credits from the State of Indiana totaling \$5,161,440. Generally, such credits will become available for use over a ten-year period, which is expected to begin in 2019.
- **Millikan II LLC** is a single member LLC formed to acquire, construct, own, and operate a residential rental project in Indianapolis, Indiana. Construction at the project began in 2014 and was completed in 2016. There was no allocation of low-income housing tax credits for this project.

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

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(Continued)

INDIANAPOLIS HOUSING AGENCY  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2018

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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, it also applies policies in accordance with GASB due to the Agency's ability to appoint the Board of Directors. All of the activities of the Agency are accounted for as an enterprise fund for financial reporting purposes. Enterprise funds are used to account for activities (a) that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Measurement Focus, Basis of Accounting and Financial Reporting: The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met. Inter-fund activities within 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, 2018 is as follows:

Tenant account receivable - gross	\$ 1,145,629
Allowance for uncollectible accounts	<u>(638,807)</u>
	<u>\$ 506,822</u>

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

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(Continued)

INDIANAPOLIS HOUSING AGENCY  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2018

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

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.

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, 2018.

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 \$1,603,629 at December 31, 2018.

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 \$6,456 in 2018 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.

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(Continued)

INDIANAPOLIS HOUSING AGENCY  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2018

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

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.

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.

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(Continued)

INDIANAPOLIS HOUSING AGENCY  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2018

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

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.

As of December 31, 2018, the Agency has recorded a liability of \$1,720,841 representing an estimate of the obligations associated with an FSS escrow related repayment.

Subsequent Events: Management has performed an analysis of the activities and transactions subsequent to December 31, 2018, to determine the need for any adjustments or disclosures to the financial statements for the year ended December 31, 2018. Management has performed their analysis through June 27, 2019, the date the financial statements were available to be issued.

**NOTE 2 - CASH AND INVESTMENTS**

Cash Deposits: The Agency and Insight maintains cash deposits with area financial institutions. A summary of these deposits at December 31, 2018 is as follows:

	<u>Carrying Value</u>	<u>Bank Balance</u>
Insured by FDIC	\$ 4,042,583	\$ 4,042,583
Insured by Indiana Public Deposits Insurance Fund	10,944,404	10,944,404
Insured by Securities Investor Protection Corporation	3,085,028	3,085,028
Uninsured	15,028,275	15,085,999
	<u>\$ 33,100,290</u>	<u>\$ 33,158,014</u>
Cash and cash equivalents:		
Unrestricted	\$ 7,679,966	
Restricted (Note 3)	25,420,324	
	<u>\$ 33,100,290</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.

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(Continued)

INDIANAPOLIS HOUSING AGENCY  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2018

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

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

The Agency has three institutional money market deposit accounts to consider for credit risk and custodial credit risk. One valued at \$231,399 that had Standard and Poor credit rating of WR, a Moody's credit rating of P-2, and Fitch rating of F2, one valued at \$94,984 that had a Standard and Poor credit rating of AAA, a Moody's credit rating of Aaa, and Fitch rating of AAA, and one valued at \$4,365,021 that had a Standard and Poor credit rating of AAA, a Moody's credit 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, 2018, 100% of the investments were held in government obligations.

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, 2018, the Agency's investments consisted of government obligations with a maturity date of February 29, 2020.

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' quoted price in active markets for identical assets (Level 1 inputs).

**NOTE 3 - RESTRICTED CASH AND INVESTMENTS**

The Agency has six 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, 2018, cash restricted for tenant security deposits was \$247,430.

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, 2018, the cash restricted for the FSS escrow was \$1,247,315.

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(Continued)

INDIANAPOLIS HOUSING AGENCY  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2018

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**NOTE 3 - RESTRICTED CASH AND INVESTMENTS**

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, 2018, cash restricted for Section 8 vouchers and VASH was \$1,791,900.

Funds Designated for Programs: Loan and TIF 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, 2018, cash restricted for these programs was \$1,253,392. Other program income received by the Agency has been committed to be utilized for various housing projects and programs. At December 31, 2018, cash restricted for these programs was \$855,239.

Reserve Accounts for Operating, Replacement, ACC and Escrow: Reserve accounts per the terms of Regulatory and Operating partnership agreements. At December 31, 2018, the cash account balances totaled \$12,220,155.

Debt Funds Held for Construction: Cash and trustee held cash and investments for the purpose of funding ongoing construction projects from debt issuances. At December 31, 2018, these cash and investment account balances totaled \$11,599,892, including \$8,160,021 of trustee held funds, of which \$3,795,000 represented investments.

**NOTE 4 - CAPITAL ASSETS**

Capital asset activity consisted of the following:

	January 1, 2018	Increases	Decreases	December 31, 2018
Non-depreciable:				
Land	\$ 20,404,855	\$ 350,000	\$ -	\$ 20,754,855
Construction in progress	522,380	5,185,404	-	5,707,784
Total	<u>20,927,235</u>	<u>5,535,404</u>	<u>-</u>	<u>26,462,639</u>
Depreciable:				
Buildings and improvements	209,662,447	534,254	(5,012,925)	205,183,776
Equipment	8,416,512	705,680	(297,261)	8,824,931
Total	<u>218,078,959</u>	<u>1,239,934</u>	<u>(5,310,186)</u>	<u>214,008,707</u>
Less: Accumulated depreciation				
Buildings and improvements	(66,167,569)	(6,420,829)	5,012,925	(67,575,473)
Equipment	(6,160,778)	(525,443)	297,261	(6,388,960)
Total	<u>(72,328,347)</u>	<u>(6,946,272)</u>	<u>5,310,186</u>	<u>(73,964,433)</u>
Net depreciable	<u>145,750,612</u>	<u>(5,706,338)</u>	<u>-</u>	<u>140,044,274</u>
Total capital assets – net	<u>\$ 166,677,847</u>	<u>\$ (170,934)</u>	<u>\$ -</u>	<u>\$ 166,506,913</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.

During 2018, the Agency sold property to Insight for the Indiana Avenue and Bethel Townhomes projects. Due to the blending of the entities, no gain or loss was recognized on the sales and the assets were transferred at the basis of the Agency. Construction in progress as of December 31, 2018 represents ongoing construction for the rehabilitation and construction of these projects, which is expected to be completed in 2019.

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(Continued)

INDIANAPOLIS HOUSING AGENCY  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2018

**NOTE 5 - NON-CURRENT LIABILITIES**

Changes in non-current liabilities were as follows:

	January 1, <u>2018</u>	<u>Increases</u>	<u>Decreases</u>	December 31, <u>2018</u>	Amounts Due within <u>One Year</u>	Amounts Due <u>Thereafter</u>
Loans and interest payable (*)	\$ 19,131,796	\$ 7,725,284	\$ (1,225,078)	\$ 25,632,002	\$ 9,611,958	\$ 16,020,044
Net pension liability	5,176,283	677,295	(1,900,098)	3,953,480	-	3,953,480
Due to other governmental units (**)	1,523,297	-	(64,554)	1,458,743	64,554	1,394,189
FSS escrow (***)	1,125,655	645,871	(908,954)	862,572	157,638	704,934
Accrued compensated absences	<u>280,243</u>	<u>25,390</u>	<u>(65,805)</u>	<u>239,828</u>	<u>23,966</u>	<u>215,862</u>
	<u>\$ 27,237,274</u>	<u>\$ 9,073,840</u>	<u>\$ (4,164,489)</u>	<u>\$ 32,146,625</u>	<u>\$ 9,858,116</u>	<u>\$ 22,288,509</u>

**\*Loans and Interest Payable:**

The Agency has four zero interest loans at December 31, 2018 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, 2018 was \$5,729,095.

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 \$31,029 at December 31, 2018. The balance outstanding at December 31, 2018 was \$2,858,781.

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, 2018 totaled \$30,526. The total outstanding balance at December 31, 2018 was \$8,559,284.

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, 2018 was \$656,103.

During 2018, Insight received an unsecured loan from Local Initiatives Support Corporation (LISC) for \$50,000 with an interest rate of 0%. The total balance outstanding at December 31, 2018 was \$50,000 and the principal is to be repaid upon the earlier of the completion of the project or the maturity date.

During 2018, Insight entered into a loan with IHCDA for \$500,000 for the purpose of advancing the proceeds to the Agency and then to Indiana Avenue Apartments, LP. The loan has an interest rate of 5.75% per annum on the outstanding principal balance. Principal payments are required one year after completion of the Indiana Avenue Apartments Project and continue to the maturity date of October 1, 2050. The balance outstanding at December 31, 2018 was \$500,000.

(Continued)

INDIANAPOLIS HOUSING AGENCY  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2018

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**NOTE 5 - NON-CURRENT LIABILITIES** (Continued)

On September 1, 2018, Bethel Townhome Apartments, LP entered into a building loan agreement with P/R Mortgage & Investment Corp. for a principal amount of up to \$2,845,700 for the acquisition, rehabilitation, and equipping of the Bethel Townhomes Project. Through December 31, 2018, Bethel Townhome Apartments, LP had drawn \$466,045. The loan is collateralized by the Project and insured by HUD and bears interest at 4.51%. The loan requires interest only payments through January 1, 2020 with monthly principal and interest installments of \$12,812 thereafter through the maturity date of January 1, 2060.

In 2018, Bethel Townhome Apartments, LP obtained tax-exempt bond financing, City of Indianapolis, Indiana Multifamily Housing Revenue Bonds of 2018, Series A (Bethel Townhomes Project), issued in the original principal amount of \$3,795,000 for the acquisition, rehabilitation, and equipping of the Bethel Townhomes Project. Through December 31, 2018, the bond was fully advanced and held by a trustee in accordance with the terms of a trust indenture in a project and assignment fund. The bond is collateralized by the Bethel Townhomes Project, matures on March 1, 2021, and bears interest at 2.3%.

In 2018, Bethel Townhome Apartments, LP obtained a construction loan through tax-exempt bond financing, City of Indianapolis, Indiana Multifamily Housing Revenue Bonds of 2018, Series B (Bethel Townhomes Project), issued in the original maximum principal drawing amount of \$3,730,000 for the acquisition, rehabilitation, and equipping of the Bethel Townhomes Project. Through December 31, 2018, Bethel Townhome Apartments, LP had drawn \$50,001. The bond is collateralized by the Bethel Townhomes Project, matures on April 1, 2021, and bears interest at LIBOR plus 325 basis points.

In 2018, Indiana Avenue Apartments, LP obtained a construction loan through tax-exempt bond financing, City of Indianapolis, Indiana Multifamily Housing Revenue Bonds of 2018, Series C (Indiana Avenue Apartments Project), issued in the original maximum principal drawing amount of \$7,945,000 for the acquisition, rehabilitation, and equipping of the Indiana Avenue Project. Through December 31, 2018, Indiana Avenue Apartments, LP had drawn \$2,906,135. The bond is collateralized by the Indiana Avenue Project and matures on October 1, 2020.

Scheduled maturities on loans and interest payable as of December 31, 2018 are as follows:

<u>Year Ended</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 9,581,432	\$ 30,526	\$ 9,611,958
2020	4,030,865	-	4,030,865
2021	4,915,644	-	4,915,644
2022	885,136	-	885,136
2023	775,181	-	775,181
2024-2028	2,023,407	-	2,023,407
2029-2033	-	-	-
2034-2038	-	-	-
2039-2043	-	-	-
2044-2048	-	-	-
2049-2053	500,000	-	500,000
2054-2058	<u>2,858,782</u>	<u>31,029</u>	<u>2,889,811</u>
	<u>\$ 25,570,447</u>	<u>\$ 61,555</u>	<u>\$ 25,632,002</u>

(Continued)

INDIANAPOLIS HOUSING AGENCY  
 NOTES TO FINANCIAL STATEMENTS  
 December 31, 2018

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**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, 2018, discounted at a rate of 3%, are as follows:

<u>Year Ended</u>	
2019	\$ 64,554
2020	64,554
2021	64,554
2022	64,554
2023	64,554
2024-2028	456,323
2029-2033	545,360
2034-2038	545,360
2039-2040	<u>218,139</u>
Total future minimum payments	2,087,952
Less: amount representing present value discount	<u>(629,209)</u>
	<u>\$ 1,458,743</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.

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(Continued)

INDIANAPOLIS HOUSING AGENCY  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2018

**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%	\$ 846,700	\$ 349,923	\$ -	\$ (500,000)	\$ 696,623	(a)
Phase IIA-Perm A	5.36%	772,616	675,821	-	-	1,448,437	(a)
Phase IIA-Perm B	0.00%	3,103,412	-	(2,421,391)	-	682,021	(a)
Phase IIB-Perm A	5.25%	2,078,454	1,254,924	-	-	3,333,378	(a)
Phase IIB-Perm B	0.00%	2,009,813	-	(1,577,236)	-	432,577	(a)
Phase I –							
Insight (AHP)	0.00%	300,000	-	(172,453)	-	127,547	(b)
Phase I –							
Insight (INHP)	0.00%	31,650	-	(18,193)	-	13,457	(b)
Phase IIA –							
Insight (AHP)	0.00%	318,000	-	(251,937)	-	66,063	(b)
Phase IIB –							
Insight (INHP)	0.00%	15,146	-	(12,001)	-	3,145	(b)
Phase IIB –							
Insight (AHP)	0.00%	275,000	-	(218,985)	-	56,015	(b)
Second Mortgages	0.00%	1,102,308	-	-	(1,103,629)	(1,321)	(c)
Trail Side	0.00%	1,650,987	-	(1,019,553)	-	631,434	(d)
St. Clair	0.00%	1,574,691	-	(1,220,013)	-	354,678	(e)
Tibbs I	0.00%	200,000	-	-	(200,000)	-	(f)
Tibbs II	5.74%	300,000	-	-	(300,000)	-	(f)
Penn Place, LP	5.00%	1,100,000	133,633	-	-	1,233,633	(g)
Alegiant Prep	0.00%	33,685	-	-	-	33,685	(h)
		<u>\$ 15,712,462</u>	<u>\$ 2,414,301</u>	<u>\$ (6,911,762)</u>	<u>\$ (2,103,629)</u>	<u>\$ 9,111,372</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 \$4,312,368. 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.

(Continued)

INDIANAPOLIS HOUSING AGENCY  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2018

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**NOTE 6 - LOANS RECEIVABLE (Continued)**

- (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 \$266,227. 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, 20149
- (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, 2018, 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. Payments of \$225,000 and \$200,000 were made during 2018 and 2017, respectively. Following this payment, all principal and interest payments were to be paid from net cash flow with any unpaid amounts being due at the maturity date of December 31, 2054.
- (h) Alegiant Prep: During 2018, Insight provided a tenant improvement allowance of up to \$40,000, which is to be repaid in monthly installments of \$1,667 beginning in 2019.

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(Continued)

INDIANAPOLIS HOUSING AGENCY  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2018

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**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 2018 of \$1,038,841. The Agency has an investment of \$316,900 in the Group at December 31, 2018.

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

**NOTE 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 2018, the Agency paid \$1,630,710 to the City of Indianapolis for fleet services, health insurance, and other services.

In 2018, the Agency received \$325,000 of tax increment financing (TIF) for development projects from the Metropolitan Development Commission through an Interlocal Cooperation Agreement that is effective through December 31, 2020.

In 2018, Insight received distributions from the HOME Investment Partnership Program Funds (HOME) from the Department of Metropolitan Development (DMD) for the Bethel Townhomes Project for up to \$600,000. During 2018, \$441,058 was advanced to Insight and loaned to the project.

As disclosed in Note 5, the City of Indianapolis issued three bonds during 2018 to fund the acquisition, rehabilitation, and equipping of the Indiana Avenue Apartment Project and the Bethel Townhomes Project.

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(Continued)

INDIANAPOLIS HOUSING AGENCY  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2018

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**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 IC 5-10.2, IC 5-10.3, and 35 IAC 1.2. PERF provides retirement, disability, and survivor benefits to full-time employees of the State of Indiana not covered by another plan and those political subdivisions that elect to participate in the retirement fund. 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.

New employees hired by the State or a participating political subdivision have a one-time election to join either the Public Employees' Hybrid Plan (PERF Hybrid) or the My Choice: Retirement Savings Plan for Public Employees (My Choice). A new hire that is an existing member of PERF Hybrid and was not given the option for My Choice is given the option to elect My Choice or remain in PERF Hybrid. PERF Hybrid consists of two components: PERF DB, the employer-funded monthly defined benefit component, and the Public Employees' Hybrid Members Defined Contribution Account, the defined contribution component.

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 2013 and is governed by the INPRS Board of Trustees in accordance with IC 5-10.3-12 and IC 5-10.5. This plan is funded by an employer and a member for the use of the member, or the member's beneficiaries or survivors, after the member's retirement. 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.

Effective January 1, 2018, funds previously known as annuity savings accounts (ASA) (which had been reported within defined benefit funds) were recategorized as defined contribution funds based on Internal Revenue Service Private Letter Rulings PLR-193-2016 and PLR-110249-18. Defined contribution member balances previously reported within PERF defined benefit fund totals were transferred to the appropriate defined contribution fund as of January 1, 2018.

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](mailto:questions@inprs.in.gov), or by visiting [www.in.gov/inprs](http://www.in.gov/inprs).

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(Continued)

**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, 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, 2018; however, eligible members received a one-time check (a.k.a. 13th check) in September 2017. The amount of the one-time check ranged from \$150 to \$450, depending upon a member's years of service, and was for a member who retired or was disabled on or before December 1, 2017, and who was entitled to receive a monthly benefit on July 1, 2018.

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(Continued)

**NOTE 9 - PENSION PLAN** (Continued)

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.

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 that 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 contribute 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: The State of Indiana is obligated by statute to contribute to the PERF Hybrid Plan or My Choice. Any political subdivision that elects to participate in the PERF Hybrid Plan is obligated by statute to contribute 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 2018, 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, 2018 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 7.1 percent effective January 1, 2018. The Agency contributed 11.2 percent for 2018.

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(Continued)

INDIANAPOLIS HOUSING AGENCY  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2018

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**NOTE 9 - PENSION PLAN** (Continued)

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 contribute 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.

The contribution requirement, which was made by the Agency, was \$664,924 for 2018. These total contributions represent 11.2% of covered payroll for 2018.

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, 2018
- Liability valuation date – June 30, 2017 – Member census data as of June 30, 2017 was used in the valuation and adjusted, where appropriate, to reflect changes between June 30, 2017 and June 30, 2018. Valuation results from June 30, 2017 were rolled-forward to June 30, 2018 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 – In lieu of a 1% COLA occurring beginning on January 1, 2020, it is now assumed that the COLA will be replaced by a 13<sup>th</sup> check for 2020 and 2021. The COLA assumption thereafter would be 0.4% beginning on January 1, 2022, 0.5% beginning on January 1, 2034, and ultimately 0.6% beginning on January 1, 2039.
- Future salary increases, including inflation – 2.5% - 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

The following changes in actuarial methods or plan provisions were made for the June 30, 2018 fiscal year:

- Legislation passed in the 2018 legislative session creates a funding mechanism to provide for future benefit increases or 13th checks. The INPRS Board has the authority to have employers contribute up to 1% of member pay into the fund. Increases or payments are made upon passed legislation subject to the availability of funds to provide the benefit.

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(Continued)

INDIANAPOLIS HOUSING AGENCY  
 NOTES TO FINANCIAL STATEMENTS  
 December 31, 2018

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**NOTE 9 - PENSION PLAN** (Continued)

The following changes in actuarial assumptions were made for the June 30, 2018 fiscal year:

- For the June 30, 2018 actuarial valuation, the COLA assumption was changed due to the passage of Senate Enrolled Act No. 373. In lieu of a 1% COLA, beginning on January 1, 2020, it is now assumed that the COLA will be replaced by a 13<sup>th</sup> check for 2020 and 2021. The COLA assumption thereafter would be 0.4% beginning on January 1, 2034, and ultimately 0.6% beginning on January 1, 2039.

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.

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%	4.4%
Private equity	14.0	5.4
Fixed income – ex inflation - linked	20.0	2.2
Fixed income – inflation - linked	7.0	0.8
Commodities	8.0	2.3
Real estate	7.0	6.5
Absolute return	10.0	2.7
Risk parity	<u>12.0</u>	5.2
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 2018). 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.

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(Continued)

INDIANAPOLIS HOUSING AGENCY  
 NOTES TO FINANCIAL STATEMENTS  
 December 31, 2018

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**NOTE 9 - PENSION PLAN** (Continued)

Sensitivity: The following presents the Agency's share of the net pension liability calculated using the discount rate of 6.75 percent for 2018, 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	\$ 6,223,415	\$ 3,953,480	\$ 2,060,604

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](mailto:questions@inprs.in.gov), or by visiting [www.in.gov/inprs](http://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 approximated fair value or, for fixed income instruments, valued using similar methodologies as other fixed income securities described in the next section.

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.

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(Continued)

INDIANAPOLIS HOUSING AGENCY  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2018

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**NOTE 9 - PENSION PLAN** (Continued)

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, 2018, the Agency reported a liability of \$3,953,481 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, 2018 measurement date was 0.0011638, which compared to 0.0011602 at June 30, 2017, an increase of 0.3%. Management is not aware of any significant changes to its proportionate share since the measurement date.

For the year ended December 31, 2018, the Agency recognized pension expense of \$677,295, which included net amortization of deferred amounts from changes in proportion and differences between employer contributions and proportionate share of contributions of \$57,413.

At December 31, 2018, 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	\$ 51,704	\$ 270
Net difference between projected and actual earnings on pension plan investments	117,087	-
Changes in assumptions	9,419	634,786
Changes in proportion and differences between employer contributions and proportionate share of contributions	<u>60,763</u>	<u>4,929</u>
Total that will be recognized in pension expense (income) based on table below	238,973	639,985
Pension contributions subsequent to measurement date	<u>319,933</u>	<u>-</u>
Total	<u>\$ 558,906</u>	<u>\$ 639,985</u>

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(Continued)

INDIANAPOLIS HOUSING AGENCY  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2018

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**NOTE 9 - PENSION PLAN** (Continued)

Deferred outflows of resources resulting from employer contributions subsequent to the June 30, 2018 measurement date is recognized as a reduction of net pension liability in the year ending December 31, 2019. 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>
2019	\$ 115,637
2020	(156,461)
2021	(290,170)
2022	<u>(70,018)</u>
Total	<u>\$ (401,012)</u>

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(Continued)

INDIANAPOLIS HOUSING AGENCY  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2018

**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, 2018.

	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	Indiana Avenue	Bethel	Eliminations	Insight Total	Eliminations	Total
<b>ASSETS</b>																			
Current assets	\$ 9,335,817	\$ 2,592,343	\$ 4,107,662	\$ 4,423,878	\$ 2,129,588	\$ (103,996)	\$ 22,485,292	\$ 1,295,115	\$ 140,837	\$ 1,048,591	\$ 1,326,674	\$ 421,624	\$ 786,746	\$ 4,508,000	\$ 3,536,762	\$ -	\$ 13,064,349	\$ -	\$ 35,549,641
Due (to)/from	388,262	74,522	40,797	42,886	36,336	-	582,803	66,386	(95,535)	-	-	-	(222,050)	(104,015)	(227,589)	-	(582,803)	-	-
Total current assets	9,724,079	2,666,865	4,148,459	4,466,764	2,165,924	(103,996)	23,068,095	1,361,501	45,302	1,048,591	1,326,674	421,624	564,696	4,403,985	3,309,173	-	12,481,546	-	35,549,641
Investments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,795,000	-	3,795,000	-	3,795,000
Capital assets (net)	35,242,479	12,896,062	15,091,118	16,715,807	22,938,135	-	102,883,601	876,948	1,387,870	8,331,324	25,368,951	9,558,562	11,830,662	1,653,648	4,615,347	-	63,623,312	-	166,506,913
Other noncurrent assets	72,165,130	619,641	664,866	420,219	487,916	(39,054,709)	35,303,063	6,842,869	-	-	2,009,653	470,268	-	338,867	338,867	(2,274,915)	7,725,609	(33,620,400)	9,408,272
Total assets	107,407,609	13,515,703	15,755,984	17,136,026	23,426,051	(39,054,709)	138,186,664	7,719,817	1,387,870	8,331,324	27,378,604	10,028,830	11,830,662	1,992,515	8,749,214	(2,274,915)	75,143,921	(33,620,400)	179,710,185
	117,131,688	16,182,568	19,904,443	21,602,790	25,591,975	(39,158,705)	161,254,759	9,081,318	1,433,172	9,379,915	28,705,278	10,450,454	12,395,358	6,396,500	12,058,387	(2,274,915)	87,625,467	(33,620,400)	215,259,826
<b>DEFERRED OUTFLOWS OF RESOURCES</b>																			
Deferred outflows from pension	558,906	-	-	-	-	-	558,906	-	-	-	-	-	-	-	-	-	-	-	558,906
Total assets and deferred outflows of resources	\$ 117,690,594	\$ 16,182,568	\$ 19,904,443	\$ 21,602,790	\$ 25,591,975	\$ (39,158,705)	\$ 161,813,665	\$ 9,081,318	\$ 1,433,172	\$ 9,379,915	\$ 28,705,278	\$ 10,450,454	\$ 12,395,358	\$ 6,396,500	\$ 12,058,387	\$ (2,274,915)	\$ 87,625,467	\$ (33,620,400)	\$ 215,818,732
<b>LIABILITIES</b>																			
Current liabilities	\$ 7,538,607	\$ 255,657	\$ 259,390	\$ 322,853	\$ 321,874	\$ (2,192,642)	\$ 6,505,739	\$ 134,007	\$ 36,598	\$ 96,768	\$ 954,055	\$ 398,980	\$ 8,796,933	\$ 557,682	\$ 2,001,028	\$ -	\$ 12,976,051	\$ (3,157,655)	\$ 16,324,135
Noncurrent liabilities	7,793,702	10,083,770	10,202,956	9,503,181	8,923,391	(36,966,063)	9,540,937	1,353,605	2,156,054	7,944,059	10,543,694	1,243,069	-	11,975,393	10,269,358	(2,274,915)	43,210,317	(30,462,745)	22,288,509
Total liabilities	15,332,309	10,339,427	10,462,346	9,826,034	9,245,265	(39,158,705)	16,046,676	1,487,612	2,192,652	8,040,827	11,497,749	1,642,049	8,796,933	12,533,075	12,270,386	(2,274,915)	56,186,368	(33,620,400)	38,612,644
<b>DEFERRED INFLOWS OF RESOURCES</b>																			
Deferred inflows from pension	639,985	-	-	-	-	-	639,985	-	-	-	-	-	-	-	-	-	-	-	639,985
<b>NET POSITION</b>																			
Net investment in capital assets	34,035,954	2,757,900	4,838,519	7,094,862	14,134,691	36,862,067	99,723,993	526,948	(767,361)	394,344	14,361,258	8,315,494	3,240,852	(6,488,780)	(604,503)	2,274,915	21,253,167	28,521,687	149,498,847
Restricted for Section 8 vouchers and VASH	6,456	-	-	-	-	-	6,456	-	-	-	-	-	-	-	-	-	-	-	6,456
Restricted for reserves and escrow	174,558	1,837,536	2,726,209	3,421,261	1,581,637	-	9,741,201	178,113	76,501	953,709	716,643	307,718	-	-	246,270	-	2,478,954	-	12,220,155
Restricted for programs	2,108,631	-	-	-	-	-	2,108,631	-	-	-	-	-	-	-	-	-	-	-	2,108,631
Unrestricted	65,392,701	1,247,705	1,877,369	1,260,633	630,382	(36,862,067)	33,546,723	6,888,645	(68,620)	(8,965)	2,129,628	185,193	357,573	352,205	146,234	(2,274,915)	7,706,978	(28,521,687)	12,732,014
Total net position	101,718,300	5,843,141	9,442,097	11,776,756	16,346,710	-	145,127,004	7,593,706	(759,480)	1,339,088	17,207,529	8,808,405	3,598,425	(6,136,575)	(211,999)	-	31,439,099	-	176,566,103
Total liabilities, deferred inflows of resources and net position	\$ 117,690,594	\$ 16,182,568	\$ 19,904,443	\$ 21,602,790	\$ 25,591,975	\$ (39,158,705)	\$ 161,813,665	\$ 9,081,318	\$ 1,433,172	\$ 9,379,915	\$ 28,705,278	\$ 10,450,454	\$ 12,395,358	\$ 6,396,500	\$ 12,058,387	\$ (2,274,915)	\$ 87,625,467	\$ (33,620,400)	\$ 215,818,732

The following summarizes the combining information for the statements of revenues, expenses, and changes in net position for the year ended December 31, 2018.

	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	Indiana Avenue	Bethel	Eliminations	Insight Total	Eliminations	Total
Operating revenue	\$ 2,660,896	\$ 424,168	\$ 490,822	\$ 716,683	\$ 963,762	\$ -	\$ 5,256,331	\$ 1,536,243	\$ 106,873	\$ 331,417	\$ 1,200,754	\$ 381,493	\$ 1,362,112	\$ 61,320	\$ -	\$ -	\$ 4,980,212	\$ -	\$ 10,236,543
Operating expenses	60,380,295	1,705,423	2,047,944	2,230,544	1,490,535	-	67,854,741	607,924	333,231	809,090	1,385,734	426,687	749,642	508,206	531,524	-	5,352,038	-	73,206,779
Depreciation expense	2,281,080	458,023	513,907	547,053	770,959	-	4,571,022	23,362	131,464	449,470	819,914	327,920	544,776	57,417	20,927	-	2,375,250	-	6,946,272
Total operating expenses	62,661,375	2,163,446	2,561,851	2,777,597	2,261,494	-	72,425,763	631,286	464,695	1,258,560	2,205,648	754,607	1,294,418	565,623	552,451	-	7,727,288	-	80,153,051
Operating loss	(60,000,479)	(1,739,278)	(2,071,029)	(2,060,914)	(1,297,732)	-	(67,169,432)	904,957	(357,822)	(927,143)	(1,004,894)	(373,114)	67,694	(504,303)	(552,451)	-	(2,747,076)	-	(69,916,508)
Intergovernmental grants	58,077,053	1,797,599	1,801,246	2,069,348	908,527	-	64,653,773	-	220,863	204,928	412,655	23,966	-	78,827	1,779	-	943,018	-	65,596,791
Other non-operating revenues (expenses)	2,480,213	(191,797)	(83,062)	(137,817)	(357,537)	-	1,710,000	(22,944)	41,510	(340,761)	207,079	(47,444)	(406,583)	(97,370)	(53,262)	-	(719,775)	-	990,225
Total non-operating revenues (expenses)	60,557,266	1,605,802	1,718,184	1,931,531	550,990	-	66,363,773	(22,944)	262,373	(135,833)	619,734	(23,478)	(406,583)	(18,543)	(51,483)	-	223,243	-	66,587,016
Loss before capital contributions	556,787	(133,476)	(352,845)	(129,383)	(746,742)	-	(805,659)	882,013	(95,449)	(1,062,976)	(385,160)	(396,592)	(338,889)	(522,846)	(603,934)	-	(2,523,833)	-	(3,329,492)
Gain (Loss) on inter-entity sale of assets	7,111,608	-	-	-	-	-	7,111,608	-	-	-	-	-	-	(6,551,308)	(560,300)	-	(7,111,608)	-	-
Capital grants and contributions	3,057,711	-	-	-	-	-	3,057,711	(200)	-	-	-	-	-	937,579	952,235	-	1,889,614	-	4,947,325
Change in net position	10,726,106	(133,476)	(352,845)	(129,383)	(746,742)	-	9,363,660	881,813	(95,449)	(1,062,976)	(385,160)	(396,592)	(338,889)	(6,136,575)	(211,999)	-	(7,745,827)	-	1,617,833
Net position, beginning 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
Net position, end of year	\$ 101,718,300	\$ 5,843,141	\$ 9,442,097	\$ 11,776,756	\$ 16,346,710	\$ -	\$ 145,127,004	\$ 7,593,706	\$ (759,480)	\$ 1,339,088	\$ 17,207,529	\$ 8,808,405	\$ 3,598,425	\$ (6,136,575)	\$ (211,999)	\$ -	\$ 31,439,099	\$ -	\$ 176,566,103

**REQUIRED SUPPLEMENTARY INFORMATION**

INDIANAPOLIS HOUSING AGENCY  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF THE AGENCY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
 December 31, 2018

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	<u>2018</u>	<u>2017</u>	<u>2016</u>
Agency's proportion of the net pension liability	0.0011638	0.0011602	0.0011275
Agency's proportionate share of the net pension liability	\$ 3,953,480	\$ 5,176,283	\$ 5,117,096
Agency's covered payroll	\$ 5,938,354	\$ 5,785,265	\$ 5,403,647
Agency's proportionate share of the net pension liability as a percentage of its covered payroll	66.58%	89.47%	94.70%
Plan fiduciary net position as a percentage of the total pension liability	78.90%	76.60%	75.30%

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

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

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

*Plan amendments.* In 2018 and 2017, there were no plan changes that impacted pension benefits during the year. In 2014, HB 1075 impacted the PERF by reducing the Annuity Savings Account (ASA) interest crediting rate on annuities from 7.5% to 5.75% effective October 1, 2014. Effective October 1, 2015, the rate becomes the greater of 4.5%, or market rate. On January 1, 2017, the ASA annuities are allowed to be outsourced to a third party provider.

*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, 2019

For the June 30, 2018 actuarial valuation, the COLA assumption was changed due to the passage of Senate Enrolled Act No. 373. In lieu of a 1% COLA, beginning on January 1, 2020, it is now assumed that the COLA will be replaced by a 13<sup>th</sup> check for 2020 and 2021. The COLA assumption thereafter would be 0.4% beginning on January 1, 2034, and ultimately 0.6% beginning on January 1, 2039.

\*\* 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, 2018

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Statutorily required contribution	\$ 664,924	\$ 644,756	\$ 603,028
Contributions in relation to the statutorily required contribution	<u>(664,924)</u>	<u>(644,756)</u>	<u>(603,028)</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	\$ 5,936,821	\$ 5,756,750	\$ 5,384,179
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 Utility is presenting information for those years for which information is available.

*Valuation date:* Actuarially determined contribution rates are calculated as of June 30, two years prior to the end of the fiscal year in which the contributions are reported.

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

*Amortization method:* Level dollar

*Remaining amortization period:* 20 years, closed

*Asset valuation method:* 5 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 11.20%. 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 actuarially determined contribution rate for the State for the fiscal year ended 6/30/18 was 9.89%; 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 the prior year-end was used in the valuation and adjusted, where appropriate, to reflect changes during the current fiscal year. Standard actuarial roll forward techniques were then used to project the liabilities computed as of prior year-end to the current year measurement date.

**SUPPLEMENTARY INFORMATION**

INDIANAPOLIS HOUSING AGENCY  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 Year ended December 31, 2018

<b>Federal Grantor/Pass-Through Grantor /Program Title</b>	<b>CFDA Number</b>	<b>Total Federal Expenditures</b>	<b>Total Paid to Subrecipients</b>
<b>Department of Housing and Urban Development</b>			
Housing Voucher Cluster			
Section 8 Housing Choice Vouchers	14.871	\$ 56,135,129	\$ -
Mainstream Vouchers	14.879	<u>58,105</u>	<u>-</u>
Total Housing Voucher Cluster		56,193,234	-
Public and Indian Housing	14.850	1,883,755	-
Public Housing Capital Fund	14.872	3,057,710	-
Family Self-Sufficiency Program	14.896	<u>220,726</u>	<u>-</u>
		<u>61,355,425</u>	<u>-</u>
Pass-through: City of Indianapolis HOME Investment Partnerships Program	14.239	<u>441,058</u>	<u>-</u>
Total Department of Housing and Urban Development		<u>61,796,483</u>	<u>-</u>
<b>Total Federal Expenditures</b>		<u>\$ 61,796,483</u>	<u>\$ -</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 AWARDS  
December 31, 2018

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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.

Various component units of the Agency and Insight directly receive federally-subsidized rental income through Housing Assistance Payment ("HAP") agreements with HUD in which HUD has agreed to pay the difference between the contract rent, as defined in the HAP agreement, and that portion of such rent payable by qualified tenants. The total amount received by component units through these contracts during 2018 was \$6,957,706. This funding is subject to compliance audits at the component unit level and those audits disclosed no instances of non-compliance. This funding is not included on the Schedule of Expenditures of Federal, State, and Local Awards of the Agency.

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) and the HOME Investment Partnerships Program (CFDA number 14.239), 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, 2018, 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 27, 2019. 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, Barton Block, LP, and Indiana Avenue Apartments, LP as described in our report on the Agency's financial statements. The financial statements of these Limited Partnership blended component units were not audited in accordance with *Government Auditing Standards*.

### Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Agency's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our 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. We did identify deficiencies in internal control, described in the accompanying schedule of findings and questioned costs (2018-001 and 2018-002) that we consider to be material weaknesses.

## **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 findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Agency's response was not subjected to the auditing procedures applied in the audit of 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 LLP

Indianapolis, Indiana  
June 27, 2019

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, 2018. 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, 2018.

## 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 LLP

Indianapolis, Indiana  
June 27, 2019

INDIANAPOLIS HOUSING AGENCY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
December 31, 2018

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**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     No

Significant deficiency(ies) identified?

Yes     None reported

Noncompliance material to financial statements noted?

Yes     No

***Federal Awards:***

Internal Control over major programs:

Material weakness(es) identified?

Yes     No

Significant deficiency(ies) identified?

Yes     None reported

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

Unmodified

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

Yes     No

Identification of major programs:

- CFDA 14.871, 14.879    – Section 8 Housing Choice Vouchers
- CFDA 14.872            – Public Housing Capital Fund

Dollar threshold used to distinguish type A and B programs:

\$ 1,853,894

Auditee qualified as low-risk auditee?

Yes     No

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(Continued)

INDIANAPOLIS HOUSING AGENCY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
December 31, 2018

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

**2018-001 Internal Control over Financial Reporting (Material Weakness)**

Condition: During our audit, seven audit adjustments were identified and recorded related to various financial areas and transactions. These adjustments resulted in a decrease in assets of approximately \$3.2 million, a decrease in liabilities of approximately \$784,000, a decrease in net position of approximately \$1.2 million, an increase in revenue of approximately \$506,000, and an increase in expenses of approximately \$1.7 million.

Criteria: Management is responsible to have internal controls in place to provide appropriate and reliable financial reports and to select and apply appropriate accounting principles. Management is not required to prepare their financial reports, but management needs to demonstrate the level of qualifications and controls to prepare their financial reports without material weaknesses in these controls.

Effect: During the current year audit, a significant number of audit adjustments were posted that changed the financial statement results of the Agency and Insight by a material amount. We have also identified potential adjustments, which have been concluded as immaterial by management, but may be representative of control issues over the application of accounting principles. As a result of these misstatements, the monthly financial reporting used to make management decisions may be materially misstated.

Cause: The adjustments identified seem to be the result of there not being a good monthly or annual reconciliation process, specifically as it relates to unusual or "one-time" transactions. The lack of internal controls over the reconciliation process and recording of these transactions may also be due, in part, to turnover within the Finance department.

Recommendation: We suggest that management establish appropriate procedures and reviews to provide for accurate and timely monthly reconciliations so that the general ledger reflects a complete, accurate representation of financial results. We also recommend that the Agency potentially create a special task force or external consultant review the accounting for major unusual transactions.

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(Continued)

INDIANAPOLIS HOUSING AGENCY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
December 31, 2018

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

**2018-002 Accounting for Sale and Financing of RAD Closings with Limited Partnerships**  
(Material Weakness)

Condition: During our audit, 18 audit adjustments were identified and recorded specifically related to the sale and financing of RAD closings of Bethel LP and Indiana Avenue LP. These audit adjustments resulted in a decrease in assets of approximately \$1.5 million, an increase in liabilities of approximately \$2.8 million, an increase in net position of approximately \$557,000, a decrease in revenue of approximately \$6.9 million, and a decrease in expenses of approximately \$2.0 million.

Criteria: Management is responsible to have internal controls in place to provide appropriate and reliable financial reports and to select and apply appropriate accounting principles. Management is not required to prepare their financial reports, but management needs to demonstrate the level of qualifications and controls to prepare their financial reports without material weaknesses in these controls.

Effect: During the current year audit, a significant number of audit adjustments were posted that changed the financial statement results of the Agency and Insight (and Bethel LP and Indiana Avenue LP) by a material amount. As a result of these misstatements, the monthly financial reporting used to make management decisions may be materially misstated.

Cause: As noted above, the adjustments were related to the sale and financing of RAD closings of Bethel LP and Indiana Avenue LP. These closings are often very complicated and include many facets that impact not the newly created limited partnerships, but also the Agency and Insight. The lack of internal controls over the reconciliation process and recording of these transactions may also be due, in part, to turnover within the Finance department.

Recommendation: We recommend that the Agency potentially create a special task force or external consultant review the accounting for the sale and financing of RAD closings with limited partnerships.

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

None



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John E. Hall  
Executive Director

COMMISSIONERS:

Michael Allen -  
Chairperson

Jonelle L. Barlow  
Yolanda Cowell  
Bonita Davis  
Esther Carter-Day  
Trent Garrett  
Sherry Seiwert  
Chuck White  
William D. Zink

THE INDIANAPOLIS  
HOUSING AGENCY  
MISSION STATEMENT:

Our mission is to be a  
top-performing agency  
that

Provides quality and  
affordable housing;

Contributes to safe  
communities;

Encourages individual  
and family self-  
sufficiency; and

Affirmatively promotes  
fair housing.

For more information, visit:  
[www.indyhousing.org](http://www.indyhousing.org)

**Management’s Response and Corrective Action Plan**

**2018-001 Internal Control over Financial Reporting (Material Weakness)**

View of Responsible Official: Management acknowledges the finding.

Corrective Action Plan: IHA will update finance policies to ensure timely and accurate monthly and yearly reconciliations for all balance sheet accounts. IHA is currently working on filling the vacant CFO position and other vacant positions within the finance department. IHA will work with outside consulting in regards to the review of financials and one time obscure transactions which happen from time to time. IHA employees are also currently being signed up for training which relates to their position within the finance department.

Responsible Personnel: Michael Nichipor, Interim CFO

**2018-002 Accounting for Sale and Financing of RAD Closings with Limited Partnerships (Material Weakness)**

View of Responsible Official: Management acknowledges the finding.

Corrective Action Plan: IHA will work with outside consulting during future RAD closings to ensure accuracy of the transactions involved. IHA is also working to fill the vacant CFO position and other vacant positions within the finance department. Finance team members who are involved with the accounting and financial reporting of RAD properties will be required to attend training which will relate to their respected positions and the accounting not only for RAD closings, but RAD properties as well.

Responsible Personnel: Michael Nichipor, Interim CFO

**Schedule of Prior Year Findings and Questioned Costs**

**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.

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.

Status: Resolved