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July 30, 2020

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

We have reviewed the audit report of Indianapolis Housing Agency, which was opined upon by Crowe LLP, Independent Public Accountants, for the period January 1, 2019 to December 31, 2019. 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, 2019 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 pages 44-48. 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 48.

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, 2019

INDIANAPOLIS HOUSING AGENCY

Indianapolis, Indiana

FINANCIAL STATEMENTS

December 31, 2019

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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, 2019, 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, Indiana Avenue Apartments, LP, and Bethel Townhome Apartments, LP, the Limited Partnership blended component units described in Note 1, whose statements reflect total assets constituting 53 percent of total assets at December 31, 2019, and total revenues constituting 16 percent of total revenues for the year then ended. Those statements were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for those entities, is based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standard applicable to financial audits contained in *Government Auditing Standards*, issues by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the Limited Partnership blended component units listed above were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

(Continued)

Opinion

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the Indianapolis Housing Agency, as of December 31, 2019, 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 35 and the schedule of the Agency's contributions on page 36 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2020 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 30, 2020

INDIANAPOLIS HOUSING AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
December 31, 2019

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, 2019. 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 decreased by \$2.3 million or 7 percent from 2018 to 2019. This decrease was primarily due to the use of cash received in 2018 for construction activity at the Indiana Avenue Apartments and Bethel Townhomes.
- **Capital assets:** Capital assets increased by \$9.7 million, or 6 percent, from 2018 to 2019. This is primarily related to the ongoing construction at the Indiana Avenue Apartments and Bethel Townhomes.
- **Accounts payable:** Accounts payable decreased by \$2.5 million, or 73 percent, from 2018 to 2019. This is primarily due to the timing of accrued payments to construction vendors for the Indiana Avenue Apartments and Bethel Townhomes.
- **Loans and interest payable (current):** Loans payable (current) increased by \$6.7 million, or 69 percent, from 2018 to 2019. This is primarily due to the bond financing for Indiana Avenue Apartments having a maturity date in 2020, in addition to the Millikan II financing.
- **Loans and interest payable (non-current):** Loans payable (non-current) increased by \$3.1 million, or 19 percent, from 2018 to 2019. This is primarily due new construction related financing for Indiana Avenue Apartments and Bethel Townhomes.

OTHER HIGHLIGHTS

- Total revenue for all programs, net of interfund eliminations, was approximately \$82 million for the year. Tenant rental revenue generated approximately \$6.6 million and HUD operating subsidy and grants provided approximately \$68.5 million.
- Total operating expenses for all programs, net of interfund eliminations, was approximately \$81.4 million. Housing assistance payments to landlords on behalf of tenants represented approximately \$53.5 million, while administrative expenses represented approximately \$10.2 million, maintenance expenses represented approximately \$5 million, and depreciation expense represented approximately \$6.6 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, \$12.8 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 increase by \$4,848 (Table 2) as a result of current year activities.

(Continued)

INDIANAPOLIS HOUSING AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
December 31, 2019

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 \$222.8 million at December 31, 2019. This represents an increase of 3 percent from the prior year. Total liabilities and deferred inflows of resources amounted to \$46.3 million, representing an increase of 18 percent, and total net position was \$176.5 million, which was consistent with the prior year (See Table 1).

Table 1
Net Position – Agency and Insight

	<u>2019</u>	<u>2018</u>	<u>\$</u> <u>Change</u>	<u>%</u> <u>Change</u>
Assets and Deferred Outflows of Resources				
Current assets	\$ 32,620,036	\$ 35,549,641	\$ (2,929,605)	(8)
Capital assets (net)	176,178,006	166,506,913	9,671,093	6
Other non-current assets	13,623,990	13,203,272	420,718	3
Deferred outflows of resources	<u>418,314</u>	<u>558,906</u>	<u>(140,592)</u>	<u>(25)</u>
Total assets and deferred outflows of resources	<u>\$ 222,840,346</u>	<u>\$ 215,818,732</u>	<u>\$ 7,021,614</u>	<u>3</u>
Liabilities and Deferred Inflows of Resources				
Current liabilities	\$ 20,749,294	\$ 16,324,135	\$ 4,425,159	27
Non-current liabilities	24,788,513	22,288,509	2,500,004	11
Deferred inflows of resources	<u>731,588</u>	<u>639,985</u>	<u>91,603</u>	<u>14</u>
Total liabilities and deferred inflows of resources	<u>46,269,395</u>	<u>39,252,629</u>	<u>7,016,766</u>	<u>18</u>
Net position				
Net investment in capital assets	149,453,336	149,498,847	(45,511)	-
Restricted for Section 8 vouchers and VASH	741,052	6,456	734,596	11378
Restricted for reserves and escrow	11,968,108	12,220,155	(252,047)	(2)
Restricted for programs	1,631,881	2,108,631	(476,750)	(22)
Unrestricted	<u>12,776,574</u>	<u>12,732,014</u>	<u>44,560</u>	<u>-</u>
Total net position	<u>176,570,951</u>	<u>176,566,103</u>	<u>4,848</u>	<u>-</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 222,840,346</u>	<u>\$ 215,818,732</u>	<u>\$ 7,021,614</u>	<u>3</u>

(Continued)

INDIANAPOLIS HOUSING AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
December 31, 2019

Changes in Net Position

The Agency's and Insight's net position at December 31, 2019 was consistent with the prior year. The Agency's and Insight's total operating revenues increased 16 percent. Total operating expenses increased 2 percent. The changes in net position are detailed in Table 2. Operating expenses and budgetary analysis are detailed in Tables 3 and 4.

Intergovernmental revenues of \$68.5 million and \$65.6 million during 2019 and 2018, 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>2019</u>	<u>2018</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
Operating revenues				
Tenant revenue	\$ 6,628,139	\$ 6,683,557	\$ (55,418)	(1)%
Other income	<u>5,290,634</u>	<u>3,552,986</u>	<u>1,737,648</u>	<u>49</u>
Total operating revenues	<u>11,918,773</u>	<u>10,236,543</u>	<u>1,682,230</u>	<u>16</u>
Operating expenses				
Operating expenses	74,894,107	73,186,309	1,707,798	2
Depreciation	<u>6,574,085</u>	<u>6,946,272</u>	<u>(372,187)</u>	<u>(5)</u>
Total operating expenses	<u>81,468,192</u>	<u>80,132,581</u>	<u>1,335,611</u>	<u>2</u>
Operating loss	(69,549,419)	(69,896,038)	346,619	-
Non-operating revenues (expenses) and capital grants and contributions				
Intergovernmental	68,452,316	65,596,791	2,855,525	4
Interest income from loans	772,617	466,773	305,844	217
Interest income from investments	194,543	140,813	53,730	12
Interest expense	(1,045,867)	(485,044)	(560,823)	116
Loss on disposition of assets	(2,611)	(175,423)	172,812	(99)
Other revenue	1,013,302	1,043,106	(29,804)	(3)
Actuarial change in pension	64,563	(20,470)	85,033	(415)
HUD capital grants	105,404	3,057,711	(2,952,307)	(97)
Other capital contributions	-	1,889,614	(1,889,614)	(100)
	<u>69,554,267</u>	<u>71,513,871</u>	<u>(1,959,604)</u>	<u>(3)</u>
Change in net position	4,848	1,617,833	(1,612,985)	(100)
Net position, beginning of year	<u>176,566,103</u>	<u>174,948,270</u>	<u>1,617,833</u>	<u>1</u>
Total net position, end of year	<u>\$176,570,951</u>	<u>\$ 176,566,103</u>	<u>\$ 4,848</u>	<u>- %</u>

(Continued)

INDIANAPOLIS HOUSING AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)
December 31, 2019

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

	<u>2019</u>	<u>2018</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
Administration	\$ 10,165,465	\$ 9,925,853	\$ 239,612	2%
Tenant services	378,958	598,172	(219,214)	(37)
Utilities	2,658,951	2,730,039	(71,088)	(3)
Maintenance	4,982,372	4,704,884	277,488	6
Protective services	803,378	819,778	(16,400)	(2)
Insurance premiums	1,218,759	1,128,595	90,164	8
General	1,152,178	925,739	226,439	24
FSS repayment	-	1,720,841	(1,720,841)	(100)
Housing assistance payments	53,534,046	50,632,408	2,901,638	6
Depreciation	<u>6,574,085</u>	<u>6,946,272</u>	<u>(372,187)</u>	<u>(5)</u>
Total operating expenses	<u>\$ 81,468,192</u>	<u>\$ 80,132,581</u>	<u>\$ 1,335,611</u>	<u>2%</u>

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

	<u>2019 Budget</u>	<u>2019 Actual</u>	<u>Dollar Variance</u>	<u>Percentage Variance</u>
Administration	\$ 10,836,851	\$ 10,165,465	\$ 671,386	7%
Tenant services	350,815	378,958	(28,143)	(7)
Utilities	2,043,155	2,658,951	(615,796)	(23)
Maintenance	4,950,998	4,982,372	(31,374)	(1)
Protective services	496,930	803,378	(306,448)	(38)
Insurance premium	683,012	1,218,759	(535,747)	(44)
General	303,644	1,152,178	(848,534)	(73)
Housing assistance payments	<u>55,046,385</u>	<u>53,534,046</u>	<u>1,512,339</u>	<u>3</u>
Total operating expenses	<u>\$ 74,711,790</u>	<u>\$ 74,894,107</u>	<u>\$ (182,317)</u>	<u>-%</u>

(Continued)

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of December 31, 2019, the Agency and Insight had \$176.2 million in capital assets, net of accumulated depreciation. As of December 31, 2018, the Agency and Insight had \$166.5 million in capital assets, net of accumulated depreciation. As compared to the prior year, this amount represents a net increase (including additions and disposals) of \$9.7 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

In December 2019, a novel strain of coronavirus surfaced and has spread around the world, with resulting business and social disruption. The coronavirus was declared a Public Health Emergency of International Concern by the World Health Organization on January 30, 2020. The operations and business results of the Agency could be materially adversely affected.

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

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

INDIANAPOLIS HOUSING AGENCY
STATEMENT OF NET POSITION
December 31, 2019

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

Current assets

Cash and cash equivalents:

Cash - unrestricted (Note 2)	\$ 7,765,311
Cash - restricted (Notes 2 & 3)	22,996,304

Receivables:

Due from HUD	153,281
Accounts receivable - miscellaneous	309,419
Accounts receivable - tenants, net (Note 1)	476,080
Loans receivable and accrued interest, net (Note 6)	13,683

Prepaid expense and other assets	<u>905,958</u>
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Total current assets	32,620,036
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Noncurrent assets

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

Non-depreciable property	22,633,742
Depreciable property	233,909,481
Accumulated depreciation	<u>(80,365,217)</u>
Net capital assets	176,178,006

Loans receivable and accrued interest, net (Note 6)	9,512,090
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Other assets (Note 7)	<u>316,900</u>
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Total non - current assets	<u>189,801,996</u>
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Total assets	222,422,032
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Deferred outflows of resources

Pension (Note 9)	<u>418,314</u>
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Total assets and deferred outflows of resources	<u>\$ 222,840,346</u>
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(Continued)

INDIANAPOLIS HOUSING AGENCY
STATEMENT OF NET POSITION
December 31, 2019

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

Current liabilities

Accounts payable and accrued expenses:	
Vendors and contractors	\$ 896,508
Accrued salaries and benefits payable	284,776
Accrued compensated absences (Note 5)	24,288
Due to other governmental units (Note 5)	64,554
Tenant security deposits	324,449
Unearned revenues	356,644
Loans and interest payable (Note 5)	16,291,254
Other liabilities – FSS Escrow (Note 5)	53,459
Other accrued liabilities:	
FSS repayment (Note 1)	1,224,304
Miscellaneous	<u>1,229,058</u>
Total current liabilities	20,749,294

Non-current liabilities

Loans and interest payable (Note 5)	19,108,939
Other liabilities:	
Due to other governmental units (Note 5)	1,329,635
FSS Escrow (Note 5)	474,456
Accrued compensated absences (Note 5)	218,761
Net pension liability (Note 9)	<u>3,656,722</u>
Total non-current liabilities	<u>24,788,513</u>

Total liabilities 45,537,807

Deferred inflows of resources

Pension (Note 9)	731,588
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Net position

Net investment in capital assets	149,453,336
Restricted:	
Section 8 vouchers and VASH	741,052
Reserves and escrow (Note 3)	11,968,108
Programs (Note 3)	1,631,881
Unrestricted	<u>12,776,574</u>
Total net position	<u>176,570,951</u>

Total liabilities, deferred inflows of resources
and net position \$ 222,840,346

See accompanying notes to financial statements.

INDIANAPOLIS HOUSING AGENCY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
Year ended December 31, 2019

Operating revenues	
Tenant revenue	\$ 6,628,139
Other income	<u>5,290,634</u>
Total operating revenues	11,918,773
Operating expenses	
Administration	10,165,465
Tenant services	378,958
Utilities	2,658,951
Maintenance	4,982,372
Protective services	803,378
Insurance premiums	1,218,759
General	1,152,178
Housing assistance payments	53,534,046
Depreciation	<u>6,574,085</u>
Total operating expenses	<u>81,468,192</u>
Operating loss	(69,549,419)
Non-operating revenues (expenses)	
Intergovernmental grants	68,452,316
Interest income from investments	194,543
Interest income from loans	772,617
Interest expense	(1,045,867)
Other revenue	1,013,302
Actuarial change in pension	64,563
Loss on sale of other assets	<u>(2,611)</u>
Total non-operating revenues (expenses)	<u>69,448,863</u>
Loss before capital grants and contributions	(100,556)
Capital grants and contributions	
HUD capital grants	<u>105,404</u>
Change in net position	4,848
Net position, beginning of year	<u>176,566,103</u>
Net position, end of year	<u>\$ 176,570,951</u>

See accompanying notes to financial statements.

INDIANAPOLIS HOUSING AGENCY
STATEMENT OF CASH FLOWS
Year ended December 31, 2019

Cash flows from operating activities	
Rental receipts	\$ 6,809,044
Other operating receipts	2,762,445
Payments for personnel – salaries and benefits	(8,273,057)
Payments for other operating activities	(13,378,027)
Housing assistance payments	(53,534,046)
Tenant security and other deposits	(266,203)
Net cash from operating activities	<u>(65,879,844)</u>
Cash flows from non-capital financing activities	
Intergovernmental revenues received	<u>68,850,222</u>
Net cash from non-capital financing activities	68,850,222
Cash flows from capital and related financing activities	
Capital asset purchases	(15,452,154)
Non-operating receipts, net	272,164
Proceeds from issuance of loans	11,047,462
Interest paid on loans	(1,291,072)
Principal payments on loans	(543,616)
Capital grants	<u>105,404</u>
Net cash from capital and related financing activities	(5,861,812)
Cash flows from investing activities	
Payments received from loans receivable	20,000
Interest on cash, investments and loans	<u>532,759</u>
Net cash from investing activities	<u>552,759</u>
Net change in cash and cash equivalents	(2,338,675)
Cash and cash equivalents, beginning	<u>33,100,290</u>
Cash and cash equivalents, ending	<u>\$ 30,761,615</u>
Reconciliation of operating loss to net cash from operating activities:	
Operating loss	\$ (69,549,419)
Adjustments to reconcile operating loss to net cash from operating activities:	
Depreciation expense	6,574,085
Capitalized developer fees	(2,190,000)
Loss on sale of other assets	2,611
Bad debt expense	242,016
Change in assets and liabilities:	
Increase in accounts receivable	(216,259)
Increase in other assets	155,737
Decrease in deferred outflows of resources	140,592
Decrease in accounts payable and other accrued liabilities	(815,502)
Increase in deferred revenue	155,148
Decrease in tenant security deposits	68,454
Decrease in FSS Escrow	(334,657)
Increase in accrued salaries and benefits payable	89,284
Increase in deferred inflows of resources	91,603
Decrease in net pension liability	(296,758)
Decrease in accrued compensated absences	<u>3,221</u>
Net cash from operating activities	<u>\$ (65,879,844)</u>
Non-cash transactions:	
Construction and retainage payable for capital asset purchases	\$ 1,150,182
Capitalized developer fees	2,190,000
Capitalized interest	250,688

See accompanying notes to financial statements.

INDIANAPOLIS HOUSING AGENCY
NOTES TO FINANCIAL STATEMENTS
December 31, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

(Continued)

INDIANAPOLIS HOUSING AGENCY
NOTES TO FINANCIAL STATEMENTS
December 31, 2019

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 2019.

(Continued)

INDIANAPOLIS HOUSING AGENCY
NOTES TO FINANCIAL STATEMENTS
December 31, 2019

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 2018 or 2019.
- **IHA Housing Partners II GP, Inc.** is authorized to serve as the General Partner of IHA Housing Partners II, LP, an Indiana Limited Partnership, which was formed to develop, rehabilitate, own, maintain and operate a 90 unit scattered site community known as The Georgetown Apartments located in Indianapolis, Indiana. The partnership has received an allocation of low-income housing tax credits from the State of Indiana totaling \$7,796,080. Each building of the project has qualified for and been allocated low-income housing tax credits pursuant to IRC Section 42, which regulates the use of the project as to occupant eligibility and unit gross rent, among other requirements. Each building of the project must meet the provisions of these regulations during each of 15 consecutive years in order to remain qualified to receive the credits. The credit allocation is spread over 10 years and will be \$589,562 for the first year, \$779,608 annually for the next nine years and \$190,046 in the eleventh year, if the project remains in compliance.

(Continued)

INDIANAPOLIS HOUSING AGENCY
NOTES TO FINANCIAL STATEMENTS
December 31, 2019

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 2020.
- **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 began 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, Indiana Avenue Apartments, LP, and Bethel Townhome Apartments, LP can be obtained by contacting the Indianapolis Housing Agency, Department of Finance, 1919 North Meridian Street, Indianapolis, Indiana 46202.

(Continued)

INDIANAPOLIS HOUSING AGENCY
NOTES TO FINANCIAL STATEMENTS
December 31, 2019

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, 2019 is as follows:

Tenant account receivable - gross	\$ 1,450,234
Allowance for uncollectible accounts	<u>(974,154)</u>
	<u>\$ 476,080</u>

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

(Continued)

INDIANAPOLIS HOUSING AGENCY
NOTES TO FINANCIAL STATEMENTS
December 31, 2019

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, 2019.

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 \$2,103,629 at December 31, 2019.

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 \$741,052 as of December 31, 2019 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.

(Continued)

INDIANAPOLIS HOUSING AGENCY
NOTES TO FINANCIAL STATEMENTS
December 31, 2019

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.

(Continued)

INDIANAPOLIS HOUSING AGENCY
NOTES TO FINANCIAL STATEMENTS
December 31, 2019

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, 2019, the Agency has recorded a liability of \$1,224,304 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, 2019, to determine the need for any adjustments or disclosures to the financial statements for the year ended December 31, 2019. Management has performed their analysis through June 30, 2020, the date the financial statements were available to be issued.

In December 2019, a novel strain of coronavirus surfaced and has spread around the world, with resulting business and social disruption. The coronavirus was declared a Public Health Emergency of International Concern by the World Health Organization on January 30, 2020. The operations and business results of the Agency could be materially adversely affected. Significant estimates as disclosed in Note 1 such as the fair value of investments and collectability of tenant accounts receivable, may be materially adversely impacted by national, state and local events designed to contain the coronavirus.

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, 2019 is as follows:

	<u>Carrying Value</u>	<u>Bank Balance</u>
Insured by FDIC	\$ 4,266,796	\$ 4,519,078
Insured by Indiana Public Deposits Insurance Fund	10,811,373	10,811,373
Insured by Securities Investor Protection Corporation	3,180,111	3,180,111
Uninsured	12,503,335	13,040,162
	<u>\$ 30,761,615</u>	<u>\$ 31,550,724</u>
Cash and cash equivalents:		
Unrestricted	\$ 7,765,311	
Restricted (Note 3)	22,996,304	
	<u>\$ 30,761,615</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.

(Continued)

INDIANAPOLIS HOUSING AGENCY
NOTES TO FINANCIAL STATEMENTS
December 31, 2019

NOTE 2 - CASH AND INVESTMENTS (Continued)

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

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

The Agency has three institutional money market deposit accounts to consider for credit risk and custodial credit risk. One valued at \$191,168 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 \$96,713 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 \$4,060,609 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, 2019, 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, 2019, 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, 2019, cash restricted for tenant security deposits was \$317,442.

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, 2019, the cash restricted for the FSS escrow was \$884,234.

(Continued)

INDIANAPOLIS HOUSING AGENCY
NOTES TO FINANCIAL STATEMENTS
December 31, 2019

NOTE 3 - RESTRICTED CASH AND INVESTMENTS (Continued)

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, 2019, cash restricted for Section 8 vouchers and VASH was \$1,945,957.

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, 2019, cash restricted for these programs was \$. Other program income received by the Agency has been committed to be utilized for various housing projects and programs. At December 31, 2019, cash restricted for these programs was \$1,631,881.

Reserve Accounts for Operating, Replacement, ACC and Escrow: Reserve accounts per the terms of Regulatory and Operating partnership agreements. At December 31, 2019, the cash account balances totaled \$12,110,393.

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, 2019, these cash and investment account balances totaled \$9,901,397, including \$7,855,609 of trustee held funds, of which \$3,795,000 represented investments.

NOTE 4 - CAPITAL ASSETS

Capital asset activity consisted of the following:

	January 1, <u>2019</u>	<u>Increases</u>	<u>Decreases</u>	December 31, <u>2019</u>
Non-depreciable:				
Land	\$ 20,754,855	\$ 250,096	\$ -	\$ 21,004,951
Construction in progress	<u>5,707,784</u>	<u>12,181,266</u>	<u>(16,260,259)</u>	<u>1,628,791</u>
Total	<u>26,462,639</u>	<u>12,431,362</u>	<u>(16,260,259)</u>	<u>22,633,742</u>
Depreciable:				
Buildings and improvements	205,183,776	18,173,205	-	223,356,981
Equipment	<u>8,824,931</u>	<u>1,900,870</u>	<u>(173,301)</u>	<u>10,552,500</u>
Total	214,008,707	20,074,075	(173,301)	233,909,481
Less: Accumulated depreciation				
Buildings and improvements	(67,575,473)	(6,076,796)	-	(73,652,269)
Equipment	<u>(6,388,960)</u>	<u>(497,289)</u>	<u>173,301</u>	<u>(6,712,948)</u>
Total	<u>(73,964,433)</u>	<u>(6,574,085)</u>	<u>173,301</u>	<u>(80,365,217)</u>
Net depreciable	<u>140,044,274</u>	<u>13,499,990</u>	<u>-</u>	<u>153,544,264</u>
Total capital assets – net	<u>\$ 166,506,913</u>	<u>\$ 25,931,352</u>	<u>\$ (16,260,259)</u>	<u>\$ 176,178,006</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.

(Continued)

INDIANAPOLIS HOUSING AGENCY
NOTES TO FINANCIAL STATEMENTS
December 31, 2019

NOTE 5 - NON-CURRENT LIABILITIES

Changes in non-current liabilities were as follows:

	January 1, <u>2019</u>	<u>Increases</u>	<u>Decreases</u>	December 31, <u>2019</u>	Amounts Due within <u>One Year</u>	Amounts Due <u>Thereafter</u>
Loans and interest payable (*)	\$ 25,632,002	\$ 11,720,636	\$ (1,952,445)	\$ 35,400,193	\$ 16,291,254	\$ 19,108,939
Net pension liability	3,953,480	128,497	(425,255)	3,656,722	-	3,656,722
Due to other governmental units (**)	1,458,743	-	(64,554)	1,394,189	64,554	1,329,635
FSS escrow (***)	862,572	495,764	(830,421)	527,915	53,459	474,456
Accrued compensated absences	<u>239,828</u>	<u>3,221</u>	<u>-</u>	<u>243,049</u>	<u>24,288</u>	<u>218,761</u>
	<u>\$ 32,146,625</u>	<u>\$ 12,348,118</u>	<u>\$ (3,272,675)</u>	<u>\$ 41,222,068</u>	<u>\$ 16,433,555</u>	<u>\$ 24,788,513</u>

*Loans and Interest Payable:

The Agency has four zero interest loans at December 31, 2019 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, 2019 was \$4,987,964.

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 \$39,438 at December 31, 2019. The balance outstanding at December 31, 2019 was \$2,790,192.

Millikan II, LLC has a construction loan with Merchants Bank for up to \$8,900,000. Effective September 1, 2019, the maturity date was extended to September 1, 2020 at an interest rate of 4%. The mortgage is secured by the apartment buildings of the Project located in Indianapolis, Indiana. There was no accrued interest payable at December 31, 2019. The total outstanding balance at December 31, 2019 was \$8,315,268.

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. There was no accrued interest payable at December 31, 2019. The total balance outstanding at December 31, 2019 was \$425,091.

During 2018 and 2019, Insight received unsecured loans from Local Initiatives Support Corporation (LISC) with an interest rate of 0%. The total balance outstanding at December 31, 2019 was \$105,000 and the principal is to be repaid upon the earlier of the completion of the projects or the maturity date.

During 2019, Insight received a line of credit for operations with a maximum draw amount of \$200,000. The total balance outstanding at December 31, 2019 was \$200,000.

(Continued)

INDIANAPOLIS HOUSING AGENCY
NOTES TO FINANCIAL STATEMENTS
December 31, 2019

NOTE 5 - NON-CURRENT LIABILITIES (Continued)

During 2018 and 2019, Insight entered into loans with IHEDA for the purpose of advancing the proceeds to the Agency and then to Indiana Avenue Apartments, LP and Bethel Townhomes LP. The loans have an interest rate of 5.75% per annum on the outstanding principal balances. Principal payments are required one year after completion of the Indiana Avenue Apartments and Bethel Projects and continue to the maturity date of October 1, 2050. The balance outstanding at December 31, 2019 was \$1,500,000.

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, 2019, Bethel Townhome Apartments, LP had drawn \$2,845,700. 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, 2019, Bethel Townhome Apartments, LP had drawn \$3,730,000. 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, 2019, Indiana Avenue Apartments, LP had drawn \$6,638,943. The bond is collateralized by the Indiana Avenue Project and matures on October 1, 2020. Accrued interest payable as of December 31, 2019 was \$27,597.

(Continued)

INDIANAPOLIS HOUSING AGENCY
NOTES TO FINANCIAL STATEMENTS
December 31, 2019

NOTE 5 - NON-CURRENT LIABILITIES (Continued)

Scheduled maturities on loans and interest payable as of December 31, 2019 are as follows:

<u>Year Ended</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 16,263,657	\$ 27,597	\$ 16,291,254
2021	8,479,909	-	8,479,909
2022	770,703	-	770,703
2023	772,064	-	772,064
2024	773,494	-	773,494
2025-2029	1,467,836	-	1,467,836
2030-2034	232,397	-	232,397
2035-2039	291,059	-	291,059
2040-2044	364,527	-	364,527
2045-2049	456,542	-	456,542
2050-2054	2,071,781	-	2,071,781
Thereafter	<u>3,389,189</u>	<u>39,438</u>	<u>3,428,627</u>
	<u>\$ 35,333,158</u>	<u>\$ 67,035</u>	<u>\$ 35,400,193</u>

****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, 2019, discounted at a rate of 3%, are as follows:

<u>Year Ended</u>	
2020	\$ 64,554
2021	64,554
2022	64,554
2023	64,554
2024	64,554
2025-2029	500,782
2030-2034	545,360
2035-2039	545,360
2040	<u>109,067</u>
Total future minimum payments	2,023,339
Less: amount representing present value discount	<u>(629,150)</u>
	<u>\$ 1,394,189</u>

(Continued)

INDIANAPOLIS HOUSING AGENCY
NOTES TO FINANCIAL STATEMENTS
December 31, 2019

NOTE 5 - NON-CURRENT LIABILITIES (Continued)

*****FSS Escrow:**

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

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	\$ 383,640	\$ -	\$ (500,000)	\$ 730,340	(a)
Phase IIA-Perm A	5.36%	772,616	755,515	-	-	1,528,131	(a)
Phase IIA-Perm B	0.00%	3,103,412	-	(2,384,798)	-	718,614	(a)
Phase IIB-Perm A	5.25%	2,078,454	1,420,258	-	-	3,498,712	(a)
Phase IIB-Perm B	0.00%	2,009,813	-	(1,554,503)	-	455,310	(a)
Phase I –							
Insight (AHP)	0.00%	300,000	-	(166,251)	-	133,749	(b)
Phase I –							
Insight (INHP)	0.00%	31,650	-	(17,539)	-	14,111	(b)
Phase IIA –							
Insight (AHP)	0.00%	318,000	-	(248,378)	-	69,622	(b)
Phase IIB –							
Insight (INHP)	0.00%	15,146	-	(11,831)	-	3,315	(b)
Phase IIB –							
Insight (AHP)	0.00%	275,000	-	(216,030)	-	58,970	(b)
Second Mortgages	0.00%	1,102,308	-	-	(1,103,629)	(1,321)	(c)
Trail Side	0.00%	1,650,987	-	(1,206,213)	-	444,774	(d)
St. Clair	0.00%	1,574,691	-	(995,555)	-	579,136	(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	178,627	-	-	1,278,627	(g)
Alegiant Prep	0.00%	13,683	-	-	-	13,683	(h)
		<u>\$ 15,692,460</u>	<u>\$ 2,738,040</u>	<u>\$ (6,801,098)</u>	<u>\$ (2,103,629)</u>	<u>\$ 9,525,773</u>	

(Continued)

INDIANAPOLIS HOUSING AGENCY
NOTES TO FINANCIAL STATEMENTS
December 31, 2019

NOTE 6 - LOANS RECEIVABLE (Continued)

Details on loans receivable are provided below:

- (a) Red Maple Grove Phase I, IIA, and IIB - Agency: The Agency entered into agreements with BRINDY-I LP to develop low income housing on Agency owned land with 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.
- (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, 2049
- (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, 2019, the Agency has not accrued any interest revenue on either loan due to uncertainty of collection.

(Continued)

INDIANAPOLIS HOUSING AGENCY
NOTES TO FINANCIAL STATEMENTS
December 31, 2019

NOTE 6 - LOANS RECEIVABLE (Continued)

- (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. Those payments were made in full during 2018 and 2017. Following these payments, 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 2018. Payments of \$20,000 were made during 2019. As of December 31, 2019, there is a remaining principal balance of \$13,683.

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 2019 of \$1,218,190. The Agency has an investment of \$316,900 in the Group at December 31, 2019.

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 2019, the Agency paid \$1,441,248 to the City of Indianapolis for fleet services, health insurance, and other services.

In 2018 and 2019, Insight received distributions from the HOME Investment Partnership Program Funds (HOME) from the Department of Metropolitan Development (DMD) for the Bethel Townhomes Project totaling \$600,000. During 2019, \$158,942 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.

(Continued)

NOTE 9 - PENSION PLAN

Public Employees' Retirement System - Defined Benefit Plan

Plan Description: The Public Employees' Retirement Fund Defined Benefit (PERF DB) is a cost-sharing, multiple-employer defined benefit fund providing retirement, disability, and survivor benefits to fulltime employees of the State of Indiana not covered by another plan and those political subdivisions (counties, cities, townships, and other governmental units) that elect to participate in the retirement fund. Administration of the fund is generally in accordance with IC 5-10.2, IC 5-10.3, and 35 IAC 1.2. and other Indiana pension law. PERF DB is a component of the Public Employees Hybrid plan (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 (see Defined Contribution Plans section), the defined contribution component. New employees hired by the State or a participating political subdivision have a one-time election to join either the PERF Hybrid or the PERF My Choice: Retirement Savings Plan for Public Employees (PERF MC DC) which is covered in the Defined Contribution Plans section. A new hire that is an existing member of PERF Hybrid and was not given the option for PERF MC DC is given the option to elect PERF MC DC or remain in PERF Hybrid.

Members who have at least one year of service in both PERF DB and the Teachers Retirement Fund (TRF Pre-'96 DB or TRF '96 DB) have the option of choosing from which of these funds they would like to retire.

Retirement benefits provided: A member is entitled to a full retirement benefit 1) at age 65 with at least 10 years of creditable service (eight years for certain elected officials), 2) at age 60 with at least 15 years of creditable service, 3) at age 55 if age and creditable service total at least 85, 4) at age 55 with 20 years of creditable service and active as an elected official in the PERF-covered position, or 5) at age 70 with 20 years of creditable service and still active in the PERF-covered position. A member is entitled to an early retirement benefit at age 50 and a minimum of 15 years of creditable service. The benefit is reduced to 44 percent of full benefit at age 50, increasing five percent per year up to 89 percent at age 59.

The lifetime annual benefit equals years of creditable service multiplied by the average highest five-year annual salary multiplied by 1.1 percent (minimum of \$180 per month). Average annual compensation is outlined in IC 5-10.2-4-3 and includes compensation of not more than \$2,000 received from the employer in severance.

Postretirement benefit increases are granted on an ad hoc basis pursuant to IC 5-10.2-12-4 and administered by the INPRS Board. Historically, eligible members receive a one-time check (13th check) with the dollar amount tied to years of service.

Disability and survivor benefits provided: An active member qualifying for Social Security disability with five years of creditable service may receive an unreduced retirement benefit for the duration of their disability (minimum of \$180 per month). If death occurs while in active service, a spouse or dependent beneficiary of a member with a minimum of 15 years of creditable service receives a benefit as if the member retired the later of age 50 or the age the day before the member's death. If death occurs while receiving a benefit, a spouse or dependent receives the benefit associated with the member's selected form of payment: Five Year Certain & Life, Joint with 100 percent Survivor Benefits, Joint with Two-Thirds Survivor Benefits, or Joint with One-Half Survivor Benefits.

INDIANAPOLIS HOUSING AGENCY
NOTES TO FINANCIAL STATEMENTS
December 31, 2019

NOTE 9 - PENSION PLAN (Continued)

Contributions: Contributions are determined by the INPRS Board of Trustees based on an actuarial valuation. During fiscal year 2019, all participating employers were required to contribute 11.2 percent of covered payroll for Hybrid members. For PERF MC DC plan members, the political subdivisions were required to contribute a supplemental cost of 7.4 percent of covered payroll as of July 1, 2019, which decreased from 7.8 percent as of July 1, 2018. No member contributions are required.

The contribution requirement, which was made by the Agency, was \$645,688 for 2019. These total contributions represent 11.2% of covered payroll for 2019.

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

<u>Year Ended</u> <u>December 31</u>	<u>Annual Required</u> <u>Contribution</u>	<u>Percentage</u> <u>Contributed</u>
2019	\$ 645,668	100%
2018	\$ 664,924	100%

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 (844) 464-6777, by emailing questions@inprs.in.gov, or by visiting www.in.gov/inprs.

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

- Asset valuation date – June 30, 2019
- Liability valuation date – June 30, 2018 – Member census data as of June 30, 2018 was used in the valuation and adjusted, where appropriate, to reflect changes between June 30, 2018 and June 30, 2019. Standard actuarial roll forward techniques were then used to project the total pension liability computed as of June 30, 2018 to the June 30, 2019 measurement date.
- Actuarial cost method (accounting) – Entry age normal (level percent of payroll)
- Experience study date – Period of 4 years ended June 30, 2014
- Investment rate of return – 6.75%, includes inflation and net of investment expenses
- COLA – In lieu of a 1% COLA occurring beginning on January 1, 2020, the COLA was replaced by a 13th check for 2020 and 2021. The COLA assumption thereafter will be 0.4% beginning on January 1, 2022, 0.5% beginning on January 1, 2034, and 0.6% beginning on January 1, 2039.
- Future salary increases, including inflation – 2.5% - 4.25%
- Inflation – 2.25%

Mortality rates for healthy members were based on the RP-2014 (with MP-2014 improvement removed) Total Data Set Mortality Table, with future mortality improvement projected generationally using future mortality improvement inherent in the Social Security Administration's 2014 Trustee report. Mortality rates for disabled members were based on the RP-2014 (with MP-2014 improvement removed) Disability Mortality Table, with future mortality improvement projected generationally using future mortality improvement inherent in the Social Security Administration's 2014 Trustee report.

The most recent comprehensive experience study was completed in April 2015 and was based on member experience between June 30, 2010 and June 30, 2014. The demographic assumptions were updated as needed for the June 30, 2019 actuarial valuation.

(Continued)

INDIANAPOLIS HOUSING AGENCY
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2019

NOTE 9 - PENSION PLAN (Continued)

The long-term return expectation for the INPRS defined benefit retirement plan was 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 are summarized in the following table:

	<u>Target Asset Allocation</u>	<u>Geometric Basis Long-Term Expected Real Rate of Return</u>
Public Equity	22.0%	4.9%
Private Equity	14.0%	7.0%
Fixed Income – Ex Inflation-Linked	20.0%	2.5%
Fixed Income – Inflation-Linked	7.0%	1.3%
Commodities	8.0%	2.0%
Real Estate	7.0%	6.7%
Absolute Return	10.0%	2.9%
Risk Parity	12.0%	5.3%

Discount Rate: Total pension liability for the defined benefit pension plan was calculated using the discount rate of 6.75 percent for 2019. The projection of cash flows used to determine the discount rate assumed the contributions from employers and where applicable from the members, would at the minimum be made at the actuarially determined required rates computed in accordance with the current funding policy adopted by the INPRS Board, and contributions required by the State (the non-employer contributing entity) would be made as stipulated by State statute. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (6.75 percent). Based on these assumptions, the PERF defined benefit pension plan's fiduciary net position was 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 the plan.

Changes in Assumptions and Benefit Terms: Since the prior measurement date there have been no changes in the assumptions or benefit terms.

Changes Since Measurement Date: There were no changes between the measurement date of the collective net pension liability and the employer's reporting date.

(Continued)

INDIANAPOLIS HOUSING AGENCY
NOTES TO FINANCIAL STATEMENTS
December 31, 2019

NOTE 9 - PENSION PLAN (Continued)

Sensitivity: Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability of each defined benefit pension plan calculated using the discount rate of 6.75 percent for 2019, as well as what each plan's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (5.75%), or one percentage point higher (7.75%) than the current rate:

	1% Decrease <u>(5.75%)</u>	Current Rate <u>(6.75%)</u>	1% Increase <u>(7.75%)</u>
Proportionate share of the Collective Net Pension Liability	\$ 5,872,745	\$ 3,656,722	\$ 1,808,390

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 (844) 464-6777, by emailing questions@inprs.in.gov, or by visiting www.in.gov/inprs.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: At December 31, 2019, the Agency reported a liability of \$3,656,722 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 Agency's proportionate share used at the June 30, 2019 measurement date was 0.0011064.

For the year ended December 31, 2019, the Agency recognized pension expense of \$567,777, which included net amortization of deferred amounts from changes in proportion and differences between employer contributions and proportionate share of contributions of \$10,968.

At December 31, 2019, the Agency reported deferred outflows of resources and deferred inflows of resources related to the PERF Hybrid Plan from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 92,829	\$ -
Net difference between projected and actual earnings on pension plan investments	-	172,844
Changes in assumptions	814	397,513
Changes in proportion and differences between employer contributions and proportionate share of contributions	<u>14,066</u>	<u>161,231</u>
Total that will be recognized in pension expense (income) based on table below	111,709	731,588
Pension contributions subsequent to measurement date	<u>306,605</u>	-
Total	<u>\$ 418,314</u>	<u>\$ 731,588</u>

(Continued)

INDIANAPOLIS HOUSING AGENCY
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2019

NOTE 9 - PENSION PLAN (Continued)

Deferred outflows of resources resulting from employer contributions subsequent to the June 30, 2019 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>
2020	\$ (188,218)
2021	(315,525)
2022	(102,715)
2023	<u>(13,421)</u>
	<u>\$ 619,879</u>

Public Employees' Retirement Fund - Defined Contribution Plan

PERF DC is a multiple-employer defined contribution plan and is generally administered in accordance with IC 5-10.2, IC 5-10.3, and 35 IAC 1.2. The plan provides supplemental retirement benefits to PERF DB members and serves as the primary retirement benefit for the My Choice: Retirement Savings Plan for Public Employees (My Choice) members.

New employees hired by the State, or a participating political subdivision, have a one-time election to join either the Public Employees' Defined Benefit Account (Hybrid Plan) or My Choice. A new hire that is an existing member of the Hybrid Plan, and was not given the option for My Choice, is given the option to elect My Choice or remain in the Hybrid Plan.

PERF DC consists of two tiers:

1. The Public Employees' Hybrid Members Defined Contribution Account (PERF Hybrid DC) is the defined contribution component of the Public Employees' Hybrid Plan. The Public Employees' Defined Benefit Account (see Defined Benefit Plans section) is the other component of the Public Employees' Hybrid Plan. Member contributions are set by statute at three percent of compensation, and the employer may choose to make these contributions on behalf of the member. Members are 100 percent vested in their account balance, which includes all contributions and earnings.
2. My Choice: Retirement Savings Plan for Public Employees (My Choice) is for members who are full-time employees of the State of Indiana or a participating political subdivision that elected to become members of My Choice. Member contributions are set by statute at three percent of compensation, plus these members may receive additional employer contributions in lieu of the Public Employees' Defined Benefit Account.

(Continued)

NOTE 9 - PENSION PLAN (Continued)

Members are 100 percent vested in all member contributions and are vested in employer contributions (see Contributions section), which includes all employer contributions and earnings as follows:

One (1) year of participation	20%
Two (2) years of participation	40%
Three (3) years of participation	60%
Four (4) years of participation	80%
Five (5) years of participation	100%

My Choice

The My Choice retirement and termination benefit is that after a 30-day separation from employment, the member is entitled to the sum total of vested contributions plus earnings. The amount may be paid in a lump sum, partial lump sum, direct rollover to another eligible retirement plan, or a monthly annuity (in accordance with INPRS requirements). Upon providing proof of the member's qualification for social security disability benefits, the member is entitled to the sum total of vested contributions plus earnings. The amount may be paid in a lump sum, partial lump sum, direct rollover to another eligible retirement plan, or a monthly annuity (in accordance with INPRS requirements).

The survivor benefit is that the beneficiary is entitled to the sum total of vested contributions plus earnings. The amount may be paid in a lump sum, partial lump sum, direct rollover to another eligible retirement plan, or a monthly annuity (in accordance with INPRS requirements).

Investments in the members' accounts are self-directed as participants direct the investment of their account balances among several investment options of varying degrees of risk and return potential. There are eight investment options available to My Choice members: Stable Value Fund, Fixed Income Fund, Inflation-Linked Fixed Income Fund, Money Market Fund, Small/Mid Cap Equity Fund, Large Cap Equity Index Fund, International Equity Fund and Target Date Funds. Members may make changes to their investment directions daily, and investments of the plan are reported at fair value.

PERF Hybrid DC and My Choice members contribute three percent of covered payroll to their annuity savings account, which is not used to fund the defined benefit pension for PERF Hybrid. In addition, members of PERF Hybrid and My Choice may elect to make additional voluntary contributions, under certain criteria, of up to 10 percent of their compensation into their annuity savings accounts.

(Continued)

INDIANAPOLIS HOUSING AGENCY
NOTES TO FINANCIAL STATEMENTS
December 31, 2019

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, 2019.

	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	
ASSETS																				
Current assets	\$ 8,255,085	\$ 3,038,136	\$ 4,117,151	\$ 4,757,939	\$ 2,135,052	\$ (103,996)	\$ 22,199,367	\$ 3,072,241	\$ 108,645	\$ 740,728	\$ 1,158,818	\$ 489,604	\$ 544,031	\$ 4,482,211	\$ 2,014,391	\$ (2,190,000)	\$ 10,420,669	\$ -	\$ 32,620,036	
Due (to)/from	1,202,604	(35,375)	-	(446,334)	(5,213)	-	715,682	256,338	(223,954)	(30,974)	(35,698)	(53,426)	(171,376)	(30,926)	(425,666)	-	(715,682)	-	-	
Total current assets	9,457,689	3,002,761	4,117,151	4,311,605	2,129,839	(103,996)	22,915,049	3,328,579	(115,309)	709,754	1,123,120	436,178	372,655	4,451,285	1,588,725	(2,190,000)	9,704,987	-	32,620,036	
Investments	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,795,000	-	3,795,000	-	3,795,000	
Capital assets (net)	34,094,999	12,571,945	14,747,179	16,245,665	22,207,320	-	99,867,108	1,417,956	1,261,114	8,154,572	24,619,762	9,208,497	11,565,933	6,375,749	13,707,315	-	76,310,898	-	176,178,006	
Other noncurrent assets	75,496,610	611,991	656,658	415,593	489,702	(39,914,371)	37,756,183	7,657,031	-	-	1,993,248	463,436	-	334,334	334,334	(4,055,831)	6,726,552	(34,653,745)	9,828,990	
Total assets	109,591,609	13,183,936	15,403,837	16,661,258	22,697,022	(39,914,371)	137,623,291	9,074,987	1,261,114	8,154,572	26,613,010	9,671,933	11,565,933	6,710,083	17,836,649	(4,055,831)	86,832,450	(34,653,745)	189,801,996	
119,049,298	16,186,697	19,520,988	20,972,863	24,826,861	(40,018,367)	160,538,340	12,403,566	1,145,805	8,864,326	27,736,130	10,108,111	11,938,588	11,161,368	19,425,374	(6,245,831)	96,537,437	(34,653,745)	222,422,032		
DEFERRED OUTFLOWS OF RESOURCES																				
Deferred outflows from pension	418,314	-	-	-	-	-	418,314	-	-	-	-	-	-	-	-	-	-	-	418,314	
Total assets and deferred outflows of resources	\$ 119,467,612	\$ 16,186,697	\$ 19,520,988	\$ 20,972,863	\$ 24,826,861	\$ (40,018,367)	\$ 160,956,654	\$ 12,403,566	\$ 1,145,805	\$ 8,864,326	\$ 27,736,130	\$ 10,108,111	\$ 11,938,588	\$ 11,161,368	\$ 19,425,374	\$ (6,245,831)	\$ 96,537,437	\$ (34,653,745)	\$ 222,840,346	
LIABILITIES																				
Current liabilities	\$ 6,886,599	\$ 99,647	\$ 274,553	\$ 205,211	\$ 306,382	\$ (2,173,944)	\$ 5,598,448	\$ 920,173	\$ 54,755	\$ 97,514	\$ 295,324	\$ 236,656	\$ 8,777,598	\$ 7,908,401	\$ 2,175,777	\$ (2,190,000)	\$ 18,276,198	\$ (3,125,352)	\$ 20,749,294	
Noncurrent liabilities	7,103,343	10,246,737	10,313,206	9,358,641	9,281,668	(37,844,423)	8,459,172	1,503,605	2,204,861	8,327,420	10,675,989	1,277,027	-	9,881,209	18,043,454	(4,055,831)	47,857,734	(31,528,393)	24,788,513	
Total liabilities	13,989,942	10,346,384	10,587,759	9,563,852	9,588,050	(40,018,367)	14,057,620	2,423,778	2,259,616	8,424,934	10,971,313	1,513,683	8,777,598	17,789,610	20,219,231	(6,245,831)	66,133,932	(34,653,745)	45,537,807	
DEFERRED INFLOWS OF RESOURCES																				
Deferred inflows from pension	731,588	-	-	-	-	-	731,588	-	-	-	-	-	-	-	-	-	-	-	731,588	
NET POSITION																				
Net investment in capital assets	35,433,918	2,325,208	4,433,973	6,553,311	13,035,237	37,740,427	99,522,074	(82,044)	(943,747)	(172,848)	13,943,773	7,931,470	3,250,665	(6,318,578)	(1,071,653)	1,865,831	18,402,869	31,528,393	149,453,336	
Restricted for Section 8 vouchers and VASH	741,052	-	-	-	-	-	741,052	-	-	-	-	-	-	-	-	-	-	-	-	741,052
Restricted for reserves and escrow	-	1,928,133	2,883,218	3,548,431	1,649,678	-	10,009,460	-	91,974	644,643	706,133	339,249	-	77,870	98,779	-	1,958,648	-	11,968,108	
Restricted for programs	1,631,881	-	-	-	-	-	1,631,881	-	-	-	-	-	-	-	-	-	-	-	-	1,631,881
Unrestricted	66,939,231	1,586,972	1,616,038	1,307,269	553,896	(37,740,427)	34,262,979	10,061,832	(262,038)	(32,403)	2,114,911	323,709	(89,675)	(387,534)	179,017	(1,865,831)	10,041,988	(31,528,393)	12,776,574	
Total net position	104,746,082	5,840,313	8,933,229	11,409,011	15,238,811	-	146,167,446	9,979,788	(1,113,811)	439,392	16,764,817	8,594,428	3,160,990	(6,628,242)	(793,857)	-	30,403,505	-	176,570,951	
Total liabilities, deferred inflows of resources and net position	\$ 119,467,612	\$ 16,186,697	\$ 19,520,988	\$ 20,972,863	\$ 24,826,861	\$ (40,018,367)	\$ 160,956,654	\$ 12,403,566	\$ 1,145,805	\$ 8,864,326	\$ 27,736,130	\$ 10,108,111	\$ 11,938,588	\$ 11,161,368	\$ 19,425,374	\$ (6,245,831)	\$ 96,537,437	\$ (34,653,745)	\$ 222,840,346	

The following summarizes the combining information for the statements of revenues, expenses, and changes in net position for the year ended December 31, 2019.

	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	\$ 2,304,835	\$ 397,346	\$ 332,484	\$ 551,490	\$ 918,690	\$ -	\$ 4,504,845	\$ 3,621,919	\$ 85,442	\$ 288,272	\$ 1,108,432	\$ 367,793	\$ 1,286,808	\$ 295,239	\$ 360,023	\$ -	\$ 7,413,928	\$ -	\$ 11,918,773
Operating expenses	61,381,697	1,537,840	2,069,387	2,124,856	1,799,710	-	68,913,490	1,369,364	569,962	525,949	1,404,954	247,167	882,537	583,609	397,075	-	5,980,617	-	74,894,107
Depreciation expense	1,914,603	444,823	509,044	528,409	772,072	-	4,168,951	18,877	126,756	449,397	863,317	329,025	408,582	12,316	196,864	-	2,405,134	-	6,574,085
Total operating expenses	63,296,300	1,982,663	2,578,431	2,653,265	2,571,782	-	73,082,441	1,388,241	696,718	975,346	2,268,271	576,192	1,291,119	595,925	593,939	-	8,385,751	-	81,468,192
Operating gain (loss)	(60,991,465)	(1,585,317)	(2,245,947)	(2,101,775)	(1,653,092)	-	(68,577,596)	2,233,678	(611,276)	(687,074)	(1,159,839)	(208,399)	(4,311)	(300,686)	(233,916)	-	(971,823)	-	(69,549,419)
Intergovernmental grants	60,465,553	1,686,767	1,803,237	1,874,446	913,135	-	66,743,138	-	306,519	186,212	435,633	41,925	-	342,256	396,633	-	1,709,178	-	68,452,316
Other non-operating revenues (expenses)	3,448,290	(104,278)	(66,158)	(140,416)	(367,942)	-	2,769,496	152,404	(49,574)	(398,834)	281,494	(47,503)	(433,124)	(533,237)	(744,575)	-	(1,772,949)	-	996,547
Total non-operating revenues (expenses)	63,913,843	1,582,489	1,737,079	1,734,030	545,193	-	69,512,634	152,404	256,945	(212,622)	717,127	(5,578)	(433,124)	(190,981)	(347,942)	-	(63,771)	-	69,448,863
Loss before capital contributions	2,922,378	(2,828)	(508,868)	(367,745)	(1,107,899)	-	935,038	2,386,082	(354,331)	(899,696)	(442,712)	(213,977)	(437,435)	(491,667)	(581,858)	-	(1,035,594)	-	(100,556)
Capital grants and contributions	105,404	-	-	-	-	-	105,404	-	-	-	-	-	-	-	-	-	-	-	105,404
Change in net position	3,027,782	(2,828)	(508,868)	(367,745)	(1,107,899)	-	1,040,442	2,386,082	(354,331)	(899,696)	(442,712)	(213,977)	(437,435)	(491,667)	(581,858)	-	(1,035,594)	-	4,848
Net position, beginning 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
Net position, end of year	\$ 104,746,082	\$ 5,840,313	\$ 8,933,229	\$ 11,409,011	\$ 15,238,811	\$ -	\$ 146,167,446	\$ 9,979,788	\$ (1,113,811)	\$ 439,392	\$ 16,764,817	\$ 8,594,428	\$ 3,160,990	\$ (6,628,242)	\$ (793,857)	\$ -	\$ 30,403,505	\$ -	\$ 176,570,951

REQUIRED SUPPLEMENTARY INFORMATION

INDIANAPOLIS HOUSING AGENCY
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF THE AGENCY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
 December 31, 2019

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Agency's proportion of the net pension liability	0.0011064	0.0011638	0.0011602	0.0011275
Agency's proportionate share of the net pension liability	\$ 3,656,722	\$ 3,953,480	\$ 5,176,283	\$ 5,117,096
Agency's covered payroll	\$ 5,764,463	\$ 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	63.44%	66.58%	89.47%	94.70%
Plan fiduciary net position as a percentage of the total pension liability	80.10%	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 2019 and 2018, 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 13th 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, 2019

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Statutorily required contribution	\$ 645,668	\$ 664,924	\$ 644,756	\$ 603,028
Contributions in relation to the statutorily required contribution	<u>(645,668)</u>	<u>(664,924)</u>	<u>(644,756)</u>	<u>(603,028)</u>
Annual contribution deficiency (excess)	\$ _____ -	\$ _____ -	\$ _____ -	\$ _____ -
The Agency's contributions as a percentage of statutorily required contribution for pension	100%	100%	100%	100%
Agency's covered payroll	\$ 5,764,893	\$ 5,936,821	\$ 5,756,750	\$ 5,384,179
Contributions as a percentage of covered payroll	11.2%	11.2%	11.2%	11.2%

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

Valuation date: 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, 2019

Federal Grantor/Pass-Through Grantor /Program Title	CFDA Number	Total Federal Expenditures	Total Paid to Subrecipients
Department of Housing and Urban Development			
Pass-through: City of Indianapolis HOME Investment Partnerships Program	14.239	\$ 158,942	\$ -
Housing Voucher Cluster			
Section 8 Housing Choice Vouchers	14.871	58,204,261	-
Mainstream Vouchers	14.879	<u>267,318</u>	<u>-</u>
Total Housing Voucher Cluster		58,471,579	-
Public and Indian Housing	14.850	1,730,988	-
Public Housing Capital Fund	14.872	162,901	-
Family Self-Sufficiency Program	14.896	<u>146,218</u>	<u>-</u>
Total Department of Housing and Urban Development		<u>60,670,628</u>	<u>-</u>
Department of Health and Human Services			
Community Economic Development	93.570	<u>576,753</u>	<u>-</u>
Total Federal Expenditures		<u>\$ 61,247,381</u>	<u>\$ -</u>

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

INDIANAPOLIS HOUSING AGENCY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
December 31, 2019

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

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 2019 was \$7,986,763. This funding is subject to compliance audits at the component unit level by other auditors and those audits disclosed no instances of non-compliance. This funding is not included on the Schedule of Expenditures of Federal 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 Awards. Insight is responsible for a portion of the Section 8 Housing Choice Vouchers program (CFDA number 14.871), the HOME Investment Partnerships Program (CFDA number 14.239) and the Community Economic Development program (CFDA number 93.570), while all other federal grants listed on the Schedule of Expenditures of Federal Awards are the responsibility of the Agency.

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

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

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

Board of Commissioners
Indianapolis Housing Agency
Indianapolis, Indiana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Indianapolis Housing Agency (the Agency), a component unit of the City of Indianapolis, Indiana, as of and for the year ended December 31, 2019, 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 30, 2020. 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, Indiana Avenue Apartments, LP, and Bethel Townhome 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.

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. However, as described in the accompanying schedule of finding and questions costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses (2019-001 and 2019-002).

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies (2019-003 and 2019-004).

(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Agency's Response to the Finding

The Agency's response to the 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 30, 2020

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, 2019. 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.

The Agency's basic financial statements include the operations 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, Indiana Avenue Apartments, LP, and Bethel Townhome Apartments, LP, as described in our report on the Agency's financial statements, which received \$7,986,763 in federal awards which is not included in the Agency's schedule of expenditures of federal awards during the year ended December 31, 2019. Our audit, described below, did not include the operations of these components because this funding is subject to compliance audits at the component unit level by other auditors.

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, 2019.

(Continued)

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2019-006. Our opinion on each major federal program is not modified with respect to this matter.

The Agency's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs and management's response and corrective action plan. The Agency's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of the Agency is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Agency's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2019-005 and 2019-006, that we consider to be significant deficiencies.

The Agency's response to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs and management's response and corrective action plan. The Agency's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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



Crowe LLP

Indianapolis, Indiana
June 30, 2020

INDIANAPOLIS HOUSING AGENCY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
December 31, 2019

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 program:

Housing Voucher Cluster: CFDA Numbers 14.871 and 14.879

Dollar threshold used to distinguish type A and B programs:

\$ 1,837,421

Auditee qualified as low-risk auditee?

Yes No

(Continued)

INDIANAPOLIS HOUSING AGENCY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
December 31, 2019

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

2019-001 Internal Control over Financial Reporting (Material Weakness)

Condition: During our audit, multiple audit adjustments were posted that changed the financial statement results of the Agency by a material amount. Additionally, adjustments were made by management throughout the audit process, which prevented a timely and efficient audit process.

Criteria: Management is responsible for having 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.

Context: Eleven audit adjustments were identified and recorded related to various financial areas and transactions. These adjustments resulted in an increase in assets of approximately \$4.5 million, an increase in liabilities of approximately \$2.1 million, a decrease in net position of approximately \$140,000 million, an increase in revenue of approximately \$2.5 million.

Effect: During our audit, multiple audit adjustments were posted that changed the financial statement results of the Agency 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 consistent and formal monthly or annual reconciliation process. 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.

(Continued)

INDIANAPOLIS HOUSING AGENCY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
December 31, 2019

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

2019-002 SEFA Preparation and Review (Material Weakness)

Condition: During our audit, material adjustments were made to the Schedule of Expenditures of Federal Awards (SEFA).

Criteria: Management is responsible for having 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.

Context: Community Economic Development grant funding received and expended by Insight Development Corporation was initially excluded from the Schedule of Expenditures of Federal Awards.

Effect: A lack of an adequate review process puts the Agency at risk for improper reporting of the SEFA, which could potentially lead to an insufficient audit being performed.

Cause: The adjustments to the SEFA identified seem to be the result of there not being a consistent and formal annual SEFA review and reconciliation process. 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 establish documented controls and procedures for the timely preparation and review of the SEFA, including the validation of the completeness of federal expenditures reported.

2019-003 Procurement Policy Compliance (Significant Deficiency)

Condition: During our testing of procurement processes, Crowe noted two instances where vendors were paid in excess of \$150,000 during the year and no formal procurement documentation was maintained.

Criteria: Management is required to maintain procurement policies and procedures in accordance with Title 2 U.S. Code of Federal Regulations Part 200.

Context: Twenty-three vendors were identified with total disbursements in excess of \$150,000 of which four were selected for review for procurement. Disbursements to these vendors identified without formal procurement documentation were made throughout the year, with the largest individual disbursement being \$40,050.

Effect: Instances where contracts or total payments exceed Agency or Federal procurement thresholds without proper procurement documentation represent risks of improper payment and could result in noncompliance.

Cause: The missing documentation identified seem to be the result of ineffective quality control processes.

Recommendation: We recommend that the Agency ensure that all procurement department personnel are adequately trained on the requirements of Title 2 U.S. Code of Federal Regulations Part 200. We also recommend that the Agency implement review procedures to ensure internal procurement procedures are followed, including the retrospective review of payments issued against procurement records.

(Continued)

INDIANAPOLIS HOUSING AGENCY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
December 31, 2019

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

2019-004 Record Retention and Approval of Cash Disbursements (Significant Deficiency)

Condition: During our testing of general cash disbursements, we noted for 13 expenditures out of the 32 tested, management was unable to provide an adequate supporting documentation of approval.

Criteria: Management is responsible for maintaining appropriate documentation to substantiate the recognition of expenditures and support required approval.

Context: The sample selection represented \$444,091 disbursed and the items lacking supporting documentation of approval for disbursement represented \$3,061. Of the 13 exceptions, 11 were related to Utility Assistance Payments for which approval documentation was not maintained. For one disbursement of \$2,446, no supporting documentation could be located.

Effect: A lack in the proper record retention could put the agency at risk and increase the likelihood of fraudulent charges occurring.

Cause: The missing documentation identified seem to be the result of ineffective quality control processes.

Recommendation: We recommend that the Agency implement procedures to ensure that for each transaction management obtains adequate supporting and approval prior to the disbursement and subsequently maintains that supporting documentation in accordance with their record retention policy.

(Continued)

INDIANAPOLIS HOUSING AGENCY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
December 31, 2019

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

2019-005 Section 8 Tenant Files – Document Retention (Significant Deficiency)

Information on the Federal Program: *Department of Housing and Urban Development, Housing Voucher Cluster, CFDA Numbers 14.871 and 14.879*

Condition: During our revenue and tenant file testing of 60 participants who received assistance through the Section 8 Housing Choice Vouchers program, we noted missing documentation in 10 of the tenant files tested.

Criteria: Management is responsible for maintaining appropriate documentation to substantiate the recognition of rental subsidy income and support the eligibility determination.

Questioned Cost: \$0

Context: While there were multiple files with missing documentation, no individual file lacked documentation to the extent that eligibility was deemed questionable.

Effect: Lack of documentation surrounding the determination and verification of participant eligibility may result in ineligible participants receiving benefits and thus the inappropriate recognition of revenue. Lack of documentation could represent instances of non-compliance with federal regulations that could impact future funding.

Cause: The missing documentation identified seem to be the result of ineffective quality control processes or purging of information in older tenant files.

Repeat Finding: No

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.

Views of Responsible Officials and Corrective Actions: See Corrective Plan

(Continued)

INDIANAPOLIS HOUSING AGENCY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
December 31, 2019

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

2019-006 Section 8 Allowable Cost Testing (Significant Deficiency)

Information on the Federal Program: *Department of Housing and Urban Development, Housing Voucher Cluster, CFDA Numbers 14.871 and 14.879*

Condition: We noted one non-HAP expenditure for which management was unable to provide supporting documentation. Additionally, we noted 5 non-HAP expenditures (including the one noted above) for which management was unable to provide formal documentation of proper approval.

Criteria: Management is responsible for maintaining appropriate documentation to substantiate the expenditure of funds in accordance with program requirements.

Questioned Cost: Known: \$3,990

Context: We selected 15 non-HAP expenditures for the Section 8 Housing Choice Vouchers program totaling \$87,477 of the total \$738,240 non-HAP expenditures. The expenditure for which no supporting documentation could not be provided was considered a questioned cost since we were unable to determine eligibility.

Effect: A lack of appropriate supporting documentation or formal review puts the Agency at an increased risk that ineligible expenditures could be incurred.

Cause: The missing documentation identified seem to be the result of ineffective quality control processes.

Repeat Finding: No

Recommendation: We recommend that the Agency implement procedures to ensure that all required supporting documentation is maintained and that internal controls are in place to ensure expenditures are being properly reviewed.

Views of Responsible Officials and Corrective Actions: See Corrective Plan



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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
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♦
THE INDIANAPOLIS
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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

Management's Response and Corrective Action Plan

2019-001 Internal Control over Financial Reporting (Material Weakness)

View of Responsible Official: Management acknowledges the finding.

Corrective Action Plan: Staff attrition in 2019 contributed to this material weakness. A new Chief Financial Officer began in January 2020 and the Controller duties have been outsourced to perform many of the reconciliations and adjustments cited. The Agency's Executive Director and Finance Committee will work in coordination to ensure the material weakness is mitigated.

Responsible Personnel: Executive Director, John Hall, and Chief Financial Officer, Heather Mueller

2019-002 SEFA Preparation and Review (Material Weakness)

View of Responsible Official: Management acknowledges the finding.

Corrective Action Plan: The Agency's component unit, Insight Development Corporation (Insight), had extraordinary autonomy, which ceased in 2019. In 2020, the operations have been absorbed within the Agency. The Agency's Executive Director is also the President for Insight in 2020. The combined duties result in greater awareness and centralized financial reporting. Consequently, all sources of revenue will be maintained centrally facilitating the identification of all federal awards.

Responsible Personnel: Executive Director, John Hall, and Chief Financial Officer, Heather Mueller

2019-003 Procurement Policy Compliance (Significant Deficiency)

View of Responsible Official: Management acknowledges the finding.

Corrective Action Plan: Personnel changes may be necessary to mitigate this significant deficiency. Weekly review of procurement activities began in 2020. The Executive Director leads these meetings to control for change and process improvement. The Agency no longer allows for approval based upon annual expenditure rather the contract's aggregate, including renewals. The signatory authority for the Executive Director was also reduced to \$85,000 in an effort to provide the Board of Commissioners more review and transparency to the public.

Responsible Personnel: Executive Director, John Hall

2019-004 Record Retention and Approval of Cash Disbursements (Significant Deficiency)

View of Responsible Official: Management acknowledges the finding.

Corrective Action Plan: Files were not organized in 2019, and sufficient backup for accounts payable was not enforced. In 2020, vendor files have been created to maintain check run copies of check and all sufficient backup both scanned and catalogued electronically and filed in filing cabinets alphabetically. Voided check backup are now being kept in a central location, instead of at multiple staff's desks.



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The Chief Financial Officer reviews and authorizes every week's accounts payable run and ensures sufficient backup is attached to every paid invoice. The Deputy Executive Director will provide weekly quality control checks.

Responsible Personnel: Chief Financial Officer, Heather Mueller

2019-005 Section 8 Tenant Files – Document Retention (Significant Deficiency)

View of Responsible Official: Management acknowledges the finding.

Corrective Action Plan: The Section 8 Housing Choice Voucher (HCV) Program will develop file standardization procedures. Supervisory staff will be responsible for completing quality control reviews on a minimum of eight percent of active files on a monthly basis so that 100 percent file reviews occur annually. Criminal history will be pulled as part of the annual recertification process in order to ascertain if any prior arrests resulted in convictions and ineligibility as a consequence.

Responsible Personnel: HCV Director, Shante Taylor

2019-006 Section 8 Allowable Cost Testing (Significant Deficiency)

View of Responsible Official: Management acknowledges the finding.

Corrective Action Plan: In 2019, Housing Assistance Payments (HAP) contract expenditures were not approved by the Chief Financial Officer (CFO), nor was backup documentation maintained in the Finance department. In 2020, the current CFO developed procedures for the Section 8 Housing Choice Voucher Program Finance Specialists and staff accountants. The HAP expenditures are created by the HCV Finance Specialist and then authorized by the HCV Director. Thereafter, the CFO determines appropriateness. Once approved and the check run is performed, the Financial Specialist makes copies of any checks cut to keep in the finance files. A shared folder/drive has also been created to keep all HAP expenditure backup between the HCV Finance departments. The Deputy Executive Director will provide quality control reviews of the monthly HAP to participating landlords.

Responsible Personnel: Chief Financial Officer, Heather Mueller, and HCV Director, Shante Taylor



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Executive Director



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Schedule of Prior Year Findings and Questioned Costs

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

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.

Status: Unresolved - See Finding 2019-001.

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.

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.

Status: Resolved.