



City of Des Moines, Iowa Municipal Housing Agency

Financial and Compliance Report
Year Ended June 30, 2015

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Independent Auditor's Report

RSM US LLP

To the Housing Services Board and the
Honorable Mayor and Members of the City Council
City of Des Moines, Iowa
Des Moines, Iowa

Report on the Financial Statements

We have audited the accompanying financial statements of the City of Des Moines, Iowa Municipal Housing Agency (Agency), an enterprise fund of the City of Des Moines, Iowa, as of and for the year ended June 30, 2015, 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 conducted our audit in accordance with 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Des Moines, Iowa Municipal Housing Agency as of June 30, 2015, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis Other Matter

As discussed in Note 1, the financial statements present only the City of Des Moines, Iowa Municipal Housing Agency, an enterprise fund of the City of Des Moines, Iowa, and do not purport to, and do not, present fairly the financial position of the City of Des Moines, Iowa as of June 30, 2015, and the changes in its financial position and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As explained in Note 5 to the financial statements, the Agency adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, which restated beginning net position, net pension liability and deferred outflows of resources of the financial statements.

Other Matters*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management Discussion and Analysis on pages 3 – 6, the other postemployment benefit plan schedule of funding progress on page 23 and the Iowa Public Employees' Retirement System pension plan schedules on pages 24 – 26 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the City of Des Moines, Iowa Municipal Housing Agency. The accompanying schedule of expenditures of federal awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Nonprofit Organizations*, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic 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 information 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 December 17, 2015 on our consideration of the City of Des Moines, Iowa Municipal Housing 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 City of Des Moines, Iowa Municipal Housing Agency's internal control over financial reporting and compliance.

RSM US LLP

Des Moines, Iowa
December 17, 2015

**City of Des Moines, Iowa
Municipal Housing Agency**

**Management's Discussion and Analysis
Year Ended June 30, 2015**

As management of the City of Des Moines, Iowa Municipal Housing Agency (the Agency), an enterprise fund of the City of Des Moines, Iowa, we offer readers of the Agency's financial statements this narrative overview and analysis of the financial activities of the Agency for the fiscal year ended June 30, 2015. We encourage readers to consider the information presented here in conjunction with the Agency's financial statements and the notes to the financial statements.

Financial Highlights

- The assets of the Agency exceeded its liabilities as of June 30, 2015, by \$15,845,022 (net position). Of this amount, \$(805,403) represents unrestricted net position, which may be used to meet the Agency's ongoing obligations.
- The Agency's total net position decreased by \$2,243,718 during the year ended June 30, 2015.
- The Agency's total long-term liabilities increased by \$1,351,718.

Overview of the Financial Statements

The statement of net position presents the assets, liabilities and net position of the Agency as of the end of the fiscal year and requires the classification of assets and liabilities into current and noncurrent categories. The difference between total assets and total liabilities is reflected in the net position section that reflects net position in three broad categories: net investment in capital assets; restricted; and unrestricted. Net position is one indicator of the current financial condition of the Agency, while the change in net position is one indicator of whether the overall financial condition of the Agency has improved or deteriorated during the year.

The statement of revenues, expenses and changes in net position presents the revenues and expenses that occurred during the fiscal year. Revenues and expenses are categorized as operating and nonoperating, and expenses are reported by natural classification.

The statement of cash flows presents the inflow and outflow of cash collected and disbursed by the Agency for the fiscal year. It separates the sources and uses of funds by the major categories of operating, capital and related financing, noncapital financing, and investing activities.

**City of Des Moines, Iowa
Municipal Housing Agency**

**Management's Discussion and Analysis
Year Ended June 30, 2015**

Government-Wide Financial Analysis

As noted earlier, net position over time, may serve as a useful indicator of a government's financial position. The Agency's net position has decreased from a year ago from \$19,813,912 to \$15,845,022.

Statement of Net Position

	2015	2014
Assets:		
Current and other assets	\$ 8,094,190	\$ 9,597,902
Capital assets	10,644,720	11,778,477
Total assets	18,738,910	21,376,379
Liabilities:		
Current	727,288	1,027,597
Noncurrent	1,886,588	534,870
Total liabilities	2,613,876	1,562,467
Net position:		
Net investment in capital assets	10,644,720	11,778,477
Restricted	6,005,705	7,215,809
Unrestricted	(805,403)	819,626
Total net position	\$ 15,845,022	\$ 19,813,912

The Agency's net investment in capital assets is 67 percent and 59 percent in 2015 and in 2014, respectively of total net position. Restricted net position is 38 percent of total net assets for the 2015 fiscal year, and 36 percent for the 2014 fiscal year.

The decrease in total assets of \$2,637,469 from the 2014 fiscal year is due to a decrease in unrestricted and restricted cash as well as the continued depreciation of capital assets. The Agency used this cash to fund ongoing operations during the year.

Current liabilities have decreased \$300,309 from fiscal year 2014 due primarily to a decrease in construction in process payables.

**City of Des Moines, Iowa
Municipal Housing Agency**

**Management's Discussion and Analysis
Year Ended June 30, 2015**

Statement of Revenues, Expenses and Changes in Net Position

	2015	2014
Operating revenues:		
Dwelling rental	\$ 1,310,895	\$ 1,234,545
Intergovernmental	17,267,565	17,901,651
Charges for services	203,747	433,609
Total operating revenues	18,782,207	19,569,805
Operating expenses:		
Personal services	3,680,567	3,733,963
Contractual services	16,593,097	16,908,518
Depreciation	1,713,582	1,688,801
Total operating expenses	21,987,246	22,331,282
Operating (loss)	(3,205,039)	(2,761,477)
Nonoperating revenues (expenses):		
Investment earnings	5,953	6,060
Impairment loss	(29,825)	-
Gain (loss) on sale of capital assets	180,832	159,276
Nonoperating income (expenses)	156,960	165,336
Capital grants	804,361	606,942
Change in net position	(2,243,718)	(1,989,199)
Net position, beginning, as restated	18,088,740	21,803,111
Net position, ending	\$ 15,845,022	\$ 19,813,912

Total revenue for fiscal year 2015 was \$19,773,752 and for 2014 was \$20,342,083. Operating revenues accounted for approximately 95 percent and 96 percent of total revenues for fiscal years 2015 and 2014, respectively. Operating revenues consist of dwelling rent, intergovernmental funding and charges for services.

Overall, intergovernmental operating revenues have decreased by \$634,086 from fiscal year 2014, due to a decrease in federal funding received by the Agency.

Operating expenses have decreased by \$343,637 from fiscal year 2014 due primarily to a decrease in contractual services.

Capital Assets

The Agency's capital assets were \$10,644,720, net of accumulated depreciation of \$31,757,586, as of June 30, 2015 and \$11,778,477, net of accumulated depreciation of \$30,279,658 as of June 30, 2014. This decrease of \$1,133,757 is due to the disposal of several properties during fiscal year 2015 owned by the Agency. Depreciation expense was \$1,713,981. Acquisition of equipment was \$820,492. Further information on capital assets can be found in Note 3 to the basic financial statements.

**City of Des Moines, Iowa
Municipal Housing Agency**

**Management's Discussion and Analysis
Year Ended June 30, 2015**

Long-Term Debt

The Agency did not issue any new debt in the current year nor does the Agency have outstanding debt from prior years. Note 8 to the basic financial statements discloses information in regards to the Agency's noncurrent compensated absences and due to self-sufficiency participation liabilities.

Economic Factors

Revenue from intergovernmental sources was \$17,267,565 in 2015, a \$634,086 decrease from 2014, while revenues from other sources was \$2,506,187, a \$65,755 increase from 2014.

The following are factors that may affect the Agency over the next few years:

- The Public Housing and Section 8 programs are federally funded by Housing and Urban Development. The funding from the prior year saw a decrease because of sequestration. If congress does not approve a new budget the agency could see another decrease in funding.
- The Agency has received a grant from the Iowa Finance Authority to start of a new program called Tenant Based Rental Assistance.
- The Agency is also looking into the possibility of doing tax credits in the near future.

Requests for Information

This financial report has been prepared to provide the reader with an overview of the Agency's financial operations. If the reader would like additional information, please direct the request to Jackie Lloyd, Housing Director, 100 E. Euclid Avenue, Park Fair Mall, Suite 101, Des Moines, Iowa 50313.

**City of Des Moines, Iowa
Municipal Housing Agency**

**Statement of Net Position
June 30, 2015**

Assets

Current assets:

Cash and pooled cash investments	\$ 1,456,866
Due from other governmental units	494,699
Accounts receivable (net of allowance for doubtful accounts of \$258,414)	50,508
Inventories	67,149
Prepaid items	19,263
Total current assets	2,088,485

Noncurrent assets:

Capital assets:

Nondepreciable

Land	1,388,411
Construction in progress	106,221

Depreciable:

Buildings	33,621,617
Improvements other than buildings	5,846,153
Machinery and equipment	1,439,904

42,402,306

Less accumulated depreciation	31,757,586
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Total capital assets 10,644,720

Restricted cash and cash equivalents	6,005,705
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Total noncurrent assets 16,650,425

Total assets 18,738,910

Deferred outflow of resources, pension related amounts	272,983
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See Notes to Financial Statements.

Liabilities

Current liabilities:

Accounts payable	315,750
Accrued payroll	71,045
Due to other funds of the City of Des Moines, Iowa	19,911
Compensated absences	202,900
Tenant security deposits	105,684
Unearned revenues	11,998
Total current liabilities	727,288

Noncurrent liabilities:

Self-sufficiency participation	230,137
Compensated absences	150,001
Net pension liability	1,335,353
Postemployment benefits	171,097
Total noncurrent liabilities	1,886,588

Total liabilities**2,613,876**

Deferred inflow of resources, pension related amounts

552,995**Net Position**

Investment in capital assets	10,644,720
Restricted for public housing program	6,005,705
Unrestricted (deficit)	(805,403)
Total net position	\$ 15,845,022

**City of Des Moines, Iowa
Municipal Housing Agency**

**Statement of Revenues, Expenses and Change in Net Position
Year Ended June 30, 2015**

Operating revenues:	
Dwelling rental	\$ 1,310,895
Intergovernmental	17,267,565
Charges for services	203,747
Total operating revenues	<u>18,782,207</u>
Operating expenses:	
Personal services	3,680,567
Contractual services	16,593,097
Depreciation	1,713,582
Total operating expenses	<u>21,987,246</u>
Operating (loss)	<u>(3,205,039)</u>
Nonoperating revenues (expense):	
Investment earnings	5,953
Gain on sale of capital assets	180,832
Other	(29,825)
Net nonoperating revenue	<u>156,960</u>
Capital grants	<u>804,361</u>
Change in net position	<u>(2,243,718)</u>
Net position, beginning, as restated	18,088,740
Net position, ending	<u>\$ 15,845,022</u>

See Notes to Financial Statements.

**City of Des Moines, Iowa
Municipal Housing Agency**

**Statement of Cash Flows
Year Ended June 30, 2015**

Cash flows from operating activities:	
Cash received from rents and operating grants	\$ 18,607,803
Cash paid to suppliers	(16,591,236)
Cash paid to employees	(3,804,747)
Net cash (used in) operating activities	(1,788,180)
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(820,492)
Capital grants	804,361
Proceeds from the sale of capital assets	391,644
Net cash provided by capital and related financing activities	375,513
Cash flows from investing activities, interest collected	5,953
Net (decrease) in cash and cash equivalents	(1,406,714)
Cash and cash equivalents, beginning	8,869,285
Cash and cash equivalents, ending	\$ 7,462,571
Reconciliation of operating (loss) to net cash (used in) operating activities:	
Operating (loss)	\$ (3,205,039)
Adjustments to reconcile operating (loss) to net cash (used in) operating activities:	
Depreciation	1,713,582
(Increase) decrease in:	
Accounts receivable	46,970
Due from other governmental units	(248,522)
Prepaid items	498
Deferred outflow of resources - pension related	(76,231)
Increase (decrease) in:	
Accounts payable	1,362
Accrued payroll	27,373
Compensated absences	(59,539)
Postemployment benefits	17,763
Tenant security deposits	2,461
Self-sufficiency participation	26,105
Unearned revenue	(1,418)
Net pension liability	(586,540)
Deferred inflow of resources - pension related	552,995
Net cash (used in) operating activities	\$ (1,788,180)

See Notes to Financial Statements.

**City of Des Moines, Iowa
Municipal Housing Agency**

Notes to Financial Statements

Note 1. Nature of Business and Reporting Entity and Summary of Significant Accounting Policies

Nature of business:

The City of Des Moines, Iowa Municipal Housing Agency (Agency) is an enterprise fund of the City of Des Moines, Iowa (City).

The purpose of the Agency is to administer the public housing programs authorized by the United States Housing Act of 1937, as amended. These programs are subsidized by the Federal Government through the U.S. Department of Housing and Urban Development (HUD). Such administrative directives, rules and regulations are subject to change by an act of Congress or administrative changes mandated by HUD. Such changes may occur with little notice and inadequate funding to pay for the related cost, including the additional administrative burden, to comply with a change.

Reporting entity:

The accompanying financial statements include only the City of Des Moines, Iowa Municipal Housing Agency, an enterprise fund of the City and are not intended to present fairly the financial position and changes in net position of the City of Des Moines, Iowa in conformity with generally accepted accounting principles.

The Agency is not a legally separate entity. The Agency is an enterprise fund and business-type activity of the City of Des Moines, Iowa (the primary government) and the City assumes all rights, titles, interests, duties, covenants, obligations and liabilities of the Agency. Management decisions are the responsibility of the City Council, designated City employees and a seven member advisory board.

Summary of significant accounting policies:

Basis of accounting and measurement focus: The economic measurement focus and the accrual basis of accounting is used by the Agency. Under the accrual basis of accounting, revenue is recognized when earned and expenses are recognized when the liability has been incurred. Under this basis of accounting, all assets and all liabilities associated with the operation of the Agency are included in the statement of net position.

Proprietary fund type: The City of Des Moines, Iowa Municipal Housing Agency is a proprietary fund type. Proprietary funds are used to account for a government's business-type activities, which are similar to those often found in the private sector. The measurement focus is based upon income determination, financial position and cash flows.

Accounting estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent 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.

Cash and cash equivalents: For purposes of reporting cash flows, the Agency considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

The balance reported represents the Agency's equity interest in the commingled pooled cash of the City.

**City of Des Moines, Iowa
Municipal Housing Agency**

Notes to Financial Statements

Note 1. Nature of Business and Reporting Entity and Summary of Significant Accounting Policies (Continued)

Investments are reported at quoted market prices. Securities traded on the national or international exchange are valued at the last reported sales price at current exchange rates. The cash and pooled cash equivalents consisted of checking accounts and savings accounts for the current year.

Inventories: Inventories are stated at cost and recorded as an expense at the time they are relieved from inventory for use. Inventories are valued on the first-in, first-out basis.

Compensated absences: Agency employees participate in benefit plans offered by the City of Des Moines, Iowa and, accordingly, accumulate vacation and sick leave hours for subsequent use or for payment upon termination, death or retirement. Sick leave is payable when used, or upon death or retirement. If paid upon death or retirement, the total accumulated hours are paid at one-half of the then effective hourly rate for that employee. These compensated absences are accrued as a liability as they are earned.

Capital assets: Capital assets are defined by the Agency as assets with an initial, individual cost of more than \$500 and an initial useful life of one year or greater. All appliances are capitalized regardless of threshold as required by HUD. Capital assets of the Agency are stated at cost. Depreciation has been provided using the straight-line method over the estimated useful lives, as follows:

Buildings	40 years
Building improvements	10 years
Improvements other than buildings	10-15 years
Machinery and equipment	3-10 years

Due to other funds: Due to other funds of the City of Des Moines, Iowa results from the time lag between the dates that interfund services are provided and payment between the Agency and the City of Des Moines, Iowa occur.

Deferred outflows of resources: Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditure) until then. Deferred outflows of resources consist of unrecognized items not yet charged to pension expense and contributions from the Agency after the measurement date of the net pension liability but before the end of the Agency's reporting period.

Deferred inflows of resources: Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources consist of pension related amounts including the unamortized portion of the net difference between projected and actual earnings on pension plan investments.

Pensions: For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Iowa Public Employees Retirement System (IPERS) and additions to/deductions from IPERS' fiduciary net position have been determined on the same basis as they are reported by IPERS. 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.

**City of Des Moines, Iowa
Municipal Housing Agency**

Notes to Financial Statements

Note 1. Nature of Business and Reporting Entity and Summary of Significant Accounting Policies (Continued)

Operating and nonoperating revenues and expenses: Operating revenues result from exchange transactions of housing agency activities. Nonoperating revenues result from nonexchange transactions such as investment earnings and capital grants. Expenses associated with operating the housing agency are considered operating.

Net position: Net position represent the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources. Investment in capital assets, consists of capital assets, net of accumulated depreciation. Net position is reported as restricted when there are limitations imposed on their use either through enabling legislation adopted by the Authority or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. When an expense is incurred for purposes for which both restricted and unrestricted net position are available, the Agency first applies restricted resources.

Note 2. Cash and Pooled Cash Equivalents

As of June 30, 2015, the Agency's deposits consisted of checking accounts and savings accounts. The Agency had no investments.

The Agency follows the City of Des Moines, Iowa's investment policy.

Authorized investments: The Agency is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved pursuant to Chapter 12C, Code of Iowa; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district. The Agency's deposits may be invested in the following HUD approved investments: direct obligations of the federal government backed by full faith and credit of the United States; obligations of government agencies; securities of government sponsored agencies; demand, savings deposits and time deposits and repurchase agreements.

However, the City's investment policy additionally limits investments in commercial paper to obligations at the time of purchase rated within the two highest ratings, issued by nationally recognized statistical rating organizations with a maturity less than 270 days, provided that at the time of purchase no more than 10 percent of the investment portfolio be invested in commercial paper and no more than 5 percent of the investment portfolio shall be invested in securities of a single issuer. It also limits investments in prime bankers' acceptances to those that mature within 270 days and that are eligible for purchase by a federal reserve bank, provided that at the time of purchase no more than 5 percent of the investment portfolio shall be invested in the securities of a single issuer.

Custodial credit risk: Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned.

As of June 30, 2015, the carrying amount of the Agency's deposits was \$7,462,571 and the bank balance was \$7,065,704 which was entirely covered by federal depository insurance or by a multiple financial institution collateral pool in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the members of the pool to ensure there will be no loss of public funds.

**City of Des Moines, Iowa
Municipal Housing Agency**

Notes to Financial Statements

Note 3. Capital Assets

The following is a summary of changes in capital assets for the year ended June 30, 2015:

	June 30, 2014	Additions	Retirements	June 30, 2015
Nondepreciable assets:				
Land	\$ 1,467,560	\$ -	\$ (79,149)	\$ 1,388,411
Construction in progress	1,710,084	106,221	(1,710,084)	106,221
	<u>3,177,644</u>	<u>106,221</u>	<u>(1,789,233)</u>	<u>1,494,632</u>
Depreciable assets:				
Buildings	31,595,174	2,423,584	(397,141)	33,621,617
Improvements other than buildings	5,846,153	-	-	5,846,153
Machinery and equipment	1,439,164	740	-	1,439,904
Total depreciable assets	<u>38,880,491</u>	<u>2,424,324</u>	<u>(397,141)</u>	<u>40,907,674</u>
Less accumulated depreciation for:				
Buildings	23,375,113	1,648,392	(235,654)	24,787,851
Improvements other than buildings	5,610,893	30,970	-	5,641,863
Machinery and equipment	1,293,652	34,220	-	1,327,872
Total accumulated depreciation	<u>30,279,658</u>	<u>1,713,582</u>	<u>(235,654)</u>	<u>31,757,586</u>
Capital assets, net	<u>\$ 11,778,477</u>	<u>\$ 816,963</u>	<u>\$ (1,950,720)</u>	<u>\$ 10,644,720</u>

Note 4. Forgivable Loans

The Home Ownership Program (5H) is intended to provide affordable home acquisition loans to eligible low-income families wishing to purchase designated single-family scattered site homes offered by the Agency. The homes are sold at fair value and are financed by conventional loans by area financial institutions. The down payment is financed by the Agency with a forgivable interest free loan to the purchasers. A portion of the loan is forgiven upon closing with the balance being forgiven over the next seven years. If the purchaser defaults on the terms of the forgivable loan, it will become due at the time of default with interest.

As of June 30, 2015, the unforgiven portion of forgivable loans was \$361,020. This amount is fully reserved as of June 30, 2015 as the Agency does not anticipate collection.

Note 5. Pension Plan

As a result of the adoption of GASB Statement Nos. 68 and 71, the beginning net position of the financial statements was restated. The effect on fiscal year 2014 is as follows:

Net position June 30, 2014, as previously reported	\$ 19,813,912
Restatement due to IPERS:	
Net pension liability	(1,921,924)
Pension related deferred outflows	196,752
Net pension June 30, 2014, as restated	<u>\$ 18,088,740</u>

**City of Des Moines, Iowa
Municipal Housing Agency**

Notes to Financial Statements

Note 5. Pension Plan (Continued)

Iowa Public Employees' Retirement System

Plan description: IPERS membership is mandatory for employees of the Agency. Employees of the Agency are provided with pensions through a cost sharing multiple employer defined benefit pension plan administered by Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive P.O. Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension benefits: A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, any time after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. These qualifications must be met on the member's first month of entitlement to benefits. Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier (based on years of service).
- The member's highest five-year average salary. For members with service before June 30, 2012, the highest three-year average salary as of that date will be used if it is greater than the highest five-year average salary.

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25 percent for each month that the member receives benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50 percent for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and death benefits: A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions: Effective July 1, 2012, as a result of a 2010 law change, the contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. Statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

**City of Des Moines, Iowa
Municipal Housing Agency**

Notes to Financial Statements

Note 5. Pension Plan (Continued)

In fiscal year 2015, pursuant to the required rate, Regular members contributed 5.95 percent of pay and the Agency contributed 8.93 percent for a total rate of 14.88 percent.

The Agency's contributions to IPERS for the year ended June 30, 2015 were \$199,538.

Net Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: At June 30, 2015, the Agency reported a liability of \$1,335,353 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Agency's proportion of the net pension liability was based on its share of contributions to the pension plan relative to the contributions of all City of Des Moines, Iowa IPERS participating employer obligations. At June 30, 2014, the Agency's allocated proportion from the City of Des Moines, Iowa was .033155 percent, which was a decrease of 0.006255 percent from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the Agency recognized pension expense of \$89,731 and reported deferred outflows of resources and deferred inflows of resources related to the IPERS pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 14,513	\$ -
Changes of assumptions	58,932	-
Net difference between projected and actual earnings on pension plan investments	-	509,265
Changes in proportion and differences between District contributions and proportionate share of contributions	-	43,730
Total deferred amounts to be recognized in pension expense in future periods	73,445	552,995
District contributions subsequent to the measurement date	199,538	-
Total deferred amounts related to pensions	\$ 272,983	\$ 552,995

**City of Des Moines, Iowa
Municipal Housing Agency**

Notes to Financial Statements

Note 5. Pension Plan (Continued)

\$199,538 reported as deferred outflows of resources related to pensions resulting from the Agency contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Deferred outflows of resources are being amortized over a closed period equal to the average of the expected service lives of all employees as of the beginning of the measurement period, which was 5.29 years. The deferred inflows relating to the difference between expected and actual investment earnings is being amortized over a closed 5-year period beginning in the current year. Amounts reported as deferred outflows of resources and deferred inflows of resources, other than the contributions made subsequent to the measurement period, related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30:</u>	Deferred Outflows of Resources	Deferred Inflows of Resources
2016	\$ 17,118	\$ (138,249)
2017	17,118	(138,249)
2018	17,118	(138,249)
2019	17,118	(138,248)
2020	4,973	-
	<u>\$ 73,445</u>	<u>\$ (552,995)</u>

There were no non-employer contributing entities included by IPERS.

Actuarial assumptions: The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00 percent
Salary increases	4.00 to 17.00 percent, average, including inflation
Investment rate of return	7.50 percent, net of pension plan investment expense, including inflation

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

Subsequent to the actuarial valuation date used by the Plan, the Society of Actuaries issued updated mortality scales and mortality improvement scales; MP2014 and MP-15. It is expected these scales may increase the total pension liability by 4 percent – 8 percent unless the plan experience indicates otherwise. The Agency has not been provided the impact of these scales but believes the updated scales, if determined appropriate for the plan, will have a material impact on the Agency's net pension obligation.

**City of Des Moines, Iowa
Municipal Housing Agency**

Notes to Financial Statements

Note 5. Pension Plan (Continued)

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Asset Allocation	Long-Term Expected Real Rate of Return
U.S. equity	23%	6.31%
Non U.S. equity	15	6.76
Private equity	13	11.34
Real estate	8	3.52
Core plus fixed income	28	2.06
Credit opportunities	5	3.67
TIPS	5	1.92
Other real assets	2	6.27
Cash	1	(0.69)
	<u>100%</u>	

Discount rate: The discount rate used to measure the total pension liability was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the Agency will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Agency's proportionate share of the net pension liability to changes in the discount rate:

The following presents the Agency's proportionate share of the net pension liability calculated using the discount rate of 7.50 percent, as well as what the Agency's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate.

	1% Decrease (6.50%)	Discount Rate (7.50%)	1% Increase (8.50%)
Agency's proportionate share of the net pension liability	\$ 2,523,109	\$ 1,335,353	\$ 332,761

Pension plan fiduciary net position: Detailed information about the pension plan's fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

**City of Des Moines, Iowa
Municipal Housing Agency**

Notes to Financial Statements

Note 6. Deferred Compensation

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code, Section 457. The plan, available to all City employees, permits an employee to defer a portion of his or her compensation until future years. This deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

In accordance with Federal legislation (the Small Business and Wage Protection Act of 1996), the City has confirmed or established trust arrangements for all of the assets in the plan, to ensure those assets are protected and used exclusively for plan participants and beneficiaries. As a result of these arrangements, the deferred compensation plan is not reported in the Agency's financial statements.

Note 7. Postretirement Benefits

Plan description: The City sponsors a single-employer health care plan that provides medical, prescription drugs and dental benefits to all active and retired employees and their eligible dependents. Employees who have attained age 55 and retire from active employment are eligible for retiree benefits. Eligible retirees and their dependents receive medical and prescription coverage through a fully insured plan with Wellmark BCBS and dental benefits through a self-insured plan. These are the same plans that are available for active employees.

Contributions are required for both retiree and dependent coverage. The contributions for each insured group is assumed to be the expected, composite per capita cost for the group. This composite is then disaggregated into an age-specific starting cost curve based on the average age of the group and for assumptions for age-based morbidity. The average age of the pre-65 retiree group is 59. Retiree expenses are then offset by monthly contributions. The City does not issue a publicly available financial report for the OPEB plan.

Funding policy: The City of Des Moines establishes and amends contribution requirements.

The current funding policy of the City is to pay health insurance premiums as they occur. This arrangement does not qualify as other post employment benefits (OPEB) plan assets under Governmental Accounting Standards Board (GASB) Statement No. 43 for current GASB reporting.

The required contribution is based on projected pay-as-you-go financing. For fiscal year 2015, the Agency contributed \$7,153.

Annual OPEB Cost and Net OPEB Obligation: The City's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance to the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table shows the components of the City's annual OPEB cost for the year as it pertains to the City of Des Moines, Iowa Municipal Housing Agency enterprise fund, the amount actuarially contributed to the plan, and changes in the Agency's annual OPEB obligation:

Annual required contribution	\$	27,210
Interest on net OPEB obligation		6,860
Adjustment to annual required contribution		(8,264)
Annual OPEB cost (expense)		<u>25,806</u>
Contributions and payments made		<u>(7,153)</u>
Increase in net OPEB obligation		18,653
Net OPEB obligation, July 1, 2014		<u>152,444</u>
Net OPEB obligation, June 30, 2015	\$	<u><u>171,097</u></u>

**City of Des Moines, Iowa
Municipal Housing Agency**

Notes to Financial Statements

Note 7. Postretirement Benefits (Continued)

The Agency's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2015 and the two preceding years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2013	\$ 28,973	46.28%	\$ 134,594
June 30, 2014	26,153	28.34	153,334
June 30, 2015	25,806	27.72	171,097

Funded status and funding progress: As of July 1, 2013, the most recent actuarial valuation date, the plan was 0 percent funded. The Agency's portion of the City's actuarial accrued liability for benefits was \$216,994 and the actuarial value of assets is none resulting in an unfunded actuarial accrued liability (UAAL) of \$216,994. The covered payroll (annual payroll of active employees covered by the plan) was \$3,173,058 and the ratio of the UAAL to the covered payroll was 6.8 percent.

Actuarial estimates of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about the future employment, mortality and the health care cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial methods and assumptions: Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and included the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspectives of the calculations.

In the July 1, 2013 actuarial valuation, project unit credit method was used. The actuarial assumptions included a 4.5 percent discount rate, an annual inflation rate of 3 percent and an annual health care cost trend rate of 9.0 percent reduced by decrements of .5 percent annually to an ultimate rate of 5 percent for medical and prescription costs for dental and related administrative costs. The UAAL is being amortized as an open level dollar. The amortization of UAAL is done over a period of 30 years.

**City of Des Moines, Iowa
Municipal Housing Agency**

Notes to Financial Statements

Note 8. Noncurrent Liabilities

The following is a summary of changes in noncurrent liabilities for the year ended June 30, 2015:

	June 30, 2014	Additions	Decreases and Payments	June 30, 2015	Amount Due in One Year
Compensated absences including sick leave	\$ 412,441	\$ 459,077	\$ 518,617	\$ 352,901	\$ 202,900
Due to self-sufficiency participation	\$ 204,032	\$ 245,321	\$ 219,216	\$ 230,137	\$ -

The Agency participates in the HUD family self-sufficiency program where families work toward self sufficiency goals over a 5-year period. When the family completes its contract, they become eligible to receive the self-sufficiency participation funds deposited into an escrow account on their behalf. The above liabilities will be liquidated with resources available from the Agency's operations.

Note 9. Risk Management

The City is self-insured for medical benefits. The Agency makes monthly contributions to the City's Self Insurance Fund for medical claims based on a budgeted per-member amount. Any unpaid claims, or incurred but not reported claims, are a liability of the Self Insurance Fund.

The Agency is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Agency carries commercial insurance for these risks. The Agency contracts with reputable carriers and utilizes deductibles ranging from \$250 to \$2,500.

Settled claims have not exceeded available coverage in the past three years. There has been no significant reduction in insurance coverage from the prior year.

Note 10. Contingencies

The Agency is involved in various legal actions arising in the ordinary course of business. The Agency is vigorously contesting these legal actions and, in the opinion of the City Legal Counsel, the Agency has adequate legal defenses with respect to these actions and does not believe that they will materially affect the Agency's financial position.

**City of Des Moines, Iowa
Municipal Housing Agency**

Notes to Financial Statements

Note 11. New Pronouncements

The GASB has issued several statements not yet implemented by the Agency. The Statements which will impact the Agency are as follows:

- GASB Statement No. 72, *Fair Value Measurement and Application*, issued February 2015, will be effective for the Agency with its year ending June 30, 2016. This Statement defines fair value and describes how fair value should be measured, what assets and liabilities should be measured at fair value, and what information about fair value should be disclosed in the notes to the financial statements. This Statement defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Investments, which generally are measured at fair value, are defined as a security or other asset that governments hold primarily for the purpose of income or profit and the present service capacity of which are based solely on their ability to generate cash or to be sold to generate cash. The related disclosures have been expanded to categorize fair values according to their relative reliability and to describe positions held in many alternative investments.
- GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, issued in June 2015, will be effective for the Agency beginning with its fiscal year ending June 30, 2016. The Statement replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* and requires governments to report a liability on the face of the financial statements for the OPEB they provide and outlines the reporting requirements by governments for defined benefit OPEB plans administered through a trust, cost-sharing OPEB plans administered through a trust and OPEB not provided through a trust. The Statement also requires governments to present more extensive note disclosures and required supplementary information about their OPEB liabilities. Some governments are legally responsible to make contributions directly to an OPEB plan or make benefit payments directly as OPEB comes due for employees of other governments. In certain circumstances, called special funding situations, the Statement requires these governments to recognize in their financial statements a share of the other government's net OPEB liability.
- GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, issued July 2015, will be effective for the Agency beginning with its fiscal year ending June 30, 2016. This statement reduces the GAAP hierarchy to two categories of authoritative GAAP from the four categories under GASB Statement No. 55. The first category of authoritative GAAP consists of GASB Statements. The second category comprises GASB Technical Bulletins and Implementation Guides, as well as guidance from the AICPA that is cleared by the GASB. The Statement also addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

The Agency has not yet determined the impact these Statements will have on the financial statements.

**City of Des Moines, Iowa
Municipal Housing Agency**

**Required Supplementary Information
Other Postemployment Benefit Plan**

SCHEDULE OF FUNDING PROGRESS

Fiscal Year Ended	Actuarial Valuation Date	Actuarial Value of Net Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Over-funded) AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
2015	07/01/2013	\$ -	\$ 216,994	\$ 216,994	- %	\$ 3,173,058	6.8%
2014	07/01/2013	-	216,994	216,994	-	3,148,496	6.9
2013	07/01/2011	-	212,953	212,953	-	3,669,424	5.8

The information presented in the required supplementary schedule was determined as part of the actuarial valuation as of July 1, 2013. Additional information follows:

1. The cost method used to determine the ARC is the Projected Unit Credit Actuarial Cost method.
2. There are no plan assets.
3. Economic assumptions are as follows: health care cost trend rates of 5.0-9.0 percent; discount rate of 4.5 percent.
4. The amortization method is open, level dollar.
5. Inflation rate of 3% per year.

**City of Des Moines, Iowa
Municipal Housing Agency**

**Required Supplementary Information
Schedule of the Agency's Proportionate Share of the Net Pension Liability
Iowa Public Employees' Retirement System**

The City of Des Moines, Iowa Municipal Housing Agency is an enterprise fund of the City of Des Moines, Iowa. The below information presents only the Agency's portion of the City of Des Moines, Iowa's proportionate share of the net pension liability based on an allocation:

	<u>June 30, 2015</u>
Agency's proportion of the net pension liability	0.033155%
Agency's proportionate share of the net pension liability	\$ 1,335,352
Agency's covered-employee payroll	\$ 2,452,820
Agency's proportionate share of the net pension liability as a percentage of its covered payroll	54.44%
Plan fiduciary net position as a percentage of the total pension liability	87.61%

Note: Only the current fiscal year is presented using a June 30, 2014 measurement date because 10-year data is not yet available.

**City of Des Moines, Iowa
Municipal Housing Agency**

**Required Supplementary Information
Schedule of Agency Contributions
Iowa Public Employees' Retirement System**

Fiscal Year Ended June 30,	Actuarially Determined Contribution	Actual Contribution	Contribution Deficiency (Excess)	Covered Valuation Payroll	Actual Contribution as a Percentage of Covered Valuation Payroll
2015	\$ 199,538	\$ 199,538	\$ -	\$ 2,452,820	8.14%
2014	197,327	197,327	-	2,537,908	7.78
2013	220,994	220,994	-	N/A	N/A
2012	206,638	206,638	-	N/A	N/A
2011	166,325	166,325	-	N/A	N/A
2010	138,293	138,293	-	N/A	N/A
2009	135,688	135,688	-	N/A	N/A
2008	219,168	219,168	-	N/A	N/A
2007	125,901	125,901	-	N/A	N/A
2006	124,905	124,905	-	N/A	N/A

N/A - information is not available for this fiscal year.

**City of Des Moines, Iowa
Municipal Housing Agency**

**Note to Required Supplementary Information
Iowa Public Employees' Retirement System**

The information presented in the required supplementary schedule was determined as part of the June 30, 2014 actuarial valuation:

Actuarial valuation:

Frequency	Annual
Cost method	Entry age normal

Amortization	The amortization method uses a level percentage of payroll over a closed 30-year period.
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Assumptions:

Long-term rate of return	7.5% per year
Salary increases	4% per year
Inflation rate	3.0% per year
Retirement age	Normal retirement age begins at 55. 65th birthday or age 62 with 20 years of service or rule of 88, with a minimum age of 55.

Mortality	RP-2000 General Mortality Tables, with age setbacks and age set forwards as well as other adjustments based on different membership groups.
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**City of Des Moines, Iowa
Municipal Housing Agency**

**Schedule of Expenditures of Federal Awards
Year Ended June 30, 2015**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Federal Expenditures
U.S. Department of Housing and Urban Development		
Direct Programs:		
Public and Indian Housing	14.850	\$ <u>898,200</u>
Lower Income Housing Assistance Program Moderate Rehabilitation	14.856	<u>93,069</u>
Section 8 Housing Choice Vouchers	14.871	<u>15,537,090</u>
CFP Cluster:		
Public Housing Capital Fund	14.872	350,933
Public Housing Capital Fund - Operations	14.872	197,540
Public Housing Capital Fund - Admin	14.872	<u>166,784</u>
		<u>715,257</u>
Resident Opportunity and Support Services	14.870	<u>84,229</u>
Public and Indian Housing Family Self-Sufficiency Program under the Resident Opportunity and Self-Sufficiency Program	14.877	<u>69,000</u>
Family Self-Sufficiency Program	14.896	<u>87,161</u>
(Passed through the Iowa Finance Authority) Home Investment Partnership Program	14.239	<u>585,976</u>
Total federal awards expended		<u>\$ 18,069,982</u>

See Notes to Schedule of Expenditures of Federal Awards.

**City of Des Moines, Iowa
Municipal Housing Agency**

**Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2015**

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Des Moines, Iowa Municipal Housing Agency, an enterprise fund of the City of Des Moines, Iowa, for the year ended June 30, 2015. All federal financial assistance received directly from federal agencies as well as federal financial assistance passed through other government agencies expended during the year is included in the schedule. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Nonprofit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the fund's financial statements.

Note 2. Significant Accounting Policies

Revenue from federal awards is recognized when earned and expenses are recognized when the liability has been incurred. Such expenses are recognized following the cost principles contained in OMB Circular A-87, wherein certain types of expenses are not allowable or are limited as to reimbursement.

**City of Des Moines, Iowa
Municipal Housing Agency**

**Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2015**

Finding Number	Comment	Status
2014-001	The Agency incorrectly applied a 2 bedroom payment standard instead of the correct 1 bedroom payment standard to one tenant for an 8-month period.	Corrected

**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**

Independent Auditor's Report

To the Housing Services Board and the
Honorable Mayor and Members of the City Council
City of Des Moines, Iowa
Des Moines, Iowa

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 City of Des Moines, Iowa Municipal Housing Agency (Agency), an enterprise fund of the City of Des Moines, Iowa, as of and for the year ended June 30, 2015, and have issued our report thereon dated December 17, 2015. The Agency's June 30, 2014 financial statements have been restated due to the implementation of GASB Statement Nos. 68 and 71 to recognize a net pension liability and deferred outflow of resources. Our opinion was not modified with respect to this matter.

Our report includes an emphasis of matter that the financial statements of the Agency are intended to present the financial position and the change in financial position of the Agency. They do not purport to, and do not, present fairly the financial position of the City of Des Moines, Iowa as of June 30, 2015, or the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Agency's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control.

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

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control 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.

RSM US LLP

Des Moines, Iowa
December 17, 2015



**Report on Compliance For Each Major Federal Program and
Report on Internal Control Over Compliance
Required by OMB Circular A-133**

RSM US LLP

Independent Auditor's Report

To the Housing Services Board and the
Honorable Mayor and Members of the City Council
City of Des Moines, Iowa
Des Moines, Iowa

Report on Compliance for Each Major Federal Program

We have audited the City of Des Moines, Iowa Municipal Housing Agency's (Agency), an enterprise fund of the City of Des Moines, Iowa, compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Agency's major federal programs for the year ended June 30, 2015. The Agency's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Agency's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Agency's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the Agency complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular No. A-133 and which is described in the accompanying schedule of findings and questioned costs in finding 2015-001. Our opinion on each major federal program is not modified with respect to this matter.

City of Des Moines, Iowa Municipal Housing Agency's Response to Findings

The Agency's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Agency's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly we express no opinion on 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 OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

RSM US LLP

Des Moines, Iowa
December 17, 2015

**City of Des Moines, Iowa
Municipal Housing Agency**

**Schedule of Findings and Questioned Costs
Year Ended June 30, 2015**

I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: 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 Section 510(a) of Circular A-133? Yes No

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
14.871	Section 8 Housing Choice Vouchers
14.850	Public and Indian Housing
14.239	Home Investment Partnership Program

Dollar threshold used to distinguish between type A and type B programs: \$542,099

- Auditee qualified as low-risk auditee? Yes No

(Continued)

City of Des Moines, Iowa
Municipal Housing Agency

Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2015

II. Findings Relating to the Financial Statement Audit as Required to be Reported in Accordance with Generally Accepted Government Auditing Standards

A. Internal Control

No matters reported.

B. Compliance Findings

No matters reported.

III. Findings and Questioned Costs for Federal Awards

A. Internal Control

No matters reported.

B. Compliance Findings

2015-001

**U.S. Department of Housing and Urban Development (Direct)
Section 8 Housing Choice Vouchers (CFDA 14.871)
Award Year: 2014 – 2015**

Finding: The Agency did not complete a rent reasonableness assessment for a tenant whose rent increased during the period.

Criteria: Per e-CFR Title 24: Housing and Urban Development Subtitle B Chapter IX Part 982 Subpart K Section 982.507, the PHA may not approve a lease until the PHA determines that the initial rent to owner is a reasonable rent. The PHA must re-determine the reasonableness before any increase in the rent to owner, if there is a 5 percent decrease in the published FMR in effect 60 days before the contract anniversary as compared with the FMR in effect 1 year before the contract anniversary, or if directed by HUD. At all times during the assisted tenancy, the rent to owner may not exceed the reasonable rent as most recently determined or re-determined by the PHA. Rent payment standards are set by the Municipal Housing Governing Board of the City of Des Moines. For the purposes of the test, RSM sighted printout from GoSection8 that evaluated rent compared to other comparable units in the area.

Condition and Context: Due to an administrative oversight, one out of the 25 tested tenants did not receive a rent reasonableness assessment.

Effect: Potential loss or reduction of grant funding.

Cause: The Agency did not properly complete a rent reasonableness assessment due to an administrative oversight.

Questioned Costs: \$1,144

Recommendation: We recommend the Agency ensure rent reasonableness is evaluated for eligible tenants.

Response and Corrective Action Plan: The Agency will continue to ensure rent reasonableness assessments are completed for eligible tenants, and is evaluating the need for a secondary review procedure.

**City of Des Moines, Iowa
Municipal Housing Agency**

**Corrective Action Plan
Year Ended June 30, 2015**

<u>Current Number</u>	<u>Comment</u>	<u>Corrective Action Plan</u>	<u>Anticipated Date of Completion</u>	<u>Contact Person</u>
2015-001	The Agency did not complete a rent reasonableness assessment for a tenant with a rent increased during the period.	See response and corrective action plan at 2015-001.	June 30, 2016	Accounting Manager

