

★ **Roll Call Number**

**Agenda Item Number**

M.H.G.B. -6

Date January 26, 2009

BE IT RESOLVED by the Municipal Housing Governing Board of the City of Des Moines, Iowa:

That the Des Moines Municipal Housing Agency's Annual Financial Report for the fiscal year ended June 30, 2008, be received and filed.

(Report attached)

**(Board Communication No. 09-038)**

MOVED BY \_\_\_\_\_ to receive and file.

M.H.G.B. ACTION	YEAS	NAYS	PASS	ABSENT
COWNIE				
COLEMAN				
HENSLEY				
KIERNAN				
MAHAFFEY				
MEYER				
NESBITT				
VLASSIS				
TOTAL				

MOTION CARRIED

APPROVED

\_\_\_\_\_  
Mayor

**CERTIFICATE**

I, DIANE RAUH, City Clerk of said City hereby certify that at a meeting of the City of Des Moines, Municipal Housing Agency Governing Board, held on the above date, among other proceedings the above was adopted.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my seal the day and year first above written.

\_\_\_\_\_  
City Clerk

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

Financial and Compliance Report  
Year Ended June 30, 2008

## Contents

---

### Financial Section

---

<b>Independent Auditor's Report</b>	1 – 2
<b>Financial Statements</b>	
Statement of net assets	3
Statement of revenues, expenses and change in net assets	4
Statement of cash flows	5
Notes to financial statements	6 – 13
Required supplementary information, schedule of funding progress	14

---

### Compliance Section

---

Schedule of expenditures of federal awards	15
Notes to schedule of expenditures of federal awards	16
Summary schedule of prior audit findings	17
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	18 – 19
Independent auditor's report on compliance with requirements applicable to each major program and on internal control over compliance in accordance with OMB Circular A-133	20 – 21
Schedule of findings and questioned costs	22 – 24
Corrective action plan	25

---

# McGladrey & Pullen

Certified Public Accountants

## Independent Auditor's Report

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

We have audited the accompanying financial statements of the City of Des Moines, Iowa Municipal Housing Agency, an enterprise fund of the City of Des Moines, Iowa, as of and for the year ended June 30, 2008, as listed in the table of contents. These financial statements are the responsibility of the Public Housing Board and City of Des Moines, Iowa's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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, 2008, 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. Because the financial statements present only the City of Des Moines, Iowa Municipal Housing Agency, an enterprise fund, and do not purport to, and do not present the financial statements of the City of Des Moines, Iowa, management has chosen not to present a Management's Discussion and Analysis for the fund.

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, an enterprise fund of the City of Des Moines, Iowa, as of June 30, 2008, 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 stated in Note 7, the City of Des Moines, Iowa Municipal Housing Agency changed its method of accounting for other postemployment benefits.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2008 on our consideration of the City of Des Moines, Iowa Municipal Housing Agency's, an enterprise fund of the City of Des Moines, Iowa, internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The schedule of funding progress on page 14 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the City of Des Moines, Iowa Municipal Housing Agency, an enterprise fund of the City of Des Moines, Iowa, taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Nonprofit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

*McGladrey & Pullen, LLP*

Davenport, Iowa  
November 14, 2008

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

**Statement of Net Assets  
June 30, 2008**

**Assets**

Current assets:

Cash and pooled cash investments	\$ 6,550,316
Due from other governmental units	87,722
Accounts receivable (net of allowance for doubtful accounts of \$32,047)	8,424
Inventories	38,787
Prepaid items	40,572
<b>Total current assets</b>	<u>6,725,821</u>

Noncurrent assets:

Capital assets:

Nondepreciable, land	1,467,560
Depreciable:	
Buildings	31,903,506
Improvements other than buildings	5,534,407
Machinery and equipment	1,241,615
	<u>40,147,088</u>
Less accumulated depreciation	23,646,465
<b>Total capital assets</b>	<u>16,500,623</u>

Restricted cash and cash equivalents	11,602,131
Other noncurrent assets	16,017
<b>Total noncurrent assets</b>	<u>28,118,771</u>
<b>Total assets</b>	<u>34,844,592</u>

**Liabilities**

Current liabilities:

Accounts payable	94,575
Accrued payroll	110,040
Due to other funds of the City of Des Moines, Iowa	63,652
Compensated absences	81,180
Tenant security deposits	57,864
Unearned revenues	10,381
<b>Total current liabilities</b>	<u>417,692</u>

Noncurrent liabilities:

Self-sufficiency participation	60,260
Compensated absences	157,012
Post employment benefits	24,971
<b>Total noncurrent liabilities</b>	<u>242,243</u>

<b>Total liabilities</b>	<u>659,935</u>
--------------------------	----------------

**Net Assets**

Invested in capital assets	16,500,623
Restricted for public housing program	11,602,131
Unrestricted	6,081,903
<b>Total net assets</b>	<u>\$ 34,184,657</u>

See Notes to Financial Statements.

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

**Statement of Revenues, Expenses and Change in Net Assets  
Year Ended June 30, 2008**

---

Operating revenues:	
Dwelling rental	\$ 1,116,229
Intergovernmental	18,038,868
Charges for services	1,123,131
<b>Total operating revenues</b>	<u>20,278,228</u>
Operating expenses:	
Personal services	4,316,863
Contractual services	15,468,507
Depreciation	2,797,163
<b>Total operating expenses</b>	<u>22,582,533</u>
<b>Operating (loss)</b>	<u>(2,304,305)</u>
Nonoperating revenues:	
Investment earnings	673,378
Gain on sale of capital assets	1,605,485
<b>Nonoperating revenues</b>	<u>2,278,863</u>
Capital grants	<u>820,272</u>
<b>Change in net assets</b>	794,830
Net assets, beginning	<u>33,389,827</u>
Net assets, ending	<u>\$ 34,184,657</u>

See Notes to Financial Statements.

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

**Statement of Cash Flows  
Year Ended June 30, 2008**

Cash flows from operating activities:	
Cash received from rents and operating grants	\$ 19,175,821
Cash paid to suppliers	(15,478,380)
Cash paid to employees	(4,282,830)
<b>Net cash (used in) operating activities</b>	<u>(585,389)</u>
Cash flows from noncapital financing activities, payments on interfund accounts	<u>(29,839)</u>
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(630,490)
Capital grants	820,272
Proceeds from the sale of capital assets	3,576,416
<b>Net cash provided by capital and related financing activities</b>	<u>3,766,198</u>
Cash flows from investing activities, interest collected	<u>673,378</u>
<b>Net increase in cash and cash equivalents</b>	3,824,348
Cash and cash equivalents, beginning	<u>14,328,099</u>
Cash and cash equivalents, ending	<u>\$ 18,152,447</u>
Reconciliation of operating (loss) to net cash (used in) operating activities:	
Operating (loss)	\$ (2,304,305)
Adjustments to reconcile operating (loss) to net cash (used in) operating activities:	
Depreciation	2,797,163
Decrease (increase) in:	
Accounts receivable	17,108
Due from other governmental units	280,176
Inventories	10,168
Prepaid items	(1,828)
Increase (decrease) in:	
Accounts payable	(18,213)
Accrued payroll	9,094
Compensated absences	(32)
Due to other governmental units	(1,416,049)
Tenant security deposits	6,037
Other liabilities, self-sufficiency participation	10,754
Unearned revenue	(433)
Other postemployment benefits	24,971
<b>Net cash (used in) operating activities</b>	<u>\$ (585,389)</u>

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 and reporting entity:**

The City of Des Moines, Iowa Municipal Housing Agency is an enterprise fund of the City of Des Moines, Iowa. The Agency was originally created as the Des Moines Public Housing Authority in 1969 as a separate legal entity in accordance with the laws of the state of Iowa. Effective April 1, 1994, the Des Moines City Council reorganized the Des Moines Public Housing Authority as a business-type fund of the City of Des Moines, Iowa renaming it the City of Des Moines, Iowa Municipal Housing Agency (Agency).

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.

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).

**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 assets.

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. The Agency, as an enterprise fund, has elected to apply all applicable Financial Accounting Standards Board (FASB) pronouncements on or issued before November 30, 1989, unless the pronouncements conflict with or contradict Governmental Accounting Standards Board Statements.

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 pooled 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.

**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)**

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 and savings deposits
- Time deposits and repurchase agreements

Investments are reported at fair value. 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, savings accounts and certificates of deposits 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 sick leave hours for subsequent use or for payment upon 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 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

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 assets: Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by any outstanding balances of any borrowings, used for the acquisition, construction or improvement of those assets. Net assets are 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 assets are available, the Agency first applies restricted resources. \$11,602,131 of net assets is restricted as of June 30, 2008. The restriction is on the cash generated from the sale of public housing properties. Proceeds from these sales are required by HUD to be reinvested in public housing properties.

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

**Notes to Financial Statements**

**Note 2. Cash and Pooled Cash Equivalents**

As of June 30, 2008, the Agency's deposits consisted of checking accounts, savings accounts and certificates of deposits. The Agency has 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. 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.

Interest rate risk: Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Agency has no investments.

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, 2008, the carrying amount of the Agency's deposits was \$18,152,447 and the bank balance was \$18,247,096 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.

**Note 3. Capital Assets**

The following is a summary of changes in capital assets for the year ended June 30, 2008:

	June 30, 2007	Additions	Retirements	June 30, 2008
Nondepreciable assets, land	\$ 1,944,522	\$ -	\$ (476,962)	\$ 1,467,560
Depreciable assets:				
Buildings	34,509,145	557,389	(3,163,028)	31,903,506
Improvements other than buildings	5,483,445	54,307	(3,345)	5,534,407
Machinery and equipment	1,513,342	18,794	(290,521)	1,241,615
<b>Total depreciable assets</b>	<b>41,505,932</b>	<b>630,490</b>	<b>(3,456,894)</b>	<b>38,679,528</b>
Less accumulated depreciation for:				
Buildings	16,784,429	2,340,269	(1,677,987)	17,446,711
Improvements other than buildings	4,729,580	346,075	-	5,075,655
Machinery and equipment	1,298,218	110,819	(284,938)	1,124,099
<b>Total accumulated depreciation</b>	<b>22,812,227</b>	<b>2,797,163</b>	<b>(1,962,925)</b>	<b>23,646,465</b>
<b>Capital assets, net</b>	<b>\$ 20,638,227</b>	<b>\$ (2,166,673)</b>	<b>\$ (1,970,931)</b>	<b>\$ 16,500,623</b>

