

★ 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				
<b>TOTAL</b>				

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

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# 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>
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**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**

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**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**

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**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>

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

**Notes to Financial Statements**

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**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. The balance is 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, 2008, the unforgiven portion of forgivable loans was \$1,919,105. This amount is fully reserved as of June 30, 2008 as the City does not anticipate collection.

**Note 5. Pension Plan**

The Agency contributes, with other funds of the City, to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing, multiple-employer defined benefit pension plan administered by the state of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 3.90 percent of their annual covered salary and the Agency is required to contribute 6.05 percent of annual covered payroll. Contribution requirements are established by state statute. The Agency's contribution to IPERS for the years ended June 30, 2008, 2007 and 2006 was \$219,168, \$125,901 and \$124,905, respectively, which was equal to the required contribution for each year.

**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. Post-Retirement 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.

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

**Notes to Financial Statements**

**Note 7. Post-Retirement Benefits (Continued)**

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. 45 for current GASB reporting.

The required contribution is based on projected pay-as-you-go financing. For fiscal year 2008, the Agency contributed \$2,833.

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 City's annual OPEB obligation:

Annual required contribution	\$ 27,804
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB cost (expense)	<u>27,804</u>
Contributions and payments made	<u>2,833</u>
Increase in net OPEB obligation	24,971
Net OPEB obligation, July 1, 2007	-
Net OPEB obligation, June 30, 2008	<u><u>\$ 24,971</u></u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2008 follows. This is the transition year of GASB Statement No. 45.

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2008	\$ 27,804	10.19%	\$ 24,971

Funded status and funding progress: As of July 1, 2007, 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 \$155,776 and the actuarial value of assets is none resulting in an unfunded actuarial accrued liability (UAAL) of \$(155,776). The results of the July 1, 2007 valuation were rolled forward to July 1, 2008. The actuarial accrued liability for benefits was \$155,776 and the actuarial value of assets is none resulting in an unfunded actuarial accrued liability (UAAL) of \$(155,776) as of July 1, 2008. The covered payroll (annual payroll of active employees covered by the plan) was \$3,064,325 and the ratio of the UAAL to the covered payroll was 5.1 percent.

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

**Notes to Financial Statements**

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**Note 7. Post-Retirement Benefits (Continued)**

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, 2007 actuarial valuation, project unit credit method was used. The actuarial assumptions included a 4.5 percent discount rate, an annual health care cost trend rate of 10 percent reduced by decrements of .55 percent annually to an ultimate rate of 5 percent for medical and prescription costs, and annual health care cost trend rate of 6.5 percent for dental and related administrative costs. The UAAL is being amortized as a closed level dollar. The amortization of UAAL is done over a period of 30 years.

**Note 8. Noncurrent Liabilities**

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

	June 30, 2007	Additions	Decreases and Payments	June 30, 2008	Amount Due in One Year
Compensated absences including sick leave	\$ 238,224	\$ 52,426	\$ 52,458	\$ 238,192	\$ 81,180
Due to self-sufficiency participation	\$ 49,506	\$ 75,305	\$ 64,551	\$ 60,260	\$ -

The above liabilities will be liquidated with resources available from the Agency's operations.

**Note 9. Risk Management**

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 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 on insurance coverage from the prior year.

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

**Notes to Financial Statements**

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**Note 10. Contingencies**

The Agency is involved in various legal actions arising in the ordinary course of business. The Agency is vigorously contending these legal actions and, in the opinion of the Assistant City Attorney, 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.

**Note 11. New Pronouncements**

The Agency implemented the following GASB Statements:

- GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postretirement Benefits Other Than Pensions*. This Statement established standards for the measurement, recognition and display of other postemployment benefits expenses and related liabilities of assets, note disclosures and, if applicable required supplementary information in the financial reports. As a result, the Agency has recorded a liability of \$24,971 and added footnote disclosures pertaining to the plan.
- GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*. This Statement establishes accounting and financial reporting standards for transactions in which an entity receives, or is entitled to, resources in exchange for future cash flows generated by collecting specific receivables or specific future revenues. It also provides disclosure requirements for an entity that pledges or commits future cash flows from a specific revenue source. In addition, this Statement establishes accounting and financial reporting standards for intra-entity transfers of assets and future revenues. This Statement had no effect on the financial statements.
- GASB Statement No. 50, *Pension Disclosures*, an amendment of GASB Statements No. 25 and No. 27. This Statement more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits (OPEB) and, in doing so, enhances information disclosed in notes to the financial statements or presented as required supplementary information (RSI) by pension plans and by employers that provide pension benefits. This Statement had no effect on the financial statements.

The GASB has issued the following statements which have not yet been implemented by the Agency. The statements which might impact the City are as follows:

- GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, issued November 2006, will be effective for the Agency beginning with its year ending June 30, 2009. This Statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities, such as site assessments and cleanups. This standard requires the Agency to estimate the components of expected pollution remediation outlays and determine whether the outlays for those components should be accrued as a liability or, if appropriate, capitalized when goods and services are acquired.

City of Des Moines, Iowa  
Municipal Housing Agency

Notes to Financial Statements

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**Note 11. New Pronouncements (Continued)**

- GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, issued July 2007, will be effective for the Agency beginning with its year ending June 30, 2010. This Statement provides guidance regarding how to identify, account for and report intangible assets. The new standard characterizes an intangible asset as an asset that lacks physical substance, is nonfinancial in nature and has an initial useful life extending beyond a single reporting period. Examples of intangible assets include easements, computer software, water rights, timber rights, patents and trademarks. This standard provides that intangible assets be classified as capital assets (except for those explicitly excluded from the scope of the new standard, such as capital leases). Relevant authoritative guidance for capital assets should be applied to these intangible assets.
- GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, issued November 2007, will be effective for the Agency beginning with its year ending June 30, 2009. This Statement establishes consistent standards for the reporting of land and other real estate held as investments. Endowments were previously required to report their land and other real estate held for investment purposes at historical cost. However, such investments are reported at fair value by similar entities, such as pension plans. The Statement requires endowments to report land and other real estate investments at fair value. The changes in the fair value are to be reported as investment income.
- GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, issued June 2008, will be effective for the Agency beginning with its year ending June 30, 2010. This Statement will improve how state and local governments report information about derivative instruments in their financial statements. The Statement specifically requires governments to measure most derivative instruments at fair value in their financial statements that are prepared using the economic resources measurement focus and the accrual basis of accounting. The guidance in this Statement also addresses hedge accounting requirements.

The Agency's management has not yet determined the effect these statements will have on the Agency's 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]
2008	07/01/2007	\$ -	\$ 155,776	\$ 155,776	- %	\$ 3,064,325	5.1%

NOTE: Fiscal year 2008 is the transition year for GASB Statement No. 45

The information presented in the required supplementary schedule was determined as part of the actuarial valuation as of July 1, 2007. 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 5.0-10.0 percent; discount rate of 4.5 percent.
4. The amortization method is closed, level dollar.

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

**Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2008**

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	\$ 1,435,651
Lower Income Housing Assistance Program Moderate Rehabilitation	14.856	152,566
Section 8 Housing Choice Vouchers	14.871	13,319,656
Public Housing Capital Fund	14.872	820,272
Disaster Voucher Program	14.871	50,434
Public Housing FSS	14.877	20,048
Section 8 Housing Choice Vouchers - VASH	14.871	27,024
<b>Total U.S. Department of Housing and Urban Development</b>		<u>15,825,651</u>
U.S. Department of Homeland Security Disaster Housing Assistance	97.109	<u>24,333</u>
<b>Total federal awards expended</b>		<u>\$ 15,849,984</u>

See Accompanying 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, 2008**

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**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, 2008. 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.

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

**Summary Schedule of Prior Audit Findings  
Year Ended June 30, 2008**

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Finding Number	Comment	Status	Corrective Action or Other Explanation
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No findings were reported in the prior years schedule of findings and questioned costs.

# McGladrey & Pullen

Certified Public Accountants

## **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**

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 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, and have issued our report thereon dated November 14, 2008. 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.

### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City of Des Moines, Iowa Municipal Housing Agency's internal control over financial reporting as a basis for designing our auditing procedures 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 City of Des Moines, Iowa Municipal Housing Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Des Moines, Iowa Municipal Housing Agency's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as 08-II-A to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiency described above, we consider item 08-II-A to be a material weakness.

### **Compliance and Other Matters**

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

The City of Des Moines, Iowa Municipal Housing Agency's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Agency's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Public Housing Board, City Council, management and federal awarding agencies and is not intended to be and should not be used by anyone other than those specified parties.

*McGladrey & Pullen, LLP*

Davenport, Iowa  
November 14, 2008

# McGladrey & Pullen

Certified Public Accountants

## **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**

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

### **Compliance**

We have audited the compliance of the City of Des Moines, Iowa Municipal Housing Agency, an enterprise fund of the City of Des Moines, Iowa, with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. The City of Des Moines, Iowa Municipal Housing Agency's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Des Moines, Iowa Municipal Housing Agency's management. Our responsibility is to express an opinion on the City of Des Moines, Iowa Municipal Housing Agency's compliance based on our audit.

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 Nonprofit 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 City of Des Moines, Iowa Municipal Housing 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. Our audit does not provide a legal determination on the City of Des Moines, Iowa Municipal Housing Agency's compliance with those requirements.

In our opinion, the Agency complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as items 08-III-A.

## Internal Control Over Compliance

The management of the City of Des Moines, Iowa Municipal Housing Agency is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Des Moines, Iowa Municipal Housing Agency's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 City of Des Moines, Iowa Municipal Housing Agency's internal control over compliance.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by any entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

The Agency's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Agency's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Public Housing Board, City Council, management and federal awarding agencies and is not intended to be and should not be used by anyone other than those specified parties.

*McGladrey & Pullen, LLP*

Davenport, Iowa  
November 14, 2008

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

**Schedule of Findings and Questioned Costs  
Year Ended June 30, 2008**

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**I. Summary of the Independent Auditor's Results**

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified?  Yes  No
- Significant deficiency(ies) identified that are not considered to be material weaknesses?  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 that are not considered to be material weaknesses?  Yes  None Reported

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

- 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 program:

CFDA Number	Name of Federal Program or Cluster
14.871	Section 8 Housing Choice Vouchers; Disaster Voucher Program
14.871	Section 8 Housing Choice Vouchers - VASH

Dollar threshold used to distinguish between type A and type B programs: \$475,499

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, 2008**

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

**A. Material Weakness in Internal Control Over Financial Reporting**

**08-II-A**

Finding: The Agency was not calculating depreciation expense on capital assets correctly during the fiscal year.

Condition: The Agency maintains the capital asset information and computes depreciation expense in a capital asset software. For the current year, the depreciation expense calculations were not correctly computing in the software. After the discovery of these incorrect calculations, management manually recomputed the depreciation expense and accumulated depreciation for fiscal year ending June 30, 2008 to adjust these balances to their appropriate balances.

Context: Pervasive to depreciation expense and accumulated depreciation.

Effect: Materially misstated depreciation expense and accumulated depreciation.

Recommendation: We recommend the Agency review their capital asset process to ensure the correct amounts of depreciation expense are being calculated and posted on an annual basis.

Response and Corrective Action Plan: The City of Des Moines, Iowa Municipal Housing Agency has corrected the depreciation expenses and accumulated depreciation for fiscal year ended June 30, 2008. We will continue recording depreciation manually for the following fiscal year to ensure depreciation expense is being calculated correctly.

**B. Compliance Findings**

None

**III. Findings and Questioned Costs for Federal Awards**

**A. Significant Deficiencies in Administering Federal Awards**

None

(Continued)

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

**Schedule of Findings and Questioned Costs (Continued)  
Year Ended June 30, 2008**

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**B. Compliance Findings**

**08-III-A**

**U.S. Department of Housing and Urban Development  
Section 8 Housing Choice Vouchers – VASH (CFDA 14.871)  
Federal Award Year: 2008**

Finding: The Agency made FSS escrow payments for an individual in the program at the incorrect amount.

Criteria: Section 984.305 under Title 24 of the National Affordable Housing Act allows payments to be made to an escrow account for individuals in the program meeting certain criteria. The FSS escrow payment is calculated for very low, or low income families using the lesser of 30 percent, or 50 percent, respectively, of current monthly adjusted income less the family rent from the effective date of the contract of participation; or the current family rent less the family rent at the time of the effective date of the contract of participation.

Condition: The individual's escrow payment was recalculated by the Agency due to a change in tenant income, but the new calculation was not forwarded to the accounting department to adjust the payment amount made on a monthly basis.

Questioned Costs: \$518

Prevalence: FSS escrow payments

Effect: Incorrect FSS escrow payments are distributed.

Recommendation: We recommend the Agency review the payments made to the escrow account on a periodic basis to the tenant files to ensure the proper amounts are being paid. Any changes to the calculations should go through a formal process that requires both program managers and accounting personnel to sign the calculation and document the change made in the system.

Response and Corrective Action Plan: The instance above was a staff error and has been corrected. This Agency will create a report to enable the program manager to monitor on a monthly basis the housing certification escrow amount to ensure it matches the escrow contribution on the escrow statement. If errors are found, the program manager will document the participant file to detail the error and the correction made.

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

**Corrective Action Plan  
Year Ended June 30, 2008**

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Current Number	Comment	Corrective Action Plan	Anticipated Date of Completion	Contact Person
<b>Material Weakness in Internal Control Over Financial Reporting:</b>				
08-II-A	The Agency was not calculating depreciation expense on capital assets correctly during the fiscal year.	See corrective action plan at 08-II-A.	June 30, 2009	Scott Littell - Accounting Manager
<b>Compliance Finding in Administering Federal Awards:</b>				
08-III-A	The Agency made FSS escrow payments for an individual in the program at the incorrect amount.	See corrective action plan at 08-III-A.	June 30, 2009	Scott Littell - Accounting Manager