New York City Housing Authority
Department of Internal Audit & Assessment (IA&A)

Minutes of Audit Committee Meeting
May 17, 2018

Board and Audit Committee Members:
Derrick Cephas, Chair
Victor A. Gonzalez, Co-Chair
Mark Kaplan, Independent Member
Richard Kuo, Independent Member

NYCHA Staff Members- Present:
Tricia L. Roberts, Vice-President for Finance, Office of the CFO
Edna Wells Handy, Acting EVP and Chief Compliance Officer
Klara Shoumackher, Director, Department of Internal Audit & Assessment
Dan Frydberg, Acting Controller, Financial Accounting & Reporting Services
Hyacinth Jeffers, Assistant Director, Department of Internal Audit & Assessment
Anil Agrawal, Assistant Director, Department of Internal Audit & Assessment
Jacqueline Palmer, Assistant Director, Department of Internal Audit & Assessment
Mike Hudick, Assistant Director, GAAP Analysis, Financial Accounting & Reporting Services
Cindi Steinmetz, Director, Accounts Payable and Utility Management

Deloitte & Touché LLP – Present:
Michael Fritz, Lead Client Service Partner
Jill Strohmeyer, Managing Director
Darshan Patel, Audit Specialist Leader
Megan Martin, Audit Senior Manager

A meeting of the Audit Committee members of the New York City Housing Authority (the "Authority") was held on May 17, 2018 at 10:05 AM in the Board Room of the Authority at 250 Broadway, New York, New York 10007.

Klara Shoumackher introduced herself as the new Director of the Department of Internal Audit & Assessment. She commenced the meeting by referring to the minutes of the April 19th meeting.

I. Approval of Minutes:
Upon motion duly made and seconded, the committee members unanimously approved the minutes of the April 19, 2018 Audit Committee meeting.

II. SAS 114 Letter from Deloitte:
Deloitte's Lead Client Service Partner, Mr. Fritz pointed out that the foucs of the today's meeting was on the financial statements and related communication letter. Mr. Fritz discussed the Statement of Auditing

Standards (SAS) 114 which covers the Independent Auditors' standard communication with the Audit Committee and senior management. Key points relating to this communication are that:

- Deloitte is an Independent Auditor with respect to the Authority, and there was no disagreement with management about the financial statements.
- The audit was performed in accordance with generally accepted auditing standards, generally accepted government auditing standards, and the new Uniform Grant Guidance.
- The Deloitte's Independent Auditor report contains an unmodified opinion.
- There were no uncorrected misstatements.
- There were no audit adjustments except for accruals.
- The auditors had no difficulties in performing their work, especially because Deloitte Connect was utilized, and weekly status meetings were conducted with key individuals and VP for Finance.
- There were no material weaknesses or significant deficiencies noted during the audit.

Ms. Jill Strohmeyer, Managing Director of Deloitee & Touche briefly explained about GASB Statement No. 75, Accounting and Financial Reporting for PostEmployment Benefits other than Pensions ("GASB 75"). She stated that the financial impact of implementing GASB 75 was a restatement of $321 million in opening net position as of January 1, 2016.

Mark Kaplan, independent member of the audit Committee asked why were there two different discount rates? She explained that OPEB is not funded and therefore, GASB requires to use municipal bond rate index. On the other hand, the pension is substantially funded and the assets in actual trust are used to determine the discount rate.

Deloitte plans to issue the reports on the 2017 financial statements in the first week of June 2018. In addition, Deloitte will present their Management Letter at the June 14, 2018 Audit Committee meeting, in which they bring internal control issues noted during the audit to management's attention.

III. Consolidated Comprehensive Annual Financial Report (CAFR) for the Authority for 2017:

Mr. Fritz, Lead Client Service Partner from Deloitte stated tab 3 of the Audit Committee package contained a draft of financial statements for NYCHA for the year ending December 31, 2017. He further explained that the report contains an unmodified or clean opinion.

Mr. Frydberg further provided an overview of the financial statements for the Authority for the year ending December 31, 2017.

Mr. Frydberg indicated that the Authority implemented GASB Statement No. 75. The primary objective of this Statement is to improve the financial reporting of OPEB. The financial impact of implementing GASB 75 was a restatement of $321 million in opening net position for 2016. This restatement resulted in a reduction to pension liability mainly due to the treatment of a change in actuarial methods under GASB 75. Also, under GASB 75, deferred inflows and deferred outflows are recognized for items such as differences between actuarial estimates and actuals, and changes in assumptions. As of December 31, 2017, the OPEB liability was $2.6 billion.

The $21 million increase in Operating Revenue is comprised of $10 million in tenant revenue, net, due to an increase in the average month rent including households required to pay 30 percent of family income towards rent, plus $11 million in Other income, primarily representing an $8 million reduction of contract retention liabilities and $5 million in Developer Fees recognized in connection with the Section 8 Recap Transaction. The increase of $12 million in Operating Expense was led by an increase of $46 million in Rent for leased dwellings due to an increase in the average per unit costs and additional units arising from the Oceanside- Bayside Rental Assistance Demonstration (RAD) mixed finance transaction.

Mr. Frydberg also pointed out that the increase in subsidies is primarily comprised of increases of $28 million in subsidy from Federal Emergency Management Agency (FEMA) for excess fuel costs related to Superstorm Sandy, and $28 million in Section 8 Housing Assistance Payment (HAP) subsidy to cover the increased costs in the Leased Housing Program, partially offset by a decrease of $22 million in Federal Operating Subsidy, due to reduction in subsidy eligibility, and $5 million in City of New York Subsidies.

In addition, under the funding agreement, FEMA advances funds to NYCHA 50% of funds at the time the contracts are awarded. These advances have resulted in a significant increase in restricted assets and unearned revenues since revenue is not recognized for the funds received until work is performed.

Richard Kuo, Independent Member, asked "Do we share the saving with HUD due to decrease in energy costs?" Ms. Tricia Roberts stateted that she will check with VP in that area and will get back to the Audit Committee with the answer.

Victor A. Gonzalez, Co-Chair of Audit Committee stated that there are developments, such as Wise Towers, that are not yet part of the Rental Assistance Demonstration program (RAD) but apartments have Section 8 and NYCHA residents in the buildings. When residents move or transfer, the apartment automatically becomes Section 8. He wants to understand how it works at Wise Towers. Ms. Roberts stated they can have a separate meeting and talk to the EVP of Leased Housing for specifics of Wise Towers.

Mr. Frydberg indicated that the requirements of GASB No 75 are effective for fiscal years beginning after June 15, 2017. The Authority early adopted this Statement in December of 2017. The most significant change is that, since the OPEB plan does not have assets sufficient to cover the projected benefit payments, a discount rate reflecting a 20-year tax exempt municipal bond yield must be used. This has resulted in a reduction of the discount rate from 4% previously used to 3.17% which will increase OPEB liability. Implementation of GASB 75 will also result in significantly more financial statement disclosures. In addition, the adoption resulted in a restatement of NYCHA's 2016 financial statements to reflect the reporting of the net OPEB liabilities, deferred inflows of resources, deferred outflow of resources, and the recognition of OPEB expense in accordance with the provisions of the Statement.

Mr. Kaplan asked with reference to the buying of fuel: "Did you think about hedging out?"

Cindi Steinmetz, Director, Accounts Payable and Utility Management, replied that the Authority bids oil contracts and buys fuel at the lowest price of the bids. But we are not sure if we have the authority to hedge. We will look into it.

Mr. Kaplan said that we depreciate buildings based on standard rate which is assuming that buildings are maintained. But if NYCHA is not maintaining the buildings, should it be mentioned in Financial Statements? Jill Strohmeyer, Managing Director of Deloitte said that the concept of deferred maintenance liability is not required under GAAP.

Mr. Kaplan also asked whether Deloitte looks at Cyber Security. Klara Shoumackher, Director, Department of Internal Audit & Assessment, answered that internal audit department is looking into this issue.

Richard Kuo, Independent Audit Committee asked "What does NYCHA by-laws say about indemnifying non-Board Audit Committee members?" Ms. Shoumackher said that "We need to follow-up".

IV. Comprehensive Annual Financial Report (CAFR) for NYCHA Public Housing Preservation I, LLC ("LLC I") for 2017:

Mr. Fritz, Lead Client Service Partner from Deloitte stated the report contains an unmodified or clean opinion. It also contains Emphasis of Matter paragraph due to significant subsidies received from the Authority; however, it is not a qualified opinion.

Mr. Frydberg provided highlights of the LLC I's Comprehensive Annual Financial Report (CAFR) for the year ended December 31, 2017. Mr. Frydberg indicated that NYCHA Public Housing Preservation I LLC (LLC I) was created in 2010 and consists of an investor member (Wells Fargo) and an HDFC member who is wholly owned subsidiary of NYCHA. Through December 31, 2017 the investor member has contributed $228 million in tax credit equity payments. Based on the Operating Agreement, NYCHA manages the operation of LLC I and is reimbursed by LLC I for operating expenses.

LLC I consists of 14,465 units which are funded as follows:

- 11,743 HUD funded units
- 2,654 Section 8 funded units
- 78 NYCHA funded units

In 2017, 69 NYCHA funded units converted to Section 8, resulting in an increase of $1.4 million in Section 8 subsidy and a corresponding decrease in NYCHA subsidy.

LLC 1's Loss Before Capital Contributions for 2017 was $18 million. However, the net cash flow from operating and financing activities was $20 million, which follows a trend for the past several years.

There were no significant variances in the Loss Before Capital Contributions compared to 2016.

Mr. Frydberg explained that the following were the sources of capital contributions for LLC I:

1. NYCHA Contribution for Replacement Reserve – Per the Operating Agreement, NYCHA is required to contribute $400 per unit for Replacement Reserve for the public housing units in LLC I. This amounted to $4.7 million in 2017.
2. Per the Contribution Agreement, City Capital funds expended by NYCHA on LLC I developments are considered contributions to LLC I. This amounted to $3.1 million in 2017.
3. A portion of the excess funds from operations have been set-aside for capital work at LLC I. As of December 31, 2017, a total of $37 million has been budgeted from this source.

4. Total Capital Expenditures in 2017 was $14.7 million, mainly for Local Law 11 brickwork and facade work.

V. Comprehensive Annual Financial Report (CAFR) for NYCHA Public Housing Preservation II, LLC ("LLC II") for 2017:

Mr. Fritz, Lead Client Service Partner from Deloitte stated the report contained an unmodified or clean opinion. Mr. Frydberg provided highlights of the LLC II's Comprehensive Annual Financial Report (CAFR) for the year ended December 31, 2017. He indicated that NYCHA Public Housing Preservation II LLC (LLC II) was created in 2010 and includes NYCHA II Housing Development Fund Corporation, a wholly owned subsidiary of NYCHA. NYCHA manages the operation of LLC II and is reimbursed by LLC II for operating expenses.

LLC 2 consists of 5,694 units which are funded as follows:

- 1,533 Section 8 funded units
- 4,161 NYCHA funded units

In 2017, 116 NYCHA-funded units converted to Section 8, resulting in an increase of $0.9 million in Section 8 subsidy and a corresponding decrease in NYCHA subsidy. LLC II's Loss Before Capital Contributions for 2017 was $6.7 million. However, the net cash flow from operating and financing activities was $9 million, which follows a positive trend for the past several years.

There were no significant variances in the Loss Before Capital Contributions compared to 2016.

Mr. Frydberg explained that the following were the sources of capital contributions for LLC II:

1. Replacement Reserve – LLC II has no required replacement reserve contribution from NYCHA. However, NYCHA has contributed funds from the Housing Affordability Fund for capital improvements at LLC II. This amounted to $7 million in 2017 ($26 million cumulatively).
2. Per the Contribution Agreement, City Capital funds expended by NYCHA on LLC II developments are considered contributions to LLC II. This amounted to $6.8 million in 2017.
3. Total Capital Expenditures in 2017 was $16.8 million, mainly for Local Law 11 brickwork and facade work.

VI. Approval of Financial Statements:

The Audit Committee unanimously approved the financial statements and the related reports for (1) NYCHA, (2) LLC I and (3) LLC II.

Ms. Roberts stated that the recommended changes will be made and the revised reports will be presented to the Audit Committee members.

Adjournment

The Audit Committee meeting was adjourned at about 11:30 AM.