

NEW YORK CITY HOUSING AUTHORITY

**Minutes of Audit Committee Meeting
Wednesday, May 10, 2017
(Continued on Thursday, May 18, 2017)**

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, Director, Department of Internal Audit & Assessment
Karina Totah, Vice President for Strategic Initiatives
Jeffrey A. Pagelson, Controller, Financial Reporting & Accounting Services
Daniel Frydberg, Deputy Director, General Ledger, Financial Reporting & Accounting Services
Adham Choucri, Deputy Director, Revenue & Receivables, Financial Reporting & Accounting Services
Michael Hudick, Assistant Director, GAAP Analysis, Financial Reporting & Accounting Services
Theresa Puccio, Treasurer, Treasury Operations
Svetlana Cibic, Assistant Director, Treasury Operations
Cindi Steinmetz, Director, Accounts Payable & Utility Management
Bomee Jung, Vice-President for Energy and Sustainability
Kathie Soroka, Vice President for Real Estate Development
Amy Stokes, Deputy Director, Real Estate Development
Winston McCormack, Deputy Director, Department of Internal Audit & Assessment
Anil Agrawal, Assistant Director, Department of Internal Audit & Assessment
Hyacinth Jeffers, Assistant Director, Department of Internal Audit & Assessment

Deloitte & Touche LLP - Present

Michael Fritz, Lead Client Service Partner
Darshan Patel, Audit Senior Manager
Jill Strohmeyer, Audit Senior Manager

A meeting of the Audit Committee members of the New York City Housing Authority (the “Authority”) was held on May 10, 2017 at 10:00AM in the Board Room of the Authority at 250 Broadway, New York, New York 10007. The Audit Committee meeting commenced at 10:20 AM.¹

¹ This meeting was reconvened on May 18, 2017 at 2:30 PM to complete the review of the 2016 financial statements and related reports.

I. Approval of Minutes:

Upon motion duly made and seconded, the committee members unanimously approved the minutes of the April 11, 2017 Audit Committee meeting.

II. Consolidated Comprehensive Annual Financial Report (CAFR) for the Authority for 2016:

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, 2016. He further explained that the report contains an unmodified or clean opinion.

Jeff Pagelson, Controller, discussed the Comprehensive Annual Financial Report (CAFR), including fiscal year 2016 highlights and explanations for changes in expenses and revenues between fiscal years 2016 and 2015 respectively. The Financial Statements presented in the CAFR were prepared on an accrual basis in accordance with Generally Accepted Accounting Principles (GAAP). Mr. Pagelson also provided an overview of the major factors affecting the financial statements of the Authority for the current year.

- On December 29, 2016, the Authority completed a lease transaction involving the redevelopment of Ocean Bay- Bayside (the “Project”), a former housing property that converted to Section 8 project-based voucher subsidy pursuant to the Rental Assistance Demonstration (“RAD”) program. The transaction was conducted in two parcels and is intended to enable the rehabilitation of the Project, including resiliency measures to address damage caused by Superstorm Sandy. The Authority’s interest in the related entity that will perform this work is expected to generate \$23 million in developer fees. The RAD program financial information is not combined like LLCs because NYCHA is not managing these programs.
- On March 22, 2016, the State of New York appropriated \$100 million for a modernization and improvement program. This funding is planned to be used for security, quality of life improvements, and appliances at various developments. The Authority has entered into a Construction Management Agreement with the Dormitory Authority of the State of New York for the scope, procurement, and administration of all contracts associated with this funding.
- In December 2016, NYCHA entered into a 20 year Equipment Purchase/Lease Agreement with Banc of America Public Capital Corp (“BAPCC”) in the amount of \$52 million to finance an Energy Performance Contract (“EPC”). This is an example of NYCHA being innovative to improve its financial position. This financing agreement and EPC have enabled NYCHA to upgrade common area and apartment lighting at twenty-four (24) developments and to replace a boiler plant and upgrade a comprehensive heating system at one (1) development.

Mr. Gonzalez asked to obtain information about the RAD program at Ocean-Bay. Mr. Pagelson said that the contact person is Nicole Ferreira in Real Estate Development area.

Mr. Kuo asked how the EPC Program is financed. Ms. Puccio explained that NYCHA procured financing from Banc of America, and we have a monthly drawdown process. The debt services are paid by capital subsidy from HUD. She further explained that the savings resulting from energy efficiency would pay for the equipment. She also responded to Mr. Cephas that the life of the equipment is 11

years on average. Mr. Pagelson noted that page 49 contains a disclosure regarding this arrangement.

Mr. Pagelson stated that the Authority's *Loss before capital contributions* for 2016 was \$395 million, compared to a gain of \$39 million in 2015. The following were the main drivers:

- One of the leading factors in this \$434 million unfavorable variance was the increase in *Other post-employment benefits* ("OPEB) of \$316 million, due to a change in mortality assumptions and the absence of actuarial gains from the prior year for lower than expected premium increases. Excluding the impact of OPEB, the Authority's *Loss before capital contributions* increased by \$124 million.
- *Operating Expenses, excluding OPEB* increased by \$74 million. *Maintenance and operations* increased by \$78 million, mainly due to operations initiatives including work order reduction program, exterminating and tree pruning and storm preparedness.
- *General and administrative* increased by \$32 million, comprised of \$30 million due to pension actuarial costs and \$28 million due to the forgiveness of payments in lieu of taxes (PILOT) by the City during the prior year, partially offset by a decrease of \$13 million in insurance costs, primarily for General Liability and decreases of \$9 million in housing portability costs.
- The increases in *Maintenance and operations* and in *General and administrative* expenses were partially offset by a decrease of \$40 million in *Utilities*, primarily representing heating costs due to energy efficient equipment, and lower electricity rates.

Non-operating revenues and expenses, net, decreased by \$95 million. *Subsidies and grants* made up \$89 million of this decrease, primarily subsidy from The City of New York to cover collective bargaining general wage increases, due to non-recurring retroactive subsidies, and special initiatives.

In addition, tenant revenue went up due to an increase in flat rent. However, it also affected NYCHA's bad debt allowance and write-offs on accounts receivable due to lower collection rates. Mr. Cephas asked how money is received and booked after write-off is established. Mr. Pagelson explained that it is books as a Bad Debt Recovery.

Regarding the Leasehold Improvements capital asset, Mr. Kaplan questioned whether it should be amortized over the life of lease. Mr. Pagelson responded that NYCHA's accounting policy is to amortize it over 15 years; however, we will review it.

III. Comprehensive Annual Financial Report (CAFR) for NYCHA Public Housing Preservation I, LLC ("LLC I") for 2016:

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. Pagelson provided highlights of the LLC I's Comprehensive Annual Financial Report (CAFR) for the year ended December 31, 2016. The Financial Statements presented in the LLC I CAFR were

prepared on an accrual basis in accordance with Generally Accepted Accounting Principles (GAAP). He added that the General and Administrative expenses for 2016 were higher than the expenses for 2015. He explained that the LLC I has no employees; however, labor costs and other expenses represent shared costs based on NYCHA's total costs compared to the costs for LLC I developments.

IV. Comprehensive Annual Financial Report (CAFR) for NYCHA Public Housing Preservation II, LLC ("LLC II") for 2016:

Mr. Fritz, Lead Client Service Partner from Deloitte stated the report contained an unmodified or clean opinion. Mr. Pagelson provided highlights of the LLC II's Comprehensive Annual Financial Report (CAFR) for the year ended December 31, 2016. The financial statements presented in the LLC II CAFR were prepared on an accrual basis in accordance with Generally Accepted Accounting Principles (GAAP). He further stated that NYCHA is still in the process of converting its public housing units to Section 8 units under this program, and NYCHA subsidies are paid to this program.

Mr. Kaplan inquired whether there is a separate Board and Audit Committee for the LLC entities. Ms. Roberts, the Audit Director explained that the Authority does have a separate Board for the LLCs; however, NYCHA Audit Committee reviews the financial statements for both LLCs.

V. SAS 114 Letter from Deloitte:

Deloitte's Lead Client Service Partner, 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 with regard to 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, which replaced OMB Circular A-133.
- The Deloitte's Independent Auditor report contains an unmodified opinion.
- There were no significant deficiencies noted during the audit.

Deloitte plans to issue the reports on the 2016 financial statements on June 3, 2017. Deloitte will present their Management Letter at the June 14th Audit Committee meeting, in which they bring internal control issues noted during the audit to management's attention.

VI. Management Representation Letters:

Mr. Fritz informed the Audit Committee they would be providing three Management Representation Letters, one each for NYCHA, LLC I and LLC II – consistent with last year. Mr. Kaplan requested that the black-lined copies of the letters be provided to them, so that changes from last year can be seen. Jill Strohmeyer, the Deloitte's Audit Senior Manager agreed to provide them to the Committee.

Adjournment and Continuation of Meeting:

The meeting was adjourned at about 11:30 AM, with a decision to reconvene on May 18th to complete the review and approval process and to accommodate the Board Meeting timing for the resolution.

VII. Additional Discussion on May 18th Meeting:

This meeting reconvened on May 18, 2017 at 2:30 PM to complete the review of the 2016 financial statements and related reports.

In this meeting, Bomee Jung, Vice-President for Energy and Sustainability provided additional information to the committee in reference to the Energy Performance Contracts. She explained that:

- The energy performance company provides a guarantee of the energy savings. If energy savings are not materialized, the ESCO (the energy service company) will make NYCHA whole.
- Most savings are realized from LED lights, ensuring steps are taken per HUD requirements.
- For the heating costs, we have to show measured saving, which is calculated based on fuel consumption. We also have data to make the weather-related adjustments.
- Almost all of NYCHA's developments are utilizing natural gas for heating.

Mr. Kuo requested an explanation for PILOT (Payments In Lieu Of Taxes). Mr. Pagelson explained NYCHA does not pay market-based real estate taxes to the City of New York, and instead it is required to pay a lump sum amount to the City of New York for taxes. In accordance with a letter agreement with the City of New York executed last year, such PILOT taxes are forgiven until the year 2025.

Mr. Cephas inquired regarding the term of the lease for the redevelopment of Ocean Bay- Bayside, a former housing property that converted to Section 8 project-based voucher subsidy pursuant to the Rental Assistance Demonstration ("RAD") program. Kathie Soroka, the Vice President for Real Estate Development responded that it is leased for 99 years. The Authority's interest in the related entity that will perform this work is expected to generate \$23 million in developer fees.

Mr. Kuo inquired how the General and Administrative costs are derived for LLC I and LLC II. Mr. Pagelson explained that such costs are allocated amongst all the developments. Mr. Frydberg added that page 77 of the draft report contained a summary of how the numbers are merged from LLCs to NYCHA.

VIII. 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. She also added that we are working on preparing a Board Resolution for the 2017 NYCHA Internal Audit Plan.

Adjournment

The May 18th meeting was adjourned at about 3:10 PM.