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

Minutes of Audit & Finance Committee Meeting
June 16, 2022

Board and Audit & Finance Committee Members:
Victor A. Gonzalez, Chair of Audit & Finance Committee (Vice Chair of NYCHA)
Emma Wolfe, Board Member
Mark N. Kaplan, Independent Member
Richard P. Kuo, Independent Member

NYCHA Staff Members - Present:
Jeffrey Lesnoy, Vice President & Controller, Financial Accounting & Reporting Services
Terrence Clarke, Acting Director, Department of Internal Audit & Assessment
Adham Choucri, Deputy Director, Revenue & Receivables, Financial Accounting & Reporting Services
Ah-Yat Lee, Deputy Director, General Ledger, Financial Accounting & Reporting Services
Jason E. Goldberg, Director & Chief of Corporate Affairs, Legal Affairs
Anil Agrawal, Assistant Director, Department of Internal Audit & Assessment
Judith Francis, Assistant Director, General Ledger, Financial Accounting & Reporting Services
Mariela Maldonado, Board Logistics Coordinator, Office of the Corporate Secretary
Teejay Osho, Management Auditor, Department of Internal Audit & Assessment
Avik Das, Management Auditor, Department of Internal Audit & Assessment

Deloitte & Touche LLP – Present:
Jill Strohmeyer, Lead Engagement Managing Director
Darshan Patel, Senior Manager
Santiago Jaramillo, Auditor

Technical Support Team:
Humberto Rosero
Andy Nagy

A meeting of the Audit & Finance Committee (AFC) members of the New York City Housing Authority ("NYCHA" or the "Authority") was held on June 16, 2022 at approximately 10:10 AM.

Terrence Clarke, Acting Director of Department of Internal Audit & Assessment, commenced the meeting by welcoming the Audit & Finance Committee members and the attendees.

I. Approval of Minutes:
Upon motion duly made and seconded, the committee members unanimously approved the minutes of the February 8, 2022 AFC meeting, subject to minor edits.

II. Annual Comprehensive Financial Reports (ACFR) for 2021:

Jeffrey Lesnoy, Controller discussed the financial results presented in the Annual Comprehensive Financial Reports (ACFR)[1] for NYCHA, NYCHA Public Housing Preservation I LLC (LLC I) and NYCHA Public Housing Preservation II LLC (LLC II).

Mr. Lesnoy noted that financial statements for 2021 and 2020 are comprised of Statements of Net Position, related Statements of Revenues, Expenses and Changes in Net Position, Statements of Cash Flows and the related notes to the financial statements, which are all presented in conformity with Generally Accepted Accounting Principles (GAAP). Also included within these financial statements is Management's Discussion & Analysis and Required Supplementary Information in conjunction with the financial statements.

The first major driver of activity in 2021 and 2020 were the PACT[2] transactions. Three transactions were closed in December 2021, and all were structured as 99-year leases. Six developments were involved, about 5,200 units, including:

- Boulevard Houses
- Belmont-Sutter
- Fiorentino Plaza
- Pennsylvania Avenue & Wortman Avenue
- Linden
- Williamsburg

PACT is used to facilitate conversion of apartments from Section 9 public housing funding to Section 8 vouchers to allow developers to finance necessary building repairs and operational improvements while preserving long term affordability for tenants. The NYCHA compensation on these PACT transactions included $33 million of additional amounts received in the form of debt repayments for respective developments. Revenue will be recognized over a 40-year period based on the Authority's purchase option.

NYCHA received $8 million of developer fees at closing and a share of an additional $50 million of developer fees is expected to be received beginning 2025. The revenue will be recognized over the conversion or rehab period on the properties. NYCHA has received Purchase Money Notes of $217 million, collectively, between the three transactions (sometimes referred to as Seller's Notes), amounts to be repaid out of developer's cashflow over a 40-to-44-year term. Due to the uncertainty of cashflows, NYCHA has established a 100 percent allowance for doubtful accounts on these notes. Revenues will be recognized over the 40-year period only after payments are received.

The next major driver affecting business in 2020 and 2021 was COVID-19. NYCHA implemented emergency protective measures to sanitize facilities and provide safety to its residents and employees. Incremental costs included within the public housing program were $58 million in 2021 and $78 million in 2020. Also, incremental

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[1] Governmental Accounting Standards Board (GASB) Statement No. 98, *The Annual Comprehensive Financial Report*, establishes the term *Annual Comprehensive Financial Report* and its acronym *ACFR.* That new term and acronym replace instances of C*omprehensive Annual Financial Report* and its acronym in generally accepted accounting principles for state and local governments. This Statement was developed in response to concerns raised by stakeholders that the common pronunciation of the acronym for comprehensive annual financial report sounds like a profoundly objectionable racial slur. This Statement's introduction of the new term is founded on a commitment to promoting inclusiveness.

[2] Permanent Affordability Commitment Together (PACT) program creates public-private partnerships to repair and manage the developments. It generates a sustainable funding source for extensive repairs and ongoing property management while guaranteeing permanent affordability and protecting tenant rights. PACT is New York City's implementation of the federal government's Rental Assistance Demonstration (RAD), which includes collaboration between NYCHA, residents, and housing advocates.

costs within the Section 8 program: $27 million in 2021 and $10 million in 2020. As far as incremental funding, which was received as a result of COVID due to the CARES Act grant for public housing, NYCHA drew down total of $150 million, of which $120 million was drawn down in 2020 and $30 million in 2021. The CARES Act allowed for funds to be used to prevent, prepare for, and respond to COVID, and also to fund normal operations. CARES Act funding for Section 8 was $37 million drawn in full in 2020 but recognized $10 million in revenues in 2020 and the balance in 2021 in accordance with the costs incurred. All CARES Act funds were expended by year-end 2021, which was the expiration date.

FEMA funds received in response to COVID were $15 million in 2021 and $9 million in 2020, covering 75 percent of eligible costs with a 25 percent cost share.

In addition to increased costs and ability to draw on additional funding sources, COVID impact on rent collections was significant. COVID had a direct impact on the local economy as well as impacting tenants' ability to make rent payments. 2019 rent revenue was $1.058 billion, decreased by $91 million in 2020 to $967 million, and further decreased by $46 million to $921 million in 2021. So, in two years' time there was about a $137 million dollar drop in tenant collections. These large decreases required the Authority to substantially increase the allowance for tenant receivables to $286 million by December 31, 2021. In contrast, the allowance of December 31, 2019, a pre-COVID date, was $72 million dollars. This increased the allowance for doubtful accounts by $214 million in the two-year period.

Mr. Gonzalez had a question regarding expenditures during conversions related to the reason for little to no revenues recognized in 2021, and whether such expenditures are recognized in the financial statements. Mr. Lesnoy responded that the accounting standards require that revenue is recognized over the period of time over the rehab or the conversion period for developer phase. The cost will be incurred over the same time but most of those costs will be incurred on the developer's books and not on NYCHA's books. NYCHA will recognize the developer fees over the conversion period. If the conversion period is two years, then revenue is recognized over a 24-month period. Every month, NYCHA will recognize 1/24th of developer fee.

Mr. Lesnoy indicated that there is a short band for developer fees but for other types of acquisition fees, like a development repayment or an acquisition fee that is received up-front, they will be amortized over a much longer period. Such amortization periods to be considered are the shorter of the lease term, the purchase option or right of first refusal option. It depends on the circumstances and the transactions of the deal, but in the case for the PACT deals, the majority of revenues NYCHA will earn will be recognized over a period approximating 40 years.

Mr. Lesnoy stated that considering the three PACT transactions closed three days before year-end, NYCHA recognized little to no revenues on these transactions in 2021.

Mr. Gonzalez indicated that any 2021 PACT transactions revenues will first show up in the following year 2022. Mr. Lesnoy indicated this was correct but made the point that many PACT deals generated in previous years are now reaping the fruit of those transactions in 2021 and 2022. It just takes time to amortize into the portfolio.

Ms. Wolfe questioned why there was an increase from $10 million to $27 million for Section 8 COVID cost from 2020 to 2021 when for public housing, the cost went down considerably. Mr. Lesnoy responded that funds were not limited just to prevention and preparation for COVID; they are also allowed to be used for normal operating costs Mr. Lesnoy also responded that there were options on how to draw the funds down, so while drawdowns cannot exceed costs incurred, drawdowns can be less than costs incurred. He provided as an example that if NYCHA incurred $50 million of costs, and only wanted to draw down $10 million, there was an option with the

CARES Act to do so. So, there was the opportunity to budget for drawdowns based on NYCHA overall financing needs.

Mr. Lesnoy made the point that factors impacting rent collection decline was not just directly attributable to COVID, but also to the general change in the economy and its disproportionate impact on low income households, in addition to moratorium evictions set by federal and local laws.

Next matter covered was significant effort in applying for or supporting applications of $118 million from the New York State Emergency Rental Assistance Program, also known as ERAP. These applications represented 31,000 NYCHA households. However, with ERAP limited funds and New York State's decision to assign lowest priority to public housing residents, no ERAP funds have been made available to NYCHA or its residents. Mr. Kaplan questioned if NYCHA contested the NYS decision not to make ERAP funds available to tenants. Mr. Lesnoy responded that talks were held with NYS over ERAP funds, but NYS firm position was that the residents already received federal funding, federal subsidies, and benefits.

The third major driver revolves around pollution remediation obligations related to lead paint. New York City (NYC) Local Law 1 requires landlords to take actions to prevent lead poisoning in children under the age of six years. Historically, the NYC standard was to define lead paint as greater than or equal to 1.0 milligrams of lead per square centimeter. Consistent with the 2019 agreement with HUD, NYCHA agreed to perform annual visual assessments and perform remediation in apartments and common areas within a 20-year period. The federal standard for lead is also set at 1.0 milligrams of lead per square centimeter. To date, the Authority has tested approximately 80 percent of the target population defined using the 1.0 milligram standard, with approximately 27 percent of the apartments reflected as positive for lead. However, effective December 1, 2021, NYC implemented a new stricter standard, Local Law 66, for measuring the presence of lead and paint defined as 0.5 milligrams of lead per square centimeter. Under the new standard, NYCHA will be required to test substantially all apartments at move-out, even those which NYCHA previously tested. In addition, NYCHA has initiated the program to aggressively retest all apartments, approximately 32,000 apartments with children under 6 years of age, by January 2023 and will ensure testing for any newly identified apartments with children under 6 involved.

Mr. Kuo questioned why NYCHA was not following the federal government's 1.0 milligram standard, and instead following NYC Local Law when most of the buildings are federally funded. Mr. Lesnoy responded that NYCHA needs to follow the strictest law for the geographical area that it is located in. This was discussed with the Legal team and Compliance team, and they were all clear that this needed to be implemented in 2021. Mr. Kuo inquired if the Law Department gave a separate opinion on this matter and was very concerned because of the large dollars involved with lead paint remediation and testing, and future liability. Mr. Kuo also noted the financial statements were showing changes in liability that now reflected the 0.5 milligram lead standard and requested a follow-up for the Law Department to provide their opinion on this matter.

Mr. Gonzalez inquired whether NYCHA was looking into the particular companies or agencies that did the initial XRF testing of the apartments (at the 1.0 milligram standard) and then comparing it to what is currently going through now (at the 0.5 milligram standard) to determine if there is a big variance. This would indicate if lead testing was accurately performed, so that proper abatement can take place. Mr. Lesnoy indicated he will look into this matter and provide a response.

Mr. Lesnoy continued with the lead paint topic, indicating that current test results using the new 0.5 milligram level represent only about 5 to 10 percent of the apartment units and are dispersed across only about a dozen developments. So based on these test results at the 0.5 milligram level, the tests are insufficient to reliably estimate lead paint findings across the portfolio. Therefore, current estimates used within the pollution remediation obligation incorporate cost to abate based on the 27 percent positivity rate at the 1.0 milligram level. The positivity rates at 0.5 milligram and related costs are likely higher, but the Authority cannot reasonably estimate the costs at this time. GASB 49[3] requires the costs to be recorded only if they can be reasonably estimated. So, NYCHA has to wait for additional substantial testing which may not be until mid-2023. As a result of increased cost to retest, in addition to the expansion of the apartment population to include 33,000 units previously exempted[4] under the old standard, the remediation obligation for lead paint will increase from $2.6 billion as of December 31, 2020, to $3.1 billion as of December 31, 2021, about a $500 million dollar increase.

Mr. Lesnoy continued with the lead paint liability issue.

Retesting is required, and the cost of retesting has risen substantially as more paint chips will be taken to be more cautious and make sure nothing is missed. It will cost over $200 million dollars to retest the whole portfolio. Also, under the old guidelines 33,000 units were exempt or otherwise taken off the ineligible list and did not need to be tested. For these 33,000 units, it was assumed that there was no lead and there was no need to remediate or abate. However, under the new 0.5 milligram standard, they have been added to the test population. These two items are included in this big jump in costs in a post-remediation obligation. However, NYCHA cannot estimate accurately at this point regarding what the future positivity rate may be.

The City of New York has agreed to provide incremental financial support to NYCHA of $2.2 billion over a 10-year period, of which $772 million has been allocated to lead paint abatement, as per the May 8, 2021, Action Plan. The $772 million will be recognized to revenue on a cost reimbursement basis over the 10-year period.

Mr. Kaplan was concerned about costs increase due to inflation over the 10-year period and asked if the estimated costs took inflation over the period into account. Mr. Lesnoy indicated that GASB 49 requires such costs to be based on current year estimates but indicated that Note 7 in the financial statements covered changes to the liability cost that could be impacted by changes to vendor prices, positivity rate, etc.

After discussing the three major drivers, Mr. Lesnoy continued his presentation with the following overview of the financial results for 2021:

- Operating revenues decreased by $50 million, or about 5 percent, to $988 million. PACT developments which are no longer part of NYCHA's 2021 financial statements caused about a $10 million dollar rent decrease. This is expected, as every year there are less developments and less apartment units paying rent each year, even if everyone pays on time.
- Rent reduction due to continuing growth in arrears is estimated at about $36 million and is partially due to 2020 rent collections were impacted by only 10 months of activity since COVID occurred. COVID

[3] Governmental Accounting Standards Board (GASB) Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations. These obligations relate to addressing the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The scope of the Statement excludes pollution prevention or control obligations with respect to current operations, and future pollution remediation activities that are required upon retirement of an asset, such as landfill closure and post-closure care.

[4] NYCHA presumed the presence of lead-based paint in target housing built prior to 1978 unless the unit is exempt due to negative lead findings of an inspection, exemption or record of prior abatement. Per HUD's Lead Safe Housing Rule, A covered dwelling unit *is* exempt from needing a risk assessment under the following scenarios:

- The property has been certified by a State- or EPA-certified lead inspector as lead-based paint free or all lead-based paint has been identified and removed through abatement, and clearance has been achieved.
- The dwelling unit is scheduled for demolition.

started in March 2020, while 2021 had the full 12-month impact.

- Operating expenses increased by about $66 million, or 2 percent, to $4.369 billion.
  - Maintenance and operations expenses increased by $95 million due to increased salary costs and also due to increase in heating and cooling contracts and other building maintenance. Some of this maintenance was due to the fact that there was greater access to apartments in 2021 as COVID-19 limitation in 2020 prevented certain maintenance services from happening.
  - Rent for lease dwelling increased by $66 million due to higher payments per voucher unit and increase in number of units. However, this expense increase was more than offset by an $88 million increase in the Section 8 Housing Choice Voucher Program subsidy.
  - Depreciation increased by $19 million due to continued increase in building improvements.
  - General and administrative expenses decreased by $104 million, primarily due to large increases in investment returns on the pension plan.
  - OPEB (Other Post-Employment Benefits) decreased by $54 million due to change in discount rate assumption from 1.93 percent to 2.25 percent.
- The non-operating revenues for NYCHA increased by $380 million, or 14 percent, to $3.141 billion, of which subsidies and grants increased by $399 million. Major components:
  - Public Housing subsidy increased by $125 million.
  - Section 8 Housing Voucher subsidy increased by $88 million.
  - City of New York subsidy increased by $101 million.
  - The federal capital funds used for operating purposes increased by about $91 million and those are all positives.
  - Above increase offset slightly due to a reduction in CARES Act funds because in 2020 we recognized $130 million of CARES Act combined between Section 8 and public housing, and in 2021 we recognized $57 million, so a $73 million dollar reduction there. However, it is important to note that NYCHA used the entire amount of CARES Act funding before the December 31, 2021, expiration date.
  - Also in non-operating revenues is the Gain on real estate transactions which was $39 million in 2021, decreasing by $18 million from 2020. The decrease was largely due to the 2020 gain on sale of land and development rights on the Ingersoll development.
- The special item[5] in 2021 reflects a $649 million increase in expected cost of lead paint obligations, i.e. "Pollution remediation costs - lead based paint" due to increased testing costs and eligibility of 33,000 additional apartments which were formally exempt under Local law 1. In 2020, the Authority recognized $201 million of gains in the special item, largely due to the change in estimate of the lead positivity rate from 32 percent in 2019 to 27 percent in 2020.
- Capital contributions were $758 million in 2021 down by $192 million from 2020, largely due to a federal capital fund decrease of $92 million and a FEMA decrease of $76 million.
- Net position is still strong at $1.62 billion at December 31, 2021, down by $131 million from 2020.
- NYCHA's balance sheet includes total cash and investments of $1.638 billion at December 31, 2021 versus $1.747 billion at December 31, 2020, for a $109 million decrease. This is partially due to the use of Sandy resiliency funds and partially due to reduction in tenant collections.
- Capital assets in the aggregate increased by $390 million due to continued building improvement efforts.
- Deferred outflows of resources decrease of $267 million is primarily due to OPEB or the increase in discount rate used and the valuation used for inactive employees.
- Unearned revenues current and non-current combined have decreased by $155 million largely due to

[5] Per GASB 34, a special item is a significant transaction or other event within the control of management that is either unusual in nature or infrequent in occurrence.

completion of much Sandy resiliency work where FEMA funds had been previously retained. Once work is completed, unearned revenue is reversed.

- Net pension liability decreased by $641 million primarily due to large investment returns in 2021. For the same reason, there was a $603 million increase in deferred inflows of resources.
- OPEB liability decreased by $295 million largely due to increase in discount rates from 1.93 to 2.25 percent and due to change in the valuation of how inactive employees were categorized and measured.
- The pollution remediation liability(current and non-current combined) increased by $573 million, largely due to the cost increase for testing and the 33,000 units, which were formerly exempt under Local Law 1 which are no longer exempt from testing and potential remediation and abatement requirements.

Mr. Kuo raised a question of heating and cooling contracts being used as opposed to using existing NYCHA staff to do heating and cooling. Mr. Lesnoy responded that there was always a mix of certain heating and cooling work done by internal staff but it is possible that more work took place in 2021 to improve the properties and make up for work that did not happen in 2020.

Mr. Kuo's next question was how capital funds allocations are used for operating costs. Mr. Lesnoy responded that there was an option that allowed for public housing agencies to use it that way. Mr. Lesnoy would get back to the committee with more information regarding specific usage of the capital funds allocations for operating costs.

Mr. Kuo inquired about where pension contributions were shown, and Mr. Lesnoy responded that they are in General & Administrative expenses, while OPEB is separated out.

Mr. Kaplan inquired about what non-capital financing means, and how it differs from capital-related financing. Jill Strohmeyer, Managing Director from Deloitte responded that the related section of the financials includes subsidies or grants from other organizations whether it is governments, federal government, the city, the state, that can be used in general operations. Grants or subsidies that are to be used specifically to fund capital assets go to the capital section of the cash flow statement. There are four sections of the cashflow statement and the use of the funds determines where it is placed on the cash flow statement.

Mr. Kaplan raised his concern about the potentially large cost of lead abatement driven by inflation and price increases over the period of time for lead paint abatement and how that large cost should be stated on the financials. Mr. Lesnoy indicated he would consider change in wording to include various factors. Mr. Kaplan also raised his concern about present market conditions that have adversely impacted pension plan investments and how this could be a subsequent event disclosure item. Mr. Lesnoy indicated he would consider disclosing it as a subsequent event[6].

[At this point, Ms. Wolfe was excused from the meeting to attend another event.]

Mr. Kaplan inquired about the fair value of investments showing no change in 2021 compared to prior periods. Mr. Lesnoy responded that fair value of investments can be reported as revenue in one year (as positive) and expense in the next year as a cost (as negative). These amounts can be lined up to show the change of fair value.

Mr. Kaplan raised inquiry regarding levels 1, 2, 3 used for investments. Mr. Lesnoy explained that the investments are "very simple" and not affected by use of levels 1, 2, or 3. The investments are level 1 or 2, and

[6] Financial Accounting & Reporting Services (FARS), in consultation with Deloitte team, has added the section labelled "Currently Known Facts and Conditions", which is part of Management Discussion & Analysis of the Annual Comprehensive Financial Report.

all investment transactions are appropriately detailed.

Mr. Kaplan raised the matter of consistency of employee benefits disclosures in the City's financial statements compared to NYCHA's financial statements to avoid inconsistencies. Mr. Kaplan suggested that someone should look to make sure that there's no difference materially between the two financial statements pertaining to what NYCHA describes what it does and what the City does, as two organizations that are part of the same structure, having very different descriptions, just as added precaution. Mr. Lesnoy indicated this has not been mapped out on an annual basis, but several years ago there was a kind of a mapping of the process to make sure that similar tables and disclosures were used as required. This is something that can be looked at again to determine consistency. However, it should be noted that dollar values in the City's OPEB and pension plans require a lot more disclosures due to their much larger dollar amounts.

Mr. Kuo raised concern regarding mortgage bond payments supported by tenant rent revenue, and the possibility of potential defaults, specifically how the risk should be disclosed, and whether payments are backed up by the City in the event of operating revenues not coming in, and if these payments face similar risks as the general fund. Mr. Lesnoy responded that only NYCHA is responsible for these bond payments, and as of December 2021, there is $1.6 billion in cash and investments to adequately meet debt service. Adham Choucri, Deputy Director of Revenue and Receivables added that HUD (U.S. Department of Housing and Urban Development) would also provide support through future capital funds.

Mr. Kaplan brought up the matter of subsequent events related to the economy that can appear in financial statement disclosure. Mr. Lesnoy responded it depends on what NYCHA want to attach to inflation and other economic events in the U.S. and globally to the Russian invasion. There may be a new subsequent event disclosure about economic outlook[7].

Mr. Lesnoy continued his presentation with a brief discussion about financial information regarding NYCHA Public Housing Preservation I LLC (LLC I) and NYCHA Public Housing Preservation II LLC (LLC II). Note that the two entities LLC1 and LLC2 have a lot of the same commonality relating to business drivers.

For LLC I:

- Tenant revenues went down about by $5 million due to economic impact largely related to COVID.
- Total operating expenses went up by $11 million. Maintenance and operations expenses went up by $15 million, of which half is due to heating and cooling contracts and the other is due to maintenance that may have been delayed because of Covid-related access issues and much of the rest of the expense increased due to higher salary costs. General and administrative expenses decreased by $9 million, mainly a one-time reduction in NYCHA management fees. Utilities went up by $5 million.
- Subsidies went down by $9 million. There were various offsets involved in the subsidies going in opposite directions. However, what falls out is $9 million CARES Act funds allocated to LLC I in 2020 with none allocated to LLC I in 2021.
- Special item in 2021 is a $59 million expense due to increased lead testing costs and the need to include previously exempt units under the Local Law 1. In 2020, there was an $11 million gain in the special item due to the expected reduction of positive lead results from 32% percent in 2019 to 27% in 2020.
- Cash went down by about $28 million. Note that the 2021 loss before special item and capital contributions was $55 million but after backing out $27 million depreciation, which is a non-cash expense, from the $55 million loss, this provides for the $28 million cash impact roughly equal to the change in cash balances

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[7] As previously stated, FARS, in consultation with Deloitte team, has added the section labelled "Currently Known Facts and Conditions", which is part of Management Discussion & Analysis of the Annual Comprehensive Financial Report.

from year to year.
- Capital assets decreased by $19 million largely due to the $26 million depreciation during 2021.
- The only significant change in the liabilities is a $50 million increase in pollution remediation obligation for the lead paint test issues discussed previously.

Mr. Lesnoy presented that LLC II developments have been subject to the PACT initiative through December 31, 2021. The final two developments were transacted on December 28, 2021 – just a few days before year-end.

- The ground leases between NYCHA and LLC II were terminated.
- The capital assets and mortgage loans payable were transferred from LLC II to NYCHA and the loans payable to NYCHA were forgiven. This resulted in a $50 million loss on transfer of assets and the $25 million dollar gain on the forgiveness of debt on the LLC II financial statements for 2021. In consolidation of the component units, these large gains and losses are all offset on NYCHA's financial statements as of December 31, 2021.
- LLC II assets and liabilities are limited to cash and cash equivalents due from NYCHA and other current liabilities.
- Tenant revenues were roughly flat to 2020 despite reduction in collection from tenants, largely due to the transfer of tenant receivables, including arrears, to NYCHA onto PACT transactions at or near face value, when prior evaluations had anticipated large collection losses.
- Total operating expenses went down by $17 million primarily due to transfer of developments to NYCHA.
- Subsidies recognized decreased by $7 million due to continued winddown of the portfolio.
- The special items (gains) in 2021 and 2020 were largely as a result of transfer of the developments to NYCHA and the corresponding reversal of the pollution remediation obligation for lead paint.
- Going forward, LLC II is expected to have minimal revenues and expenses, including but not limited to expenses like legal fees, audit fees, and tax filing fees which may continue.

Mr. Kaplan inquired about the pollution remediation obligations and whether those disclosures are consistent with what the parent has. Mr. Lesnoy responded that they are relatively consistent. They don't have every aspect of it because they are not subject to some of the funding relief which LLC I and NYCHA were able to receive from The City of New York. But in general, they are similar.

Mr. Kuo asked why there was no loss of tenant revenue for LLC II between 2020 and 2021 and actually had an increase in tenant revenue. Mr. Lesnoy explained that two opposing factors occurred for LLC II. First, similar to all the developments, rent collections went down. However, the other side of the transaction related to substantial Allowances for Doubtful Accounts on the arrears recorded by NYCHA. The large receivables were transferred back and then eventually transferred to the developers through the PACT transaction at very small discounts on face value. NYCHA received close to 100% of the face value of other receivables even though NYCHA had provided for allowances of 90% of the amount as a potential loss. So, NYCHA ended up reversing previous losses incurred in prior years as a result of the transaction.

III. Audit Committee Letter from Deloitte:

Jill Strohmeyer, Managing Director from Deloitte discussed the Statement of Auditing Standards (SAS) 114 which covers the Independent Auditors' required communication with the Audit Committee and senior management[8]. Key points relating to this communication are that:

[8] It is also called "those charged with governance" letter.

- Deloitte is an Independent Auditor with respect to the Authority, and audited the financial statements for the New York City Housing Authority, NYCHA Public Housing Preservation I, LLC ("LLC I"), and NYCHA Public Housing Preservation II, LLC ("LLC II") for the year ended December 31, 2021.
- The financial statements were audited in accordance with two sets of auditing standards: the ones that were established by the AICPA as well as the standards established per Governmental Auditing Standards.
- Deloitte is currently in process of completing the audits of the financial statements for the three NYCHA entities. The reports on the financial statements are expected to be dated June 23, 2022.
- The objective of an audit is to express an opinion on the financial statements and whether or not they are presented fairly in all material respects in accordance with Generally Accepted Accounting Principles (GAAP). Specific procedures were performed on the Required Supplementary Information.
- The Authority's significant accounting policies are set forth in Note 1 to the Authority's 2021 financial statements. The auditors are not aware of any significant changes in previously adopted accounting policies or their application during the year ended December 31, 2021.
- There were no uncorrected misstatements that were identified by the audit team during the audits of NYCHA and LLC's. In addition, there were actually no material corrected items that were brought to the attention of management.
- There was no disagreement with management with regard to the financial statements, and the auditors received full cooperation from management and their team during the course of the audit.
- Emphasis of Matter paragraphs and Deloitte's opinions to the three financial statements are very similar to prior year with the exception of LLC II. Because of the PACT transactions completed in 2021, an additional Emphasis of Matter paragraph was added to LLC II, which just describes that the PACT transactions took place and that substantially all of the assets and liabilities of LLC II have been transferred. Deloitte's opinion was not modified with respect to this matter. It is still a clean opinion. Deloitte felt it was important to highlight the matter to the financial statement readers.

During the presentation, Darshan Patel, Senior Manager from Deloitte distributed a revised Management Representation Letter.

Mr. Kaplan inquired what the changes were between the management letter handed out and the one that was previously mailed to the committee. Ms. Strohmeyer responded that she would identify the changes and provide it to the committee after the meeting[9].

Ms. Strohmeyer discussed in detail regarding a potential change in OPEB plan. In July 2021, the City introduced a new plan called the Medicare Advantage Plan, which was initially expected to take effect in January 2022, with an opt-out period prior to that date. If participants in the plan opted out of the new Medicare Advantage Plan, they would have to pay an additional premium to continue in the old plan. It would have resulted in substantial cost savings to NYCHA, approximately $700 million, by implementing the new plan.

There were a number of litigation matters that went before a judge throughout the end of 2021 and into 2022. Ultimately, in March of 2022 a court ruled that NYCHA could not charge a premium for any participants who elected to stay in the old plan. As a result, the plans to implement the new Medicare Advantage Plan were put on pause. Following discussions between management and Deloitte, additional resources from Deloitte's national

[9] NYCHA's Department of Internal Audit & Assessments (IA&A) received Revised Management Representation Letter in the "track changes" mode from Deloitte and shared it with the Committee via an email on June 17, 2022. It showed edits made to the version included in the mailed package and the hard copy Deloitte distributed at the meeting.

office team were used to determine whether a gain should be recorded in 2021 and then subsequently reversed in 2022. Ultimately, based on the guidance under GASB 75, it was decided that no adjustment to the OPEB liability was needed for 2021.

Ms. Strohmeyer further discussed regarding the Management Representation Letter, which was attached as Appendix to the Audit Committee Letter. She advised the committee that Items 16 and 17 are new for this year, which indicate that the audits of the financial statements are done in accordance with Government Auditing Standards as well as AICPA Standards. She also pointed out that the Auditing Standards did change in 2021 and some of the representations that were highlighted in the letter are a direct result of such changes.

In addition, Ms. Strohmeyer pointed out that Deloitte's opinion letter looks different this year. The opinion is now at the top of the letter. In the past, the reader had to read two or three pages of information in the letter to get to the conclusion and now it is stated at the very top of the report, and it is a clean (unmodified) opinion. It also goes into more detail around the responsibilities of both the auditor as well as the management.

Mr. Kuo inquired about the last paragraph of Note 1c to the financial statements of LLC II. Ms. Strohmeyer responded that the paragraph was added in the report because essentially LLC II does not have any more developments. All of the developments have been transferred back to NYCHA. So, going forward, LLC II will have little to no assets and liabilities on their financial statements and minimal revenues and expenses would be recorded in future years.

Mr. Gonzalez stated it can be confusing to see developments go from Section 9 to Section 8, then those developments in Section 8 are no longer considered NYCHA. LLC II then transfers those developments over to NYCHA. Mr. Choucri responded that for the PACT transactions, the developments went from LLC II to NYCHA, so that NYCHA can do the PACT transaction with the developers. The PACT transaction is with NYCHA, not with LLC II. Therefore, the developments had to revert back to NYCHA to complete the PACT transaction. That is the flow of the transactions.

Mr. Kuo inquired if we are not going to see LLC II anymore in terms of reporting. Mr. Lesnoy responded that the decision has not been made. There will be at least one last year at a minimum, 2022, because there are still cash and other assets in LLC II. Tax returns and audits may need to take place. This needs to be reviewed with Legal team, in terms of tax and other implications, even though there will be little to no activity in LLC II in 2022.

Mr. Gonzalez inquired if there is a contingency plan if any surplus is left over. Mr. Lesnoy indicated it has not been evaluated, but it seems a surplus was unlikely under the circumstances.

IV. Approval of Financial Statements:

At the conclusion of the presentation and discussion, Mr. Clarke invited the Committee members to make a motion to approve the audited 2021 financial statements. Upon motion duly made and seconded, the Audit & Finance Committee members unanimously approved the financial statements and the related reports for:
(1) NYCHA, (2) LLC I and (3) LLC II.

V. Deloitte's Status Update on 2021 Single (Compliance) Audit:

Jill Strohmeyer, Managing Director from Deloitte invited Darshan Patel, Senior Manager and Single Audit Specialist to report progress related to the Single Audit which is expected to be issued in September 2021.

Mr. Patel advised the Committee that Deloitte performed a risk assessment and has selected the following three programs for testing:

1. Housing Voucher Cluster, which is comprised of four ALN[10] numbers:
   - Section 8 Housing Choice Vouchers – ALN 14.871
   - Mainstream Vouchers – ALN 14.879
   - HCV CARES Act Funding – ALN 14.HCC
   - Emergency Housing Vouchers – ALN 14.EHV

2. Public Housing Capital Fund, ALN number 14.872; and
3. Public and Indian Housing Grant, which also includes an element of CARES Act funding.

Test work will be performed through September. The Single Audit reports are required to be finalized, issued and uploaded into the Federal Audit Clearinghouse by September 30, 2022.

Mr. Patel concluded his remarks on Deloitte's status of the 2021 Single (Compliance) Audit.

<u>VI. Other Matters:</u>

Mr. Gonzalez inquired how many GASBs are there. Ms. Strohmeyer responded that there are about 100 GASB statements, but not all impacted NYCHA. Mr. Gonzalez inquired if NYCHA was given ample time to address new GASBs into accounting reporting. Ms. Strohmeyer indicated that agencies are generally given ample time, from 12 to 36 months. It can vary depending on the specific GASB.

Mr. Gonzalez inquired of Mr. Clarke the matter of layered access and how it should work. Mr. Gonzalez was concerned of problems with layered access and wanted to know more about the actual procedures related to layered access and what it is supposed to do, as opposed to what it was doing now. Mr. Clarke will look into this matter and respond.

Mr. Kaplan inquired about the meaning of the words "Great Resignation" used in the last meeting. Ms. Strohmeyer responded that it refers to the large number of employees from corporations and other entities moving out of their jobs.

<u>Adjournment:</u>

Mr. Clarke thanked everyone for their participation in the meeting and stated that the next AFC meeting was scheduled for September 13, 2022. Upon motion made and duly seconded, the meeting was adjourned at about 11:45 AM.

[10] The Assistance Listing Number, formerly known as the Catalog of Federal Domestic Assistance (CFDA) Number, is a five-digit number assigned in the awarding document for all federal assistance award mechanisms, including federal grants and cooperative agreements. The first two digits of the Assistance Listing Number reflect the major federal agency. The final three digits (following a decimal) indicate the federal program funding the project.