



NEW YORK CITY
HOUSING DEVELOPMENT
CORPORATION

MEMORANDUM

TO: Members of the Audit Committee

FROM: Richard Froehlich *RJ*

SUBJECT: Material for Audit Committee Meeting
January 24, 2013 at 10:00 a.m.

DATE: January 17, 2013

Attached please find the following materials for the Audit Committee meeting:

- Proposed Agenda
- Minutes of December 17, 2012 Meeting
- Annual Financial Report of HDC for FY 2012
- Ernst & Young's Draft "Opinion" Letter
- Ernst & Young's Draft Single Audit Report and Accompanying Schedule
- Ernst & Young's Draft Report on Compliance with Investment Guidelines
- Ernst & Young's Draft Report of Independent Accountants on Management's Assertion on Compliance
- Ernst & Young's Booklets on FY 2012 Audit
- Annual Investment Report
- Debt Report
- Investment Report
- Credit Report



NEW YORK CITY
HOUSING DEVELOPMENT
CORPORATION

MEMORANDUM

TO: Members of the Audit Committee
FROM: Richard Froehlich *RF*
SUBJECT: Agenda for Audit Committee Meeting
DATE: January 17, 2013

For the Audit Committee Meeting, which will take place on Thursday, January 24th, at 10:00 a.m., I propose the following agenda:

1. Roll Call
2. Approval of Minutes of the Meeting Held on December 17, 2012
3. Presentation of the Annual Financial Report of HDC for FY 2012
4. Discussion of the Independent Auditor's Findings
5. Other Ernst & Young's Reports
6. Approval of the Annual Financial Statements of the Corporation for FY 2012
7. Approval of the Annual Investment Report
8. Debt Report
9. Investment Report
10. Credit Risk Update
11. Other Business

**MINUTES OF THE MEETING OF
THE NEW YORK CITY HOUSING DEVELOPMENT CORPORATION
AUDIT COMMITTEE**

December 17th, 2012

A meeting of the Members of the Audit Committee of the New York City Housing Development Corporation (the "Corporation") was held on Monday December 17th, 2012 at the offices of the Corporation, 110 William Street, 10th Floor, New York, New York.

The meeting was called to order at 10:30 am by Mr. Felix Ciampa, Board Member, who noted the presence of a quorum. Mr. Ciampa called for approval of the minutes from the September 27th, 2012 meeting. The minutes were approved.

Mr. Ciampa turned to Mr. Richard Froehlich, Chief Operating Officer and General Counsel of the Corporation to provide an overview of the agenda.

Mr. Ciampa then turned to Ms. Kimberly Hancy and Ms. Amy Wong of Ernst & Young to present the firm's audit plan for HDC's Fiscal Year 2012, which ended on October 31st. Ms. Hancy directed the Members' attention to page three of the audit plan booklet furnished to the Members, and reviewed the deliverables and areas of audit emphasis outlined there. Ms. Hancy then turned to Ms. Wong who provided a brief overview of the audit plan for 2012. Ms. Wong noted no big changes from last year and noted delays due to hurricane Sandy. Ms. Hancy noted that GASB 62 has no impact on the Corporation. Also GASB 63 has no drastic impact but will change the wording of certain items that had to move categories. Ms. Hancy further noted some expanded items for GASB Statement 65. Mr. Froehlich noted that the expended items will result in an increase of income from commitment fees and a significant increase in net assets. Mr. Marc Jahr, President of the Corporation noted that the fees that were previously amortized will be included as income, it is estimated to be about \$70 million. There will be a footnote attached to explain. Another GASB Statement, #60 will come out affecting pension liabilities in 2014 which raises concerns regarding availability of pension cost sharing information from NYCERS. Mr. Froehlich noted that it will be challenging for NYCERS to allocate HDC's small share of their portfolio. He further noted that the Corporation will probably need to hire a consultant to deal with this issue. Ms. Hancy noted that NYCERS will need to have this information available to auditors eventually in a streamlined manner.

Mr. Ciampa then turned to Ms. Ellen Duffy, Senior Vice President of Debt Issuance and Finance to present the debt report for the month of October 2012. Ms. Duffy noted that The Corporation issued \$165.9 million of tax exempt bonds and \$89.2 million of taxable bonds in the Open Resolution in October 2012. Redemptions in September and October totaled \$33.1 million from 2 series of Open Resolution bonds and \$7.4 million from 1 series of stand-alone bonds. Ms. Duffy reported that HDC's debt outstanding as of October 31, 2012 is approximately \$8.8 billion. The Corporation's statutory debt capacity stands at \$10.25 billion.

Mr. Ciampa then turned again to Ms. Duffy to provide the Corporation's Weekly Investment Report for the week of November 20, 2012. Funds under management totaled approximately \$2.3 billion, consistent with the balances the Corporation has been experiencing this year. This report reflects routine investment activity.

Mr. Ciampa then recognized Ms. Mary Hom, Deputy Director-Credit Risk, for the counterparty credit risk exposure report. Ms. Hom reported that there were no changes to the list of counterparties since the last report. There was one rating agency action since the report was disseminated to the Committee: Rabobank Nederland had been downgraded by S&P to AA- from AA based on S&P's concern of a protracted economic downturn in the Netherlands. Ms. Hom continued her report by noting that HDC's counterparty exposure remained pretty well-diversified with Fannie Mae continuing to be the largest counterparty exposure, followed by Citibank. Investments rated double-A or higher were 52% of total investments, unchanged since the last report. The weighted average maturity was 4.2 years, versus 4.3 years at the last report

Mr. Ciampa then turned the Members' attention to Ms. Shirley Jarvis, Vice President of Internal Audit, to present audit reports. Ms. Jarvis reported that the Audit Staff had completed two audits since the last meeting and is currently performing the Investments Review and the required Annual Employee Expenses audit. Ms. Jarvis brought the Members attention to the reports in the Audit Committee package on the results of the reviews of Petty Cash and of Company Car Usage. Ms. Jarvis proceeded to summarize the outcome of each review: In the Petty Cash audit, the primary objective of the required annual petty cash audit is to evaluate the controls over the Petty Cash Fund and Imprest Fund account to ensure that: The cash fund is maintained and disbursed in accordance with the Corporation's policies and procedures; the cash fund is secure; and the activities of the Imprest Fund account are properly authorized, processed and the account is reconciled. The Audit Staff audited transactions that occurred in both the Petty Cash fund and the Imprest fund account from October 12, 2011 to October 10, 2012. Internal Audit found that the Petty Cash disbursements were in compliance with policies and procedures; the Petty Cash on hand was secured and maintained in the proper amount; and all expenditures were properly authorized, processed and reconciled.

Ms. Jarvis continued her report with the Company Car Usage audit. Internal Audit performed a compliance review of Company Car Usage to ensure that the policies and procedures governing the use of the corporation's cars were being followed. Specifically, to determine: 1) Whether the Corporation's cars were used only by authorized employees; 2) Whether the cars were being used for business reasons and not personal use; and 3) Whether log sheets were completed and submitted by the drivers and were maintained by Administration. The audit scope covered car usage during the period January 1, through August 24, 2012. Internal Audit found no significant issues. Internal Audit found that the policies and procedures governing the use of company owned cars were being followed; only authorized employees were driving cars; the cars were being used for business-related purposes and log sheets were completed and submitted to the Receptionist and maintained by Office Services. Ms. Jarvis ended her report by directing the Members to the details of the reviews more fully presented in the reports before them. There were no questions.

Mr. Jahr noted that in the aftermath of Hurricane Sandy, the Corporation is examining its practices to make sure that we are better prepared in the future. Mr. Ciampa noted that this is a challenging undertaking for all agencies.

Ms. Jarvis then turned the committee's attention to the 2013 Audit Schedule for the Members' approval. Ms. Jarvis requested the Members' approval to review the President's Office Expenses on an annual basis rather than semiannually. Ms. Jarvis noted that the audit schedule previously submitted to the Members has been revised to reflect that change. Ms. Jarvis stated that the revised Schedule is in the package before the Members. She further noted that there are nine audits on the adjusted schedule. Three of which are the required annual reviews of Employee Expenses and Petty Cash and the now annual review of the President's Office Expenses. In addition, the Audit Department added six new areas for review to this year's schedule: The Audit Staff will perform reviews of: the Disaster Recovery and Business Continuity Planning Process; Cash Management and Liquidity; a compliance review of Development, the Bond Financing process; Evaluate remote access controls via virtual private network (VPN); perform a limited review of logical system access to the electronic banking systems; and evaluate controls for end of period financials. Internal Audit's review of each area will include the evaluation of the controls in place to manage risks to the business unit/corporation of achieving its business objectives, verifying compliance to policies and procedures, applicable laws and regulations and determining that assets are safeguarded. The Audit Staff will also perform follow-up reviews on issues arising from prior years' audits, where applicable.

Ms. Jarvis requested approval of the Audit Schedule and the schedule was approved by the Members.

At 10:50 am, with no further business, Mr. Ciampa moved to dismiss and the meeting was adjourned.

Respectfully submitted,



Violine Roberty

**MINUTES OF THE MEETING OF
THE NEW YORK CITY HOUSING DEVELOPMENT CORPORATION
AUDIT COMMITTEE**

December 17, 2012

ATTENDANCE LIST


<u>NAME</u>	<u>AFFILIATION</u>
Harry Gould	Audit Committee Member
Felix Ciampa	Audit Committee Member
Kimberly Hancy	Ernst & Young
Amy Wong	Ernst & Young
Marc Jahr	NYC Housing Development Corp.
Richard Froehlich	NYC Housing Development Corp.
Joan Tally	NYC Housing Development Corp.
Cathy Baumann	NYC Housing Development Corp.
Ellen Duffy	NYC Housing Development Corp.
Eileen O'Reilly	NYC Housing Development Corp.
Urmias Naeris	NYC Housing Development Corp.
Mary Hom	NYC Housing Development Corp.
Shirley Jarvis	NYC Housing Development Corp.
Madhavi Kulkarni	NYC Housing Development Corp.
Ping Choi	NYC Housing Development Corp.
Bharat Shah	NYC Housing Development Corp.
Mary John	NYC Housing Development Corp.
Jaclyn Moynahan	NYC Housing Development Corp.
Zenaida Bhuiyan	NYC Housing Development Corp.
Catherine Foody	NYC Housing Development Corp.
Violine Roberty	NYC Housing Development Corp.



NEW YORK CITY
HOUSING DEVELOPMENT
CORPORATION

MEMORANDUM

TO: Members of the Audit Committee

FROM: Cathleen Baumann 

SUBJECT: Fiscal Year 2012 Audited Financial Statements

DATE: January 17, 2013

I am pleased to submit the Corporation's audited financial statements for the fiscal year ended October 31, 2012. The audit package includes the following material:

- The financial statements, incorporating a draft of Ernst & Young's clean opinion letter, Management's Discussion and Analysis (MD&A), combined financial schedules for HDC, REMIC, and HAC, footnotes, required supplementary information for Other Post Employment Benefits (OPEB), and Housing Revenue Bond Program (Open Resolution) financial schedules as required under our bond documents.
- Ernst & Young's draft Single Audit Report on HDC's HUD-related activities. This includes reports on internal controls and Federal expenditures.
- Ernst & Young's draft Report on Compliance with Investment Guidelines.
- Ernst & Young's draft Report on Compliance with Minimum Service Standards.
- Two booklets prepared by Ernst & Young detailing the FY 2012 audit results and financial analysis.

Despite the financial crisis and market turbulences between 2008 and 2010, and the slow economic recovery since then, HDC has achieved another year of substantial growth. The MD&A provides an overview of HDC's financial structure and key operating results for FY 2012. These include:

- Total assets grew by 4.81% to \$12.24 billion, an increase of \$561.4 million from 2011 due to the Corporation's ongoing debt issuance and lending activities. Total liabilities also grew to \$10.66 billion, an increase of \$429 million or 4.19% from 2010.
- Thirty two bond series were sold, totaling \$1.23 billion, to create and preserve affordable housing. Of the total issued, \$1.21 billion were issued with new

money and \$22.0 million were issued due to the refinancing of previously issued debt.

- Total net position of the Corporation totaled \$1.58 billion, representing an increase of \$131.5 million or 9.06% over the prior year due to normal operating activities and non-operating revenue of grant income.

In addition, the Corporation recently early-adopted Governmental Accounting Standards Board ("GASB") Nos. 63 and 65. GASB 63 resulted in a change in the presentation of the balance sheets to what is now referred to as Statements of Net Position. More significantly, GASB 65 restated certain items that were previously reported as assets and liabilities and recognizes them as outflows of resources and inflows of resources. In connection with this standard, all of the Corporation's accounts were analyzed by management in order to assess the impact on the financial statements. As a result, the implementation of this new standard resulted in the modification of the method previously used to account for the cost of issuance associated with the Corporation's numerous bond issuances, commitment and financing fees received by the Corporation in connection with the issuance of project loans, and the expenses and costs incurred on bond refunding.

If you have any questions or need any clarifications we would be happy to discuss them with you.