

COMBINED SCHEDULE OF INVESTMENTS

New York City Housing Development Corporation  
October 31, 2007  
With Report of Independent Auditors

## Report of Independent Accountants

New York City Housing Development Corporation  
New York, New York

We have audited the financial statements of the business-type activities and the aggregate discretely presented component units of the New York City Housing Development Corporation (the Corporation), a component unit of the City of New York, as of and for the year ended October 31, 2007, which collectively comprise the Corporation's basic financial statements, and have issued our report thereon dated January 22, 2008. We also have audited the accompanying Combined Schedule of Investments of the Corporation as of October 31, 2007. This schedule is the responsibility of the Corporation's management. Our responsibility is to express an opinion on this schedule based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States; the standards applicable to financial statement audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the standards for financial and compliance audits contained in the *Investment Guidelines for Public Authorities*, issued by the Office of the State Comptroller of the State of New York. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Schedule of Investments is free of material misstatement. We were not engaged to perform an audit of the Corporation's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial schedule presentation. We believe that our audit provide a reasonable basis for our opinion.

In our opinion, the schedule referred to above presents fairly, in all material respects, the Combined Schedule of Investments of the Corporation at October 31, 2007, in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 22, 2008 on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts

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*

New York City Housing Development Corporation  
New York, New York

We have audited the financial statements of the New York City Housing Development Corporation (the Corporation) and its discretely presented component units, as of and for the year ended October 31, 2007, and have issued our report thereon dated January 22, 2008. We have also audited the Combined Schedule of Investments as of October 31, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the standards for financial and compliance audits contained in the Investment Guidelines for Public Authorities, issued by the Office of the State Comptroller of the State of New York.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Corporation'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 Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control over financial reporting.

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 reliability in accordance with generally accepted accounting principles 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.

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 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 internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and investment guidelines, 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 object 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*.

This report is intended solely for the information and use of management, the members of the Corporation, others within the entity and the Office of the State Comptroller of the State of New York, and is not intended to be and should not be used by anyone other than these specified parties.

*Ernst + Young LLP*

January 22, 2008

New York City Housing Development Corporation

Combined Schedule of Investments

October 31, 2007  
*(In Thousands of Dollars)*

Restricted investments:	
Purpose investments	\$ 190,129
Other	1,195,720
Unrestricted investments	264,123
Total investments	<u>\$ 1,649,972</u>

*The accompanying notes are an integral part of this schedule.*

# New York City Housing Development Corporation

## Notes to Combined Schedule of Investments

October 31, 2007

### 1. Background and Organization

The accompanying combined schedule of investments, includes the investments of the New York City Housing Development Corporation (the Corporation or HDC) and its component units, the Housing Assistance Corporation (HAC) and the New York City Residential Mortgage Insurance Corporation (REMIC).

HDC is a corporate governmental agency constituting a public benefit corporation organized and existing under the laws of the State of New York (the State). The Corporation is also a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended, (the Code). The Corporation was established in 1971 under the provisions of Article XII of the Private Housing Finance Law (the Act) of the State and is to continue in existence for at least as long as bonds, notes or other obligations of the Corporation are outstanding.

The Corporation was created to encourage the investment of private capital through low-interest mortgage loans in order to increase the supply of safe and sanitary dwelling accommodations for families and persons whose need for housing accommodations cannot be provided by unassisted private enterprise. To accomplish its objectives, the Corporation is empowered to finance housing through new construction or rehabilitation and to provide permanent financing for multi-family residential housing. The Corporation finances significant amounts of its activities through the issuance of bonds and notes. The bonds and notes of the Corporation are not debts of either the State or the City of New York (the City).

Pursuant to Governmental Accounting Standards Board Statement (GASB) No. 14, *The Financial Reporting Entity*, the Corporation's financial statements are included in the City's financial statements as a component unit for financial reporting purposes.

The Housing Assistance Corporation is a public benefit corporation established pursuant to Section 654-b of the Act as a subsidiary of the Corporation.

HAC is empowered to receive monies from any source, including, but not limited to, the Corporation, the City or the State, for the purpose of assisting rental developments to maintain rentals affordable to low and moderate-income persons for whom the ordinary operation of private enterprise cannot supply safe, sanitary and affordable housing accommodations. In order to accomplish this objective, HAC may transfer, lend, pledge or assign these monies to any rental

# New York City Housing Development Corporation

## Notes to Combined Schedule of Investments (continued)

### 1. Background and Organization (continued)

development or assist the Corporation in financing such developments. As a subsidiary of HDC, HAC's functions are administered by the Corporation and its Board Members substantially overlap with HDC's Board Members, so it is reported as a discretely presented component unit in HDC's financial statements.

The New York City Residential Mortgage Insurance Corporation is a public benefit corporation established pursuant to Section 654-d of the Act as a subsidiary of HDC. REMIC is the successor entity to the New York City Rehabilitation Mortgage Insurance Corporation (Old REMIC), which was dissolved on January 27, 1993. REMIC has the authority to insure residential mortgage loans throughout the City in order to promote the preservation of neighborhoods which are blighted, are becoming blighted or may become blighted, to discourage divestment and encourage the investment of mortgage capital in such neighborhoods and to provide safe, sanitary and affordable housing accommodations to persons and families for whom the ordinary operations of private enterprise cannot supply such accommodations.

### 2. Summary of Significant Accounting Policies for Investments

#### Investments

Short-term bank deposits and investments with stated maturities of 90 days or less are reported as Cash and Cash Equivalents and are not included in the combined schedule of investments. All investments with maturities longer than 90 days are reported as investments in the combined schedule of investments and are carried at fair value, except for investment agreements. The Corporation's investment agreements can take the form of open time deposits or fixed repurchase agreements and are reported in the combined schedule of investments at an amount equal to principal and accrued interest.

### 3. Investments

The Corporation is authorized to engage in investment activity pursuant to the Act and the Corporation's respective bond resolutions. Investment policies are set for the Corporation by the Members of the Corporation on an annual basis, through the annual adoption of written Investment Guidelines. Investments are reviewed on a periodic basis by the Corporation's Audit Committee. Day-to-day investment decisions are made by the Corporation's Investment Committee, whose members include the Chief Financial Officer, the Deputy Chief Financial Officer, the Controller, and the Vice President for Cash Management. The Corporation

## New York City Housing Development Corporation

### Notes to Combined Schedule of Investments (continued)

#### 3. Investments (continued)

principally invests in securities of the United States and its agencies, highly rated commercial paper, open time deposits (OTDs) in the form of investment agreements, demand accounts, and repurchase agreements. According to management, the Corporation is not in violation of any provisions of the foregoing policies.

All investment transactions are recorded on the trade date. As of October 31, 2007 the Corporation had the following investments:

Investment Type	Carrying Value 2007	Investment Maturities at October 31, 2007 (in Years)			
		Less than 1	1-5	6-10	More than 10
<i>(In Thousands)</i>					
Open time deposits	\$ 950,022	\$ 195,931	\$ 710,445	\$ 11,188	\$ 32,458
Fixed repurchase agreements	452,181	452,181	—	—	—
FHLB	221,084	144,270	23,847	7,394	45,573
GNMA	190,129	12,296	—	—	177,833
U.S. Treasury	173,525	169,705	—	—	3,820
FHLMC	143,255	10,078	102,869	15,114	15,194
FNMA	81,027	35,227	33,444	926	11,430
Commercial paper	70,000	70,000	—	—	—
Term repurchase agreements	33,461	—	32,271	—	1,190
Money market and NOW accounts	29,964	29,964	—	—	—
U.S. Treasury strips	12,556	2,488	5,729	4,339	—
Other	4,719	—	1,073	3,646	—
Federal farm credit bond	19,854	—	15,030	4,824	—
<b>Total</b>	<b>2,381,777</b>	<b>1,122,140</b>	<b>924,708</b>	<b>47,431</b>	<b>287,498</b>
Less amounts classified as cash equivalents	(731,805)	(731,805)	—	—	—
<b>Total investments</b>	<b>\$ 1,649,972</b>	<b>\$ 390,335</b>	<b>\$ 924,708</b>	<b>\$ 47,431</b>	<b>\$ 287,498</b>

As part of its financing activities, HDC has entered into five housing development loans that are secured by GNMA certificates rather than mortgages on the properties. The GNMA certificates provide payments at such times and in such amounts as to fully repay the respective HDC loans, and are the only source of repayment for these loans. As such, the GNMA certificates are treated under U.S. Treasury regulations as acquired program obligations. The GNMA certificates are classified in the combined schedule of investments as purpose investments and identified separately from other investments and restricted investments in the schedule.



# New York City Housing Development Corporation

## Notes to Combined Schedule of Investments (continued)

### 3. Investments (continued)

*Interest Rate Risk:* As a means of limiting its exposure to fair value losses arising from rising interest rates, the Corporation's Investment Guidelines charge the Investment Committee with "determining appropriate investment instruments based on length of time funds are available for investment purposes" among other factors. Thus, maturities are matched to the Corporation's liquidity needs.

*Credit Risk:* The Corporation's investment guidelines and policies are designed to protect principal by limiting credit risk. This is accomplished through ratings, collateral, and diversification requirements that vary according to the type of investment.

As of October 31, 2007, investments in Federal National Mortgage Association (FNMA or Fannie Mae), Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac), GNMA Federal Farm Credit Bond and Federal Home Loan Bank (FHLB) were rated in the highest long-term or short-term ratings category (as applicable) by Standard & Poor's and/or Moody's Investors Service. These ratings were AAA and A-1+ by Standard & Poor's and Aaa and P-1 by Moody's for long-term and short-term instruments, respectively. Some investments were not rated by Fitch Ratings. Of the investments that were rated by Fitch Ratings, they carried ratings from AAA to BBB+. Investments in commercial paper were rated in the highest short-term category by at least two major rating agencies (A-1+ by Standard & Poor's, P-1 by Moody's). Money Market and NOW accounts, OTDs and Repurchase Agreements are not rated, however, the providers are rated.

*Custodial Credit Risk:* For investments, custodial credit risk is the risk that in the event of the failure of the counterparty, the Corporation will not be able to recover the value of its investments or collateral securities that are in the possession of the outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the Corporation, and are held by either the counterparty or the counterparty's trust department or agent but not in the name of the Corporation.

The Corporation manages custodial credit risk by limiting its investments to highly rated institutions and/or requiring high quality collateral be held by the counterparty in the name of the Corporation. At October 31, 2007, the Corporation was not exposed to custodial credit risk on its investment securities.

## New York City Housing Development Corporation

### Notes to Combined Schedule of Investments (continued)

#### 3. Investments (continued)

As of October 31, 2007, open time deposits in the amount of \$195,931,000, repurchase agreements in the amount of \$485,642,000 and Money Market and NOW accounts in the amount of \$29,964,000 were collateralized by high quality instruments such as US Treasury Notes, US Treasury Bills and Agency investments held by the Corporation's agent in the name of the Corporation. All such investments are not subject to custodial credit risk.

*Concentration of Credit Risk:* The Corporation reviews its credit risk concentration monthly and under current policy limits exposure to any one commercial paper provider to \$10 million. Effective December 17, 2007, the Corporation's Investment Committee increased this limit to \$25 million. However, the Corporation's Credit Risk unit monitors concentration risk amongst issuers and reports to the Corporation's Audit Committee. At October 31, 2007, 9.3% and \$221.1 million of the Corporation's investments were in FHLB, 7.9% and \$190.1 million were in GNMA and 6.0% and \$143.3 million were in FHLMC.