

COMBINED SCHEDULE OF INVESTMENTS

New York City Housing Development Corporation  
October 31, 2016  
With Report of Independent Auditors

Ernst & Young LLP



Building a better  
working world

New York City Housing Development Corporation

Combined Schedule of Investments

October 31, 2016

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## Report of Independent Auditors

Management and the Members of the  
New York City Housing Development Corporation

### **Report on the Combined Schedule of Investments**

We have audited the accompanying Combined Schedule of Investments for the New York City Housing Development Corporation (the “Corporation”), a component unit of the City of New York, as of October 31, 2016 and the related notes.

#### ***Management’s Responsibility for the Financial Schedule***

Management is responsible for the preparation and fair presentation of the Combined Schedule of Investments in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the Combined Schedule of Investments that is free of material misstatement, whether due to fraud or error.

#### ***Auditor’s Responsibility***

Our responsibility is to express an opinion on the Combined Schedule of Investments based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Combined Schedule of Investments is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Combined Schedule of Investments. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the Combined Schedule of Investments, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the Combined Schedule of Investments in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the Combined Schedule of Investments.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

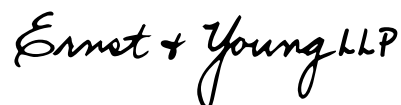
In our opinion, the Combined Schedule of Investments referred to above presents fairly, in all material respects, the combined investments of the Corporation at October 31, 2016, in conformity with U.S. generally accepted accounting principles.

### **Report on the Financial Statements as of October 31, 2016**

We have audited, in accordance with auditing standards generally accepted in the United States and *Government Auditing Standards*, the financial statements of the Corporation as of and for the year ended October 31, 2016, and our report thereon dated January 30, 2017, expressed an unmodified opinion on those financial statements.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 30, 2017 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 and grant agreements and other matters with respect to the Combined Schedule of Investments. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control over financial reporting and compliance with respect to the Combined Schedule of Investments.



January 30, 2017

Report of Independent Auditors on Internal Control Over  
Financial Reporting and on Compliance and Other Matters  
Based on an Audit of the Combined Schedule of Investments Performed in  
Accordance with *Government Auditing Standards*

Management and the Members of the  
New York City Housing Development Corporation

We have audited, in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the Combined Schedule of Investments of the New York City Housing Development Corporation (the "Corporation"), a component unit of the City of New York, as of October 31, 2016, and the related notes to the Combined Schedule of Investments, and have issued our report thereon dated January 30, 2017.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the Combined Schedule of Investments, we considered the Corporation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the Combined Schedule of Investments, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control.

*A deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's Combined Schedule of Investments will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Corporation's Combined Schedule of Investments is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, investment policies established by the Corporation and the New York State Comptroller's investment guideline requirements as presented in Section 201.3(c) of the *Accounting, Reporting and Supervision Requirements for Public Authorities*, noncompliance with which could have a direct and material effect on the determination of Combined Schedule of Investment amounts. However, providing an opinion on compliance with those provisions was not an objective 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*.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Ernst + Young LLP*

January 30, 2017

New York City Housing Development Corporation

Combined Schedule of Investments  
*(In Thousands of Dollars)*

October 31, 2016

Purpose investments	\$ 30,452
Restricted investments	1,547,500
Unrestricted investments	<u>258,255</u>
Total investments	<u>\$ 1,836,207</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, 2016

### **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 New York City 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, notes and debt obligations. The bonds, notes and debt obligations 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.

HAC 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 development or assist the Corporation in financing such developments.



# New York City Housing Development Corporation

## Notes to Combined Schedule of Investments (continued)

### **1. Background and Organization (continued)**

REMIC 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.

#### **Purpose Investments**

As part of its financing activities, HDC has made three housing development loans that are secured by GNMA certificates rather than mortgages on the related 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. 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.

The Corporation’s policy is to record GNMA certificates at amortized cost, which amounted to \$30,452,000 at October 31, 2016. The fair value of these purpose investments amounted to \$31,532,000 at October 31, 2016.

# New York City Housing Development Corporation

## Notes to Combined Schedule of Investments (continued)

### 2. Summary of Significant Accounting Policies for Investments (continued)

#### Accounting Standards Issued and Adopted

GASB Statement No. 72, *Fair Value Measurement and Application*, was issued in February 2015. The scope of this Statement is to improve financial reporting by clarifying the definition of fair value for financial reporting purposes, establishing general principles for measuring fair value, providing additional fair value application guidance, and enhancing disclosures about concepts and definitions established in Concepts Statement No. 6, *Measurement of Elements of Financial Statements, and other relevant literature*. The Statement is effective for fiscal years beginning after June 15, 2015 and the Corporation has adopted Statement No. 72 in its fiscal year ended October 31, 2016.

HDC categorizes its fair value measurements within the fair value hierarchy established by generally accept accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the assets. Level 1 inputs are quoted prices in active markets for identical assets, Level 2 inputs are significant other observable inputs, and Level 3 inputs are significant unobservable inputs.

The Corporation has the following recurring fair value measurements as of October 31, 2016:

- U.S Treasury securities of \$236,151,000 are valued using quoted market prices (Level 2 inputs)
- U.S Agency securities of \$1,121,962,000 are valued using quoted market prices (Level 2 inputs)
- NYC/NYS Municipal securities of \$45,118,000 are using quoted market prices (Level 1 inputs)
- Guarantee Investment Contracts of \$425,792,000 are valued using other significant observable inputs (Level 2 inputs)

## New York City Housing Development Corporation

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

#### 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. The Corporation principally invests in securities of the United States and its agencies, open time deposits ("OTDs") in the form of investment agreements, demand accounts, and repurchase agreements. In fiscal year 2016, HDC continued investing in taxable municipal bonds of New York State and New York City, consistent with the Corporation's statute and Investment Guidelines. The Corporation did not enter into any reverse repurchase agreements during the year ended October 31, 2016. Management of the Corporation is not aware of any violations of any provisions of the foregoing policies.

All investment transactions are recorded on the trade date. Investments, other than purpose investments, at October 31, 2016, were as follows:

Investment Type	Fair Value	Investment Maturities at October 31, 2016 (In Years)			
	2016	Less than 1	1-5	6-10	More than 10
<i>(In Thousands)</i>					
Money Market	\$ 1,207,846	\$ 1,207,846	\$ -	\$ -	\$ -
FHLMC Bonds	1,028,587	99,986	928,601	-	-
Fixed Repurchase Agreements	379,681	379,681	-	-	-
Term repurchase Agreements	368,927	75,988	286,809	-	6,130
U.S. Treasury (Bonds, Notes Bills)	236,151	232,077	-	4,074	-
FNMA Bonds	93,375	-	25,003	68,372	-
Open Time Deposits	46,111	-	-	-	46,111
NYS/NYC Municipal Bonds*	45,118	7,171	37,947	-	-
<b>Total</b>	<b>3,405,796</b>	<b>2,002,749</b>	<b>1,278,360</b>	<b>72,446</b>	<b>52,241</b>
Less amounts classified as cash equivalents	(1,600,041)	(1,600,041)	-	-	-
<b>Total investments</b>	<b>\$ 1,805,755</b>	<b>\$ 402,708</b>	<b>\$ 1,278,304</b>	<b>\$ 72,446</b>	<b>\$ 52,241</b>

\* Note: These are mostly Variable Rate Demand Obligation ("VRDO") instruments, which can be put weekly.

*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

## New York City Housing Development Corporation

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

#### **3. Investments (continued)**

“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. As part of the Corporation’s investment policies, it looks to invest its bond and corporate related reserves in long term securities that carry a higher yield, with the intent to hold the investments to maturity.

*Credit Risk:* The Corporation’s investment guidelines and policies are designed to protect principal by limiting credit risk. This is accomplished by making decisions based on a review of ratings, collateral, and diversification requirements that vary according to the type of investment.

As of October 31, 2016, investments in Federal National Mortgage Association (“FNMA” or “Fannie Mae”) and Federal Home Loan Mortgage Corporation (“FHLMC” or “Freddie Mac”) were rated by Standard & Poor’s and/or Moody’s Investors Service (Fannie Mae and Freddie Mac, are collectively referred to as “Agency”). These ratings were AA+ and A-1+ by Standard & Poor’s, and Aaa and P-1 by Moody’s for long-term and short-term instruments, respectively. Investments in Fannie Mae and Freddie Mac are implicitly guaranteed by the U.S. government. They carry ratings equivalent to the credit ratings for the U.S. government. Some investments were not rated by Fitch Ratings. Of the investments that were rated by Fitch Ratings, they carried ratings from AAA to F2. Money market accounts are either backed by collateral held by the provider or letters of credit provided by third parties.

Ratings for NYS/NYC municipal bonds are based on each issuer’s rating for its general obligation debt. The issuers’ ratings were AAA by Standard & Poor’s; ranged from Aaa to Aa1 by Moody’s; and AAA by Fitch Ratings Service. Money Market, Open Time Deposits and Repurchase Agreements in the form of OTDs 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.

# New York City Housing Development Corporation

## Notes to Combined Schedule of Investments (continued)

### 3. Investments (continued)

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, and accordingly, the Corporation was not exposed to custodial credit risk on its investment securities.

As of October 31, 2016, open time deposits in the amount of \$30,092,000, repurchase agreements in the amount of \$748,607,000 and demand accounts in the amount of \$1,207,846,000 were collateralized by high quality instruments such as U.S. Treasury Notes, U.S. Treasury Bills and Agency investments and Letters of Credit held by the Corporation's agent in the name of the Corporation. A portion of collateral supporting the demand accounts was in the form of FHLB letters of credit. All such investments are not subject to custodial credit risk.

*Concentration of Credit Risk:* The Corporation follows its annually adopted investment guidelines in accordance with concentration limits. The Corporation reviews its credit concentration monthly. The Corporation's Credit Risk unit monitors concentration risk amongst issuers and reports to the members of the Corporation's Audit Committee.

The following table shows issuers that represent 5% or more of the total investments at October 31, 2016 (*dollars in thousands*):

<b>Issuer</b>	<b>Dollar Amount</b>	<b>Percentage</b>
FHLMC	\$ 1,028,587	29.93%
Signature Bank	642,137	18.69
NY Community Bank	341,447	9.94
Deutsche Bank	286,584	8.34
Daiwa Securities	272,325	7.93

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