



MEMORANDUM

TO: Members of the Audit Committee

FROM: Cathleen Baumann

SUBJECT: Fiscal Year 2020 Audited Financial Statements

DATE: January 19, 2021

I am pleased to submit the Corporation's audited financial statements for the fiscal year ended October 31, 2020. The audit package includes the following materials related to the Corporation's annual financial audit:

- 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, HAC and Fiduciary Funds, footnotes, required supplementary information for Other Post Employment Benefits (OPEB), Net Pension Liability, the Housing Revenue Bond Program (Open Resolution), and the Multi-Family Secured Mortgage Revenue Bond Program (Mini-Open) financial schedules as required under our bond documents.
- Ernst & Young's draft No Material Weakness letter.
- 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 Schedule of Investments.
- Ernst & Young's draft Report on Compliance with Minimum Servicing Standards.
- Two reports prepared by Ernst & Young detailing the FY 2020 audit results and financial analysis.

Despite a year of operating under a global pandemic, the Corporation achieved another successful year of growth. The ongoing economic downturn caused by the coronavirus pandemic has led to some challenges, but the Corporation has adapted and performed very

well. The MD&A provides an overview of the financial structure of HDC and its subsidiaries and key operating results for FY 2020. These include:

- Total assets increased to \$21.8 billion, an increase of \$317.4 million or 1.48% from 2019. The increase was due to the robust mortgage lending and bond financing activities throughout the year. HDC's mortgage loan portfolio, including the loan participation receivable, comprises 75.79% of total assets, has performed well as repayments continue to remain close to pre-pandemic levels. Throughout the pandemic, HDC staff has worked closely with mortgagors to monitor their financial positions. As of the end of the fiscal year, four mortgages had been granted forbearance and one had resumed making their monthly payments. HDC staff continue to monitor the loan portfolio and stand ready to act upon any issues that may arise.
- Total liabilities were \$18.5 billion, an increase of \$103.5 million or 0.56% from 2019 as a result of the Corporation's ongoing debt and lending activities.
- Despite the pandemic bond issuances have continued with little interruptions. Twenty-one new bond series were sold, totaling \$1.8 billion and debt obligation draws totaled \$17.2 million to create and preserve affordable housing. The Corporation had a total of \$1.0 billion in bond repayments for the year of which \$842.3 million were bond redemptions and \$185.7 million were scheduled debt service principal payments. Additionally, there were \$138.8 million in debt obligation redemptions and \$3.4 million of FFB repayments. Additionally, HDC signed a new loan participation agreement with the FFB for \$65.6 million.
- Total net position of the Corporation totaled \$3.4 billion, representing an increase of \$286.0 million or 9.13% over the prior year. Of this amount, \$244.8 million was generated from the Corporation's normal operating activities and \$41.3 million was funds received from the 421-A Grant Revenue Program with the Battery Park City Authority.

During the fiscal year, the Corporation early adopted Governmental Accounting Standards Board (GASB) Statement No. 84, *Fiduciary Activities* ("GASB 84"). In the Corporation's normal course of business, it is in control of custodial assets which it holds and expends for the benefit of others. Those activities are now required to be reported in separate fiduciary fund financial statements, which start on page 23 of the financial statements. The funds affected by GASB 84 are the funds that we hold for HPD relating to several loan participation agreements with the City through HPD, funds that we hold for construction and permanent servicing for HPD, escrow and reserve funds held on behalf of the Corporation's mortgagors, and the Corporation's OPEB fund.

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