



**AUDIT COMMITTEE OF THE CITY OF NEW YORK
MINUTES OF THE AUDIT COMMITTEE MEETING
WEDNESDAY, APRIL 13, 2016
AT THE OFFICE OF THE COMPTROLLER**

ATTENDANCE

Chair

Bernard Rosen

Private Members

Mark Kaplan
Bud Larson
Michael Spitzer

Public Members

Representing the Mayor – John Grathwol
Representing the Comptroller – Michele Mark Levine
Representing the Public Advocate – Lawrence Schimmel

Secretary

Jacqueline Thompson

**Independent
Auditors**

Deloitte & Touche LLP – Christopher Gandolfo, Michael Malloy

Others

New York City Teachers' Retirement System – Kate Chen, Mitchell Fruchter,
Michael Henschel

New York City Board of Education Retirement System - Jean Daniel Desmornes,
Rick Hederman, Rich Sanford

New York City Employees Retirement System - Michael Goldson, John Hartman

New York City Police Pension Fund -Sunny Bavakutty, Patrick Dale, Kamelia
Tawdros

New York City Fire Pension Fund - Agnes Chan, Maureen Dale, Angel Garcia

New York City Mayor's Office of Operations – Florim Ardolli, George Davis

New York City Office of Management & Budget – Nicole Fleming, Xiaochao Jin,
Raymond Lee

New York City Office of the Actuary – John Gibney

New York City Comptroller's Office – Camille Arezzo, Emily Chan, Susan
Cornwall, Leonel Ferreira, David Jeter, Patricia Kearns, Berta Lara, Mary Lett,
Veronika Musheyeva, Chernow Sowe, Katrina Stauffer

Audit Committee Meeting- April 13, 2016

I. Call to Order and Roll Call

Mr. Bernard Rosen, Audit Committee Chairman, called the meeting to order at 9:30 a.m., and took roll call; a quorum was present.

II. Executive Session

Chairman Rosen asked for a motion to enter the Executive Session. A motion was made to go into Executive Session for the purpose of discussing non-public financial information about The City of New York. The motion was unanimously approved.

III. Return to Public Session and Review of the Financial Statements of the City's Retirement Systems:

- Teachers' Retirement System of The City of New York
- New York City Board of Education Retirement System
- New York City Employees' Retirement Funds
- New York City Police Pension Funds
- New York Fire Department Pension Funds

Teachers' Retirement System of The City of New York

The next agenda item was the review of the financial statements of the Teachers' Retirement System of The City of New York (TRS) for the fiscal year ended June 30, 2015. Mr. Mitchell

Fruchter, Assistant Chief Accountant of TRS, introduced the other representatives of TRS present and Mr. Michael Malloy, representative of Deloitte & Touché LLP (D&T), TRS' independent auditors.

Mr. Fruchter provided an overview of TRS' financial statements and highlighted the following:

- The net position of TRS' Qualified Pension Plan (QPP) as of June 30, 2015 was \$44.3 billion. The net position of TRS' Tax Deferred Annuity (TDA) Program was \$27.3 billion.
- The time-weighted return for the TRS pension fund was 2.99%, and the money-weighted return was 2.81%.
- In fiscal year 2015, TRS and the other four pension systems adopted Government Accounting Standards Board Statement No. 72 (GASB 72), *Fair Value Measurement and Application*.

A question and answer session took place after the presentation. Several matters were discussed including:

- TRS' QPP transferred over \$1 billion to TRS' TDA as a result of the TDA's fixed-fund investment option, which has a guarantee. The fixed fund investment option guarantee is essentially a loan by the TDA to the QPP on which the QPP pays with a guaranteed interest return. The Committee recommended that TRS highlights the fixed-return guarantee in the notes to the financial statements because of the significant cost related to this benefit.

- The use of the new mortality tables in the actuarial estimation of pension liabilities and required contributions increases the City's contribution by approximately \$600 million per year, for all five systems.
- TRS consulted with the custodian bank (State Street) to categorize the fair value measurements for the GASB 72 implementation. The hierarchy of inputs used to measure fair value pertains to valuation, not risk. The hierarchy is not an assessment of credit worthiness.
- The "plan fiduciary net position as a percentage of the total pension liability," is a funding ratio required to be disclosed by Generally Accepted Accounting Principles (GAAP) and is 68.04 percent.

There being no further questions, Chairman Rosen thanked the representatives of TRS for their participation at today's meeting.

New York City Board of Education Retirement System

The next agenda item was the review of the financial statements of the New York City Board of Education Retirement System (BERS) for the fiscal year ended June 30, 2015. Mr. Sanford Rich, Executive Director of Fiscal Operations at BERS, introduced the other representatives of BERS present and noted that D&T were BERS' independent auditors.

Mr. Rick Hederman, Director of Fiscal Operations, provided an overview of BERS financial statements and highlighted the following:

- BERS investments within the fixed return fund had a 3.4 percent return overall for fiscal year end 2015, which was lower than the Board of Education Policy benchmark of 3.5 percent.
- Over the longer-term ten-year time period BERS remained ahead of the benchmark, 7.3 percent versus 7.1 percent.

A question and answer session took place after the presentation. Several matters were discussed including:

- BERS has approximately 45,000 active members and retirees, and some that are non-participating in the TDA program.
- The TDA program is elective, and the members may be full- or part-time employees.
- BERS is the smallest of the City's major retirement systems.
- The QPP transferred over \$45 million to the TDA in 2015, which resulted from the fixed income guarantee.
- After this year, Prudential will no longer manage BERS' funds. BERS has been working on a five-year project to create its own enterprise computer system and will be transferring its assets, in May, to the new system.

There being no further questions, Chairman Rosen thanked the representatives of BERS for their participation at today's meeting.

New York City Employees' Retirement Funds

The next agenda item was the review of the financial statements of the New York City Employees' Retirement Funds (NYCERS) for the fiscal year ended June 30, 2015. Mr. Michael Goldson, Director of Finance at NYCERS, introduced the other representatives of NYCERS present and noted that D&T were NYCERS' independent auditors.

Mr. John Hartman, Deputy Director of Finance at NYCERS, provided an overview of NYCERS financial statements and highlighted the following:

- In fiscal year 2015, NYCERS' combined net position restricted for benefits increased by \$419 million to \$55 billion.
- The net investment income was \$1.2 billion, which was less than the benefit payments of \$4.3 billion.
- Employer contributions were \$3.2 billion, some of which was used to pay the retirement benefits.
- The total investment performance for fiscal year 2015 was 3.11 percent, which was less than NYCERS' Policy benchmark of 3.95 percent

A question and answer session took place after the presentation. Several matters were discussed including:

- There was no currency hedging for the non-U.S. portfolio. The purpose of investing in foreign currencies is to diversify the investments. Therefore, if hedging was done, the value

of having investments in multiple currencies would be lost. Nonetheless, some additional disclosure related to foreign currency risk might be beneficial.

- All of the non-U.S. portfolios are benchmarked against relevant benchmarks.
- The equity exposure of all of the systems have been lowered to between 65 and 70 percent of the portfolio. There has been a shift from public market securities into more private equity real estate markets.
- The change in fiscal year 2014 of custodian banks has been a positive change, including better recordkeeping.
- NYCERS has five VSFs and pays benefits to four of them every year. The Correction Officers' VSF is the only VSF with assets. The Correction Officers' VSF had transferrable earnings of \$30 and \$190 million in 2015 and 2014.
- Employer contributions do not reflect the funding shortfalls related to the bankruptcy filing on December of 2009 by the New York City Off-Track Betting Corporation (OTB) and its shut-down in December of 2010. As disclosed in the financial statements, the results of operations reported were developed assuming OTB was an ongoing concern. Any amounts due but unpaid by OTB were treated as receivables that are expected to be collected in full. About \$70 million has not been contributed since 2010 by OTB.

[Subsequent to this meeting, the Office of the Actuary provided this information:

1. OTB Plan Membership at June 30, 2015:

- a. Active – 0
- b. Inactive – 203
- c. Terminated Vested – 316
- d. Retired – 1,271

2. Present Value of Future Benefits at June 30, 2015 – approximately \$348 million.

3. Employer Contributions Due to NYCERS through June 30, 2016 –
approximately \$71.2 million.]

- Regarding the securities lending program, there are restrictions on the borrowers and a 30 percent limit on the amount of the portfolio that may be on loan at any one time; no more than 16 percent has ever been lent out at any one time.

There being no further questions, Chairman Rosen thanked the representatives of NYCERS for their participation at today's meeting.

New York City Police Pension Funds

The next agenda item was the review of the financial statements of the New York City Police Pension Funds (POLICE) for the fiscal year ended June 30, 2015. Ms. Sunny Bavakutty, Acting Chief Accountant of POLICE, introduced the other representatives of POLICE present and noted that D&T were POLICE's independent auditors.

Ms. Bavakutty provided an overview of POLICE's financial statements and highlighted that net position restricted for benefits increased by 3 percent, to \$35.2 billion, in fiscal year 2015 as compared to \$34.3 billion in fiscal year 2014. The increase was due to an increase in the fair value of investments and the continued growth of the national economy.

A question and answer session took place after the presentation. Several matters were discussed including:

- The maximum yearly benefit for VSF members is \$12,000. Members are required to be service (not disability) retirees with at least 20 years of service. This benefit is only payable to the retirees, not to surviving spouses, and is in addition to the member's regular pension.
- The *Plan Description* Note needs to be reworded to reflect the four tiers; it currently reflects only three because two are almost identical.
- The term Corpus Funding, which is the payment of the administrative expenses for the retirement systems out of the assets of the QPP, will be defined in in the Notes for future years.
- One committee member asked for an analysis of expenses for all the systems, including the goals and objectives, as well as timeframes. POLICE will be providing the analysis for their system to the Audit Committee Secretary.
- The VSFs selected their own managers from the managers that were hired for the QPP.
- A committee member suggested that all disclosures be consistent across the five retirement systems.

There being no further questions, Chairman Rosen thanked the representatives of POLICE for their participation at today's meeting.

New York Fire Department Pension Funds

The next agenda item was the review of the financial statements of the New York Fire Department Pension Funds (FIRE) for the fiscal year ended June 30, 2015. Mr. Angel Garcia, Chief Accountant at FIRE, introduced the other representatives of FIRE present and noted that D&T were FIRE's independent auditors.

Ms. Maureen Dale, Deputy Chief Accountant, reported that in fiscal year 2015 FIRE's net position restricted for benefits increased by 1.9 percent, to \$11.4 billion, from the prior year. FIRE was able to cover expenses by a combination of contributions and investment income.

A question and answer session took place after the presentation. Several matters were discussed including:

- As required by GAAP, capital gains are included in investment income.
- The pension systems each has its own Board of Trustees, which functions as the governing body.
- Each pension system has its own investment advisors, who make their own independent decisions. Some investment advisors work on multiple systems.

There being no further questions, Chairman Rosen thanked the representatives of FIRE for their participation at today's meeting.

There being no further business before the Committee, Chairman Rosen made a motion to adjourn the April 13, 2016 Audit Committee Meeting.