

ANNUAL REPORT OF 2018-2019 AUDIT COMMITTEE

In compliance with the mission given the Audit Committee in the Bylaws to "... *make an annual report to the membership of the Corporation concerning its findings, and its operations throughout the year, and such report shall contain an accounting of all Audit Committee expenditures throughout the year....*," the 2018-2019 Audit Committee respectfully submits this report to the membership.

Positive Developments

1) GHI's Finance Department in conjunction with the Finance and/or Investment Committees:

- Made several enhancements to the financial statements, budget, investment reports and cash flow spreadsheets to provide additional key information.
- Adjusted the formula utilized to determine the net available unreserved operating fund, resulting in better identification of available funds in member equity.

2) GHI's subsidiary, Greenbelt Development Corporation (GDC) - Parkway Apartments:

- GDC Board President Skolnik and staff prepared a report on operations for 2017-2018 and provided it to the GDC Board.
- Staff developed a replacement plan for the major components of the Parkway Apartments for the next 30 years.

3) GHI Management:

- Established GHI.coop email addresses for Board and Audit Committee members so the co-op may maintain a record of official business communications.
- Hosted an open house with an overview of each department and tour of Administration complex in order to provide Board and Audit Committee members with a better understanding of the operations of the co-op and the work of staff.

4) GHI Board:

- Hosted a meeting with our county council representatives.
- Submitted comments on proposed legislation (Maryland HB 900) concerning replacement reserves, which could have adversely impacted GHI, if enacted. This bill was subsequently withdrawn after receiving an unfavorable report in committee.

Concerns Regarding Replacement Reserves Analysis Conducted in 2018

- Utilizes GHI income projections (anticipated rate of return on investments) that may be too optimistic and could result in future funding shortfalls.
- Eliminates the account threshold (or buffer) utilized in past studies and allows reserve amounts by housing type to be drawn down near zero in certain years. This would leave no cushion if expenditures are higher than expected. In the future, any shortfalls may need to be made up by borrowing funds.

- Funds rehabilitation of existing water supply lines utilizing spray epoxy lining rather than complete replacement. The Water and Sewer Pipe Replacement Task Force expressed possible concerns regarding the safety of this approach which should be explored further.

Recommendations to the Board: Opportunities for Improvements

1) Investments:

- The Board should engage an independent investment advisor (on either a one-time or ongoing basis) to provide professional advice to the Board regarding GHI's investment policy and investment decisions, rather than delegating investment decisions to a volunteer committee whose members may or may not have professional expertise.

2) Revenue Generation/Subsidiary Corporation(s):

- The Board should seek professional advice to develop a sound methodology, using business best practices, to evaluate future revenue opportunities.
- The Board should seek legal guidance regarding (i) the appropriate separation required between GHI, a not-for-profit corporation, and its for-profit subsidiary, GDC; (ii) to develop a written agreement outlining the services GHI provides GDC and fees paid by GDC for those services; and (iii) to update the GDC Bylaws.

3) Finance Committee:

- The Board should seek to expand the membership of this committee in order to encourage new ideas and gain a wider range of input.
- The Board should request that the committee seek a broad range of funding opportunities (e.g., grants, tax credits) for capital improvements to the GDC-owned apartments.

4) Operating Surpluses:

- The Board should reinstate the practice, discontinued in 2014, of considering, each year, how operating surpluses from the prior year should be allocated. Such allocation should be made in accordance with the GHI Bylaws.

5) Contingency Reserve Funds:

- The Board should consider a policy change so that future contingency reserve funds may only be expended when there are no unallocated operating surpluses available from a prior year. (In 2017-2018, masonry and frame contingency reserve funds were expended to fund asbestos remediation when there were operating surpluses available from prior years.)

6) Board Strategic Planning Session:

- An idea has been proposed that the next strategic planning session should be held as part of a weekend retreat. The Audit Committee recommends that strategic planning

sessions be held in a location readily accessible by the membership, so that members may attend and make comments in accordance with Maryland state law.

2018-2019 Audit Committee Actions:

- Drafted and adopted an Audit Committee ethics policy
- Reviewed legal opinions on several topics
- Reviewed the 1958 agreement between the City, GHI and WSSC, and prepared a memorandum of key questions for consideration at the Board worksession concerning WSSC negotiations
- Reviewed financial statements and investment reports created by staff
- Reviewed the replacement reserves analysis
- Reviewed the 2019 budget and participated in Board discussions prior to adoption
- Conducted a conference call with the external financial auditing firm to discuss information to be covered in the audit. (Note: The audit was not complete when this report was prepared.)
- Made recommendations to the Board of Directors regarding:
 - The remediation and storm water management system of GHI's former landfill site
 - The terms and conditions of the Solar Power Purchase Agreement for the solar array at the Administration complex
 - The selection of an external auditing firm
 - The status of a Director who requested a leave of absence
 - Requesting clarification regarding the number of membership votes required under the Bylaws to sell real property

The Board considered and adopted several of the recommendations.

2018-2019 Audit Committee Activities:

Audit Committee members attended meetings including:

- All regular and executive session meetings of the Boards of Directors of GHI and its subsidiary, Greenbelt Development Corporation (GDC)
- Complaint panel meetings, informal hearings, formal hearings and special membership meeting
- Worksessions of the Board of Directors covering the following topics: WSSC; Jt. Meeting with Audit Committee; Replacement Reserve Study; Zoning Rewrite Neighborhood Conservation Overlay Zone; Communications; and the General Manager's evaluation
- Strategic planning sessions for GHI and GDC
- Board training presented by GHI's attorney
- Financial training led by Finance Department
- Committee training led by staff and Board members
- GHI townhall meetings

- Walk-through of former GHI landfill site behind Administration complex with Board and staff
- GHI Open House (which included overview of GHI Departments and Administration complex by staff)
- Committee meetings, including Architectural Review; Buildings; Communications; Legislative and Government Affairs; Long Range Planning; Member Outreach; Woodlands; Finance; and Investment
- Task Force meetings including: Administration complex security; water and sewer pipe replacement; stormwater management; and zoning rewrite
- City of Greenbelt City Council Work session with GHI; GHI meeting with County Council Chair and At-Large Representatives

The Audit Committee held meetings open to the membership throughout the year and invited two guests to speak to the committee:

- Tom Jones, GHI member and former New Deal Café (NDC) audit committee member, regarding the NDC audit committee tracking system
- Debbie McKinley, GHI member and professional engineer, regarding the remediation plans and stormwater management system of GHI's former landfill site

Expenditures

The Audit Committee did not spend any of its annual budget of \$7,500.

In conclusion, the Audit Committee would like to thank staff for responding promptly to our requests for information. We would also like to thank the Board of Directors and staff for their consideration of our input throughout the 2018-2019 term.

Carol Griffith
Henry Haslinger
Molly Lester, Chair