

**MINUTES OF THE MEETING OF THE AUDIT COMMITTEE**  
**OF**  
**NEW YORK CITY ECONOMIC DEVELOPMENT CORPORATION**  
**September 21, 2016**

A meeting of the Audit Committee (the “Committee”) of New York City Economic Development Corporation (the “Corporation” or “NYCEDC”) was held, pursuant to notice by an Assistant Secretary on Wednesday, September 21, 2016 at the Corporation, 110 William Street, Conference Room 5B, New York, New York 10038.

The following members of the Committee were present in person at the above-indicated meeting of the Committee (the “Meeting”), constituting a quorum:

- William Candelaria (Committee Chair)
- James McSpirtt
- Gail Mellow

In addition, the following members of NYCEDC staff were present:

- Finance: Kim Vaccari – CFO, Spencer Hobson – Treasurer, Fred D’Ascoli – Controller, Raafat Osman – Deputy Controller, and Fanny Fung – Financial Reporting Manager
- Internal Audit (“IA”): David Price

Also present were representatives from Ernst & Young LLP (“E&Y”):

- Louis Roberts – Engagement Partner and Chris Sullivan – Senior Auditor

The Meeting was called to order at 9:00 a.m. by Mr. Candelaria.

## **1. Approval of the Minutes of the May 18, 2016 Audit Committee meeting**

Mr. Candelaria asked if there were any questions or comments relating to the minutes of the May 18, 2016 Committee meeting as submitted. There being no questions or comments, Mr. Candelaria motioned to approve the minutes, Mr. McSpiritt seconded the motion and the minutes were approved.

Mr. Candelaria stated that the next item on the agenda was the presentation of the annual financial statements and annual investment report.

## **2. Finance Group Activity Update**

Mr. Hobson stated that the financial statements have been examined by the team from E&Y and they will conclude their examination shortly and expect to have a clean unmodified opinion on the accuracy of the statements. Mr. Hobson also highlighted for the committee that E&Y considered the internal controls structures over financial reporting and no deficiencies have been noted.

Mr. D'Ascoli thanked Fanny Fung, Financial Reporting Manager, for her work compiling the financial statements. He then introduced the three major financial statements being reported on (Balance Sheet, Income Statement and Cash Flows) also known as the Statement of Net Position, the Statement of Revenues, Expenses and Changes in Net Position and the Statement of Cash Flows respectively.

Regarding the Statement of Net Position, Mr. D'Ascoli noted an asset balance of over \$1 billion with a liability balance approximating \$600 million leaving a net position of \$426 million, which is a high watermark for NYCEDC. Mr. D'Ascoli stated that the assets and liabilities, even though they are substantial are comprised of a number of pass through items. The net position of \$426 million was then broken out into subsections with \$95 million restricted, \$29 million invested in assets and \$300 million unrestricted. However, over \$200 million of the unrestricted balance was already contractually committed.

The Statement of Revenue, Expenses and Changes in Net Position tracks performance over the past 12 months. NYCEDC brought in \$900 million of revenues and incurred \$800 million of expenses, generating a net income of \$100 million. Mr. D'Ascoli stated that of the \$900 million, over \$600 million relates to grants that we receive and is offset with related reimbursable costs. The \$100 million of net income is primarily from the sale of real estate. The increase in expenses was noted to be primarily related to the offsetting increase in reimbursable grant revenues.

As reflected in the Statement of Cash Flows, NYCEDC generated \$68 million in cash from operations. \$101 million was used to purchase investments from cash. \$11 million of cash was used for capital improvements primarily for the purchase of vessels for the

upcoming Citywide Ferry System and to make leasehold improvements at the Brooklyn Army Terminal (“BAT”). As a result, there was a net decrease in cash of \$44 million but it is essentially a movement of cash into investments.

The next section reported on was the Annual Investment Report which is a PAAA requirement. NYCEDC’s investments are conservatively managed based on the investment policies that are adopted by the Board. Mr. D’Ascoli reported that the presentation breaks out the investments into the categories of money market and certificate of deposits (MM/CD) and Government backed securities. The MM/CD category made up 38% of the investments or \$135 million while the Government backed securities were 62% of the investments or \$200 million. The amounts invested in each category are well within the investment guidelines that the Board has adopted.

As touched on in the May 2016 Audit Committee meeting, Mr. Hobson highlighted a new footnote disclosure, giving context to the substantial unrestricted net asset balance. Mr. Hobson highlighted a \$218 million balance in outstanding contractual commitments against NYCEDC’s unrestricted net asset balance. Mr. Hobson also noted that the footnote gives a better context to stakeholders who might assume that the \$300 million in unrestricted net assets is free and clear to be used.

Mr. Candelaria noted that the contractual commitments to third parties do not show as a liability on the financials. Ms. Vaccari further explained that the footnote was intended to show our contractual commitments and noted that it does not make the money necessarily restricted. She further explained that initiatives such as the Early-Stage Life Science Project and the Citywide Ferry System account for a majority of the commitments on unrestricted resources. Overall, Ms. Vaccari said that it would be ideal to maintain a certain fund balance that will allow us to cover operations and make project/program investments.

Turning to another update, Ms. Vaccari pointed out that last year there had been an audit finding regarding the lease portfolio. It was noted that significant progress has been made in this area, and is continuing. Starting with new leadership in the Asset Management division, other measures have included better communication among departments and process improvements including better use of automation. NYCEDC has over 500 leases which are managed in a system called MRI. NYCEDC is looking to make better use of the capabilities of this system.

### **3. Ernst & Young Update**

Mr. Roberts stated that the E&Y team had pretty much concluded its audit except for a few wrap up items. He explained how the audit began with an evaluation of the Corporation’s internal controls and he reiterated that no control deficiencies were observed.

Internal Audit's staff was utilized to assist the E&Y team in its review of retainage payable, leases and loan receivables. IA staff worked side by side with the auditors to successfully conclude the review of those areas. Mr. Roberts noted that the audit process was much smoother this fiscal year which he attributed to the presence and efforts of Mr. D'Ascoli and Mr. Osman in leading the Accounting team.

Mr. Candelaria motioned to accept the Financial Statements and Annual Investment Report for FY2016 for submission to the full Board. The motion was made, seconded and approved.

#### **4. Internal Audit Update**

Mr. Price directed everyone's attention to Tab 5 or Page 65 in the Committee book. The FY2016 Audit Plan consisted of 17 audits, and as of June 30<sup>th</sup> the first 16 projects have been completed and the reports were issued. Project 17, the Prevailing Wage Compliance Review is the only audit outstanding as of the end of the fiscal year. Mr. Price reported that the field-work has been completed for the Prevailing Wage Compliance Review and the report is in draft. Once finalized with management's action plans and target dates, the report will be distributed accordingly (including to this Audit Committee). Mr. Price then discussed the FY2017 Audit Plan noting that there are 19 audits scheduled and that projects number 4 and 5 are to provide E&Y with Internal Audit support for lease and long term retainage. As Mr. Roberts mentioned, E&Y had requested Internal Audit support for leases, loans and an additional retainage project, thus resulting in three E&Y assist audit projects and a total of 20 projects on the plan. Mr. Price reported that all 3 E&Y assist projects (leases, loans and retainage) have been completed with no deficiencies noted. The reports are in draft and once finalized, they would be distributed to Management as well as the Audit Committee. To date, 3 projects have been completed and 4 projects are currently in progress. Those projects are numbers 1, 2 and 3 (the IDA projects) as well as number 15 (West Thames Bridge Review). These projects are expected to be completed and reports issued by the next Audit Committee meeting.

Ms. Vaccari mentioned that for the current year, the Audit Plan is developed directly as a result of the company-wide risk assessment done by KPMG.

Mr. Price then discussed open issues. Since his onboarding in July, 115 issues dating back to 2013 were identified that were never followed up on or tested. The audit team was able to test and close 32 of the open issues. Mr. Price noted that going forward the Audit Group will be following up on open issues quarterly and will be adding new issues to the running list. Ms. Mellow asked how long it will take to move through those 80 issues and if Internal Audit will be able to bring the number down to zero during this fiscal year. Mr. Price said maybe not down to zero but a significant amount will be reduced. Since NYCEDC is adding to the list with every audit, the numbers will fluctuate as a result of the

list being dynamic. Mr. Price is hoping to achieve at least 50% to 75% closure by the end of the fiscal year.

**5. Session with Auditors**

Mr. Candelaria excused NYCEDC management so that the Committee could meet with E&Y in private.

**6. Session with Management**

Ms. Vaccari returned for a final discussion with the Committee.

**7. Other Business**

Ms. Vaccari noted that there are two external audits currently open with the City Comptroller. These open audits concern OMB and the Rockaway Boardwalk project.

**8. Adjournment**

There being no further business to come before the Committee, the meeting was adjourned at 10:14a.m.