

MINUTES OF THE MEETING OF THE AUDIT COMMITTEE
OF
NEW YORK CITY ECONOMIC DEVELOPMENT CORPORATION

September 25, 2017

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 Monday, September 25, 2017 at the Corporation, 110 William Street, Conference Room 5B, New York, New York 10038.

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

- William Candelaria, Committee Chairman (present in person)
- James McSpirtt (present in person)
- Gail Mellow (attended by phone)

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

- Finance: Spencer Hobson – EVP/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”): Lou Roberts – Engagement Partner, Nicole Rapport – Senior Manager

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

1. Approval of the Minutes of the May 10, 2017 Audit Committee meeting

Mr. Candelaria asked if there were any questions or comments relating to the minutes of the May 10, 2017 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.

2. Presentation of Financial Statements

Mr. Hobson stated that the financial statements have been examined by the team from E&Y and it will conclude its examination shortly and expects to have an unmodified opinion on the accuracy of the statements. Mr. Hobson also highlighted for the Audit Committee that E&Y considered the internal controls structures over financial reporting and no deficiencies have been noted.

Mr. D'Ascoli then highlighted three (3) significant areas new to the financials:

- 1) NYCEDC started operations of the NYC Ferry service that required a new expense line on the income statement and a new associated footnote disclosure.
- 2) As approved by the Committee and the Board, NYCEDC instituted an energy price risk management program to hedge fuel costs to operate the ferry service. The fuel hedging positions are reflected on the balance sheet and the program is described in a new footnote disclosure.
- 3) The City Lights captive insurance company was formed in 2016 and started operations in fiscal year 2017. It is wholly owned by NYCEDC and therefore, it is consolidated in the NYCEDC financial statements along with a new footnote disclosure.

He then presented 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.

Mr. D'Ascoli directed everyone's attention to the PowerPoint presentation handout and the Statement of Net Position on page 13 of the Committee book. Mr. D'Ascoli noted that the assets of the Corporation increased by \$46 million, the liabilities increased by \$40 million with a net increase in net position of \$6 million or 1.4% over the previous year. The net position of \$432 million is comprised of \$97 million restricted, \$34 million invested in assets and \$301 million unrestricted. \$186 million of the unrestricted balance is already contractually committed.

On the next page of the PowerPoint presentation handout, and page 14 of the Committee book, Mr. D'Ascoli discussed the Statement of Revenue, Expenses and Changes in Net Position that tracked the financial performance over the course of the year. NYCEDC

generated \$678 million of operating revenues and incurred \$675 million of operating expenses that produced net operating income of \$3 million. In addition, Mr. D'Ascoli stated that there was non-operating net revenue of \$3 million resulting in a positive overall change in net position of \$6 million. Mr. D'Ascoli highlighted certain aspects of the Corporation's financial performance:

- Reimbursable grant revenue decreased by \$115 million primarily due to the winding down of the Rockaway Boardwalk project.
- Contract Payments to the City decreased by \$60 million because of diminishing real estate activity as compared to the prior year.
- To offset the costs to NYCEDC for establishing and operating the ferry system, the City has agreed to forgo certain financial obligations previously required of NYCEDC, particularly from the Maritime Property Portfolio and the 42nd Street Development Project.
- NYC Ferry had a net cost to NYCEDC of \$30 million that included one-time system mobilization costs and initial operating costs.

As reflected in the Statement of Cash Flows, NYCEDC generated \$83 million in cash from operations. The amount of cash used from investments was \$35 million. \$8 million of cash was used for capital activities, primarily for leasehold improvements at the Brooklyn Army Terminal ("BAT") and Bush Terminal. As a result, there was a net change in cash of \$39 million.

The next section reported on was the Annual Investments Report, which is a PAAA requirement. NYCEDC's investments are conservatively managed based on the investment policies that were adopted by the Board. Mr. D'Ascoli reported that the presentation breaks out the investments into the categories of money market funds and commercial paper (MM/CP) and Government backed securities. The MM/CP category made up 45% of the investments or \$178 million while the Government backed securities were 55% of the investments or \$214 million. The amounts invested in each category are well within the maximums of the investment guidelines.

3. Ernst & Young Update

Mr. Roberts stated that E&Y would be issuing an unmodified opinion. It would need the updated legal letter and the Management Representation letter in order to issue its audit opinion.

Mr. Roberts introduced Nicole Rapport, Senior Manager at E&Y, to highlight some of the procedures performed. Ms. Rapport stated that E&Y confirmed cash and investments to ensure proper presentation in the financial statements. For investments, E&Y tested the evaluation of the portfolio. E&Y reviewed accrued liabilities and evaluated the assumptions and various factors that affect the liabilities. As it relates to postemployment benefits other

than pensions, E&Y utilized E&Y actuaries to evaluate the work performed by NYCEDC's actuarial firm. They evaluated assumptions utilized in making the calculation as well as testing the census data and the accuracy of eligible participants in the plan.

Mr. Roberts stated that regarding required communications under Government Auditing Standards, E&Y did not identify any material misstatements, material weaknesses, instances of fraud or non-compliance with laws and regulations.

Mr. Candelaria motioned to accept the Financial Statements and Annual Investment Report for FY2017 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 3 in the Committee book. The FY2017 Audit Plan consisted of sixteen (16) audit projects approved by the Audit Committee last year. These projects have been completed and the reports were issued before the end of FY2017.

The slides presented highlight the summary of findings, Management's action plans and the status of these issues. Based on the initial target dates, many of these issues have not been remediated and are considered overdue. At the May 10, 2017 Audit Committee meeting, the Audit Committee approved an extension of time for the audit of the City Wide Ferry Service.

In the next section, Mr. Price discussed the approved FY2018 Audit Plan. The IA team has completed testing for the first three (3) projects on the plan with no issues noted. These reports are in draft and will be distributed shortly.

Currently, there are six (6) audits in process including an audit of the Citywide Ferry Landings. IA is on schedule and expects to have each of the approved audits completed and delivered before the end of FY2018.

5. Session with Auditors

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

6. Session with Management

Session with Management was not required by the Committee.

7. Adjournment

There being no further business to come before the Committee, the meeting was adjourned at 9:41 a.m.