

New York City Economic Development Corporation
(a component unit of the City of New York)

**Financial Statements,
Required Supplementary Information
and Supplementary Information**

**Years Ended June 30, 2018 and 2017
With Report of Independent Auditors**

NYCEDC

New York City Economic Development Corporation

New York City Economic Development Corporation
(A Component Unit of the City of New York)

Financial Statements, Required Supplementary Information,
and Supplementary Information

Years Ended June 30, 2018 and 2017

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I. Financial Section



Report of Independent Auditors

The Management and the Board of Directors
New York City Economic Development Corporation

Report on the Financial Statements

We have audited the accompanying financial statements of New York City Economic Development Corporation (NYCEDC), a component unit of The City of New York, as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the NYCEDC's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.



We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of NYCEDC as of June 30, 2018 and 2017, and the changes in its financial position and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

Required Supplementary Information

U.S. generally accepted accounting principles require that management's discussion and analysis the schedule of changes in the net OPEB liability and related ratios and the schedule of OPEB contributions, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise NYCEDC's basic financial statements. The combining schedule of revenues, expenses and changes in net position is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The combining schedule of revenues, expenses and changes in net position is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the combining



statement of revenues, expenses, and changes in net position is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we also have issued our report dated September 30, 2018, on our consideration of the NYCEDC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of NYCEDC's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering NYCEDC's internal control over financial reporting and compliance.

Ernst + Young LLP

September 30, 2018

New York City Economic Development Corporation
(A Component Unit of the City of New York)

Management's Discussion and Analysis

June 30, 2018 and 2017

This section of New York City Economic Development Corporation's (NYCEDC or the Corporation) annual financial report presents our discussion and analysis of NYCEDC's financial performance during the fiscal years ended June 30, 2018 and 2017. Please read it in conjunction with the financial statements and accompanying notes.

Fiscal Year 2018 Financial Highlights

Net Position: \$448 million

- Tenant receivables, net increased \$13 million (or 21%)
- Net amount of loans receivable increased \$5 million (or 21%)
- Other receivables increased \$14 million (or 317%)
- Accounts payable and accrued expenses increased \$15 million (or 8%)
- Deposits received on pending sales of real estate decreased \$12 million (or 47%)
- Due to the City increased \$10 million (or 7%)
- Obligation for OPEB decreased \$19 million (or 92%)
- Unearned revenue increased \$16 million (or 10%)

Change in Net Position: \$14 million increase

- Reimbursable grants increased \$38 million (or 8%)
- Property rentals increased \$35 million (or 20%)
- Other income increased \$10 million (or 33%)
- Program and project costs increased \$29 million (or 6%)
- Property rental expenses increased \$31 million (or 54%)
- Ferry related expenses, net increased \$14 million (or 46%)

New York City Economic Development Corporation
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Management's Discussion and Analysis (continued)

Overview of the Basic Financial Statements

This annual financial report consists of four parts: *management's discussion and analysis* (this section), *basic financial statements and footnote disclosures*, *required supplementary information* and *supplementary information*. NYCEDC is organized under the not-for-profit corporation law of the State of New York. NYCEDC is also a discretely presented component unit of the City of New York (the City). NYCEDC follows enterprise fund reporting; accordingly, the financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Enterprise fund statements offer short-term and long-term financial information about the activities and operations of the Corporation.

While detailed sub-fund information is not presented, separate accounts are maintained for each fund to control and manage transactions for specific purposes and to demonstrate that NYCEDC is properly performing its contractual obligations.

New York City Economic Development Corporation
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Management's Discussion and Analysis (continued)

Financial Analysis of the Corporation

Condensed Statements of Net Position

The Corporation adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. As a result the Corporation's Net Position as of July 1, 2016 and the Statement of Revenues, and Expenses and Changes in Net Position for June 30, 2017 have been restated to reflect the required adjustments. For more details see footnote No. 2.

The following table summarizes NYCEDC's financial position at June 30, 2018, 2017, and 2016 (dollars in thousands) and the percentage changes between June 30, 2018 and 2017:

	2018	2017 (Restated)	2016	% Change 2018–2017
Current assets	\$ 686,251	\$ 599,028	\$ 553,581	15%
Non-current assets	414,384	474,433	473,565	(13)%
Total assets	1,100,635	1,073,461	1,027,146	3%
Deferred outflows of resources	–	167	–	(100)%
Current liabilities	261,803	248,257	256,424	5%
Non-current liabilities	389,057	391,522	344,483	(1)%
Total liabilities	650,860	639,779	600,907	2%
Deferred inflows of resources	1,526	–	–	100%
Net position:				
Restricted	102,543	107,507	95,144	(5)%
Unrestricted	307,576	292,020	302,445	5%
Net investment in capital assets	38,130	34,322	28,650	11%
Total net position	\$ 448,249	\$ 433,849	\$ 426,239	3%

New York City Economic Development Corporation
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Management's Discussion and Analysis (continued)

Financial Analysis of the Corporation (continued)

During fiscal year 2018 total assets increased \$27 million or 3%, primarily due to increases in certain amounts receivable. \$13 million in tenant receivables was recognized from cruise operations at the Manhattan Cruise Terminal.

Other receivables increased \$14 million, mainly due to the initiation of a \$7 million loan program to support certified minority and women owned business enterprises and undercapitalized small businesses. In addition, NYCEDC realized \$4.5 million in shared commissions from the brokerage firm that coordinated a new lease agreement for NYCEDC's office space (see Note 20).

Total liabilities increased \$11 million or 2%. Unearned revenues increased \$16 million and included a real estate transaction in which the purchaser agreed to pre-pay \$7 million for future maintenance expenses of 420 Albee Square, in Brooklyn. Amounts due to the City increased \$10 million mainly due to an increase in city funding provided for the above-noted loan program and accounts payable and accrued expenses increased \$15 million. These increases were partially offset by a \$19 million decrease in obligation for OPEB associated with the newly adopted GASB 75 and a \$12 million reduction in deposits received on real estate sales which had been pending.

The Corporation's overall net position during fiscal year 2018 increased \$14.4 million or 3% over the restated net position for fiscal year 2017. This increase consisted of a \$19.4 million increase in unrestricted net position and net investment in capital assets, and was partially offset by a \$5 million decrease in restricted net position.

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Management's Discussion and Analysis (continued)

Financial Analysis of the Corporation (continued)

Prior Year

During fiscal year 2017, total assets increased \$46 million or 5%, primarily due to a \$57 million increase in cash, cash equivalents, and investments. Land held for development increased by \$19 million due to property acquisitions at Home Street in the Bronx and West 21st Street in Coney Island. These increases were offset by a \$35 million reduction in the net amount due from the City, primarily due to decreased grant receivables for Community Development Block Grant (CDBG) and Federal Emergency Management Agency (FEMA). Other receivables decreased \$14 million, mainly due to \$11 million in proceeds received from a property sale in East Harlem.

Total liabilities increased \$39 million or 6%. Tenant security and deposits payable increased \$15 million, primarily due to pre-development escrow deposits including \$8 million for certain Long Island City waterfront properties, \$3 million for the former PC Richard site at Union Square, and \$2 million for the 'Slaughterhouse' site adjacent to the Javits Center. Unearned revenues increased \$14 million, mainly due to the prepayment of \$16 million for development of the final phase of the High Line project.

The Corporation's overall net position during fiscal year 2017 increased \$7.6 million or 2% as a result of the fiscal year operating activities. This increase consisted of a \$12 million increase in restricted net position, and a \$5 million decrease in net investments in capital assets and unrestricted net position.

New York City Economic Development Corporation
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Management's Discussion and Analysis (continued)

Financial Analysis of the Corporation (continued)

Operating Activities

NYCEDC is the City's primary engine for economic development and is charged with leveraging the City's assets to drive growth, create jobs, and improve the overall quality of life within the City. Through its various divisions, NYCEDC provides a variety of services to eligible businesses that want to become more competitive, more productive and more profitable. In order to provide these services, NYCEDC primarily generates revenues from property rentals and real estate sales.

The following table summarizes NYCEDC's change in net position for the fiscal years ended June 30, 2018, 2017, and 2016 (dollars in thousands) and the percentage changes between fiscal years 2018 and 2017:

	2018	2017 (Restated)	2016	% Change 2018-2017
Operating revenues:				
Grants	\$ 488,174	\$ 450,527	\$ 565,900	8%
Real estate sales, property rentals	223,080	186,329	288,157	20%
Fees and other income	49,867	41,601	54,717	20%
Total operating revenues	<u>761,121</u>	<u>678,457</u>	<u>908,774</u>	12%
Operating expenses:				
Project and program costs	490,021	461,096	567,943	6%
Property rental expenses	87,566	56,749	64,805	54%
Ferry related expenses, net	43,932	30,009	-	46%
Personnel services	64,242	59,039	53,800	9%
Contract expenses to the City	30,105	42,490	102,759	(29)%
Office rent and other expenses	35,257	22,875	20,801	54%
Total operating expenses	<u>751,122</u>	<u>672,258</u>	<u>810,108</u>	12%
Operating income	<u>9,999</u>	<u>6,199</u>	<u>98,666</u>	61%
Total non-operating income (expenses)	<u>4,401</u>	<u>2,627</u>	<u>1,823</u>	68%
Change in net position	<u>14,400</u>	<u>8,826</u>	<u>100,489</u>	63%
Total net position, beginning of year	<u>433,849</u>	<u>425,023</u>	<u>325,750</u>	2%
Total net position, end of year	<u>\$ 448,249</u>	<u>\$ 433,849</u>	<u>\$ 426,239</u>	3%

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Management's Discussion and Analysis (continued)

Financial Analysis of the Corporation (continued)

During fiscal year 2018, operating revenues increased \$82.6 million or 12%, primarily due to a \$38 million increase in reimbursable grants, a \$35 million increase in property rental revenue and a \$10 million increase in other income. The increase in reimbursable grants is primarily the result of increased activities at the Coney Island West project and for the NYC Ferry program, as well as priority flood mitigation projects on behalf of the City's H+H Corporation (previously Health and Hospitals Corp). Property rental revenue increased by \$35 million due to passenger volume revenue recognized from Carnival Cruise Corporation's operations at the Manhattan Cruise Terminal, and from a tenant's refinancing of the facilities at the Brooklyn Renaissance Plaza. Other income increased \$10 million, mainly due to the transfer of development rights at 420 Albee Square in Brooklyn.

Operating expenses during fiscal year 2018 increased \$78.9 million. Program and project costs increased by \$29 million primarily due to the grant funded projects noted above. Property rental and related operating expenses increased by \$31 million which included \$4.6 million for a restructured long term agreement with the Hunts Point Meat Market, \$4.2 million in pass-through rental revenues for NYC Parks Department, and \$16.7 million in general operating increases for various repairs, maintenance and professional service expenses for the property portfolios. Ferry related expenses increased \$14 million due to several factors including sustaining the first full year of ferry services, the launch of the Astoria route and preparation for the Soundview and Lower East Side routes, and the overall increase in services to meet unexpected demand.

Accordingly, operating income increased by \$3.8 million from fiscal year 2017 with the Corporation recognizing total operating income of \$10.0 million during fiscal year 2018.

Non-operating Activities

Total non-operating revenues for fiscal years 2018 and 2017 were \$4.4 million and \$2.6 million, respectively. The fiscal year 2018 total was all due to investment income which was a \$2.9 million increase from fiscal year 2017.

Net position

The Corporation recognized an increase in net position of \$14.4 million during fiscal year 2018. This constitutes an increase of \$5.6 million or 3% as compared with fiscal year 2017.

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Management's Discussion and Analysis (continued)

Financial Analysis of the Corporation (continued)

Prior Year

During fiscal year 2017, operating revenues decreased \$230 million or 25%, primarily due to a \$115 million decrease in reimbursable grants from the winding down of the Rockaway Boardwalk project. In addition, real estate sales and property rentals decreased by \$90 million and \$12 million, respectively.

Operating expenses during fiscal year 2017 decreased \$135 million. Project and program costs decreased by \$107 million due to the winding down of the Rockaway Boardwalk project. Contract expenses to the City decreased \$60 million mainly due to lower proceeds from real estate transactions. These decreases were partially offset by \$30 million in expenses incurred for initiation of the NYC Ferry service.

Accordingly, the Corporation recognized operating income of \$6.2 million during fiscal year 2017.

Non-operating Activities

Total non-operating revenues for fiscal years 2017 and 2016 were \$2.6 million and \$1.8 million, respectively. In fiscal year 2017, interest income from investments generated \$1.5 million.

Net position

The Corporation recognized an increase in net position of \$8.8 million during fiscal year 2017. This constitutes a decrease of \$92 million as compared with fiscal year 2016.

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Management's Discussion and Analysis (continued)

Financial Analysis of the Corporation (continued)

Capital Assets

The following table summarizes NYCEDC's capital assets for the fiscal years ended June 30, 2018, 2017 and 2016 (dollars in thousands) and the percentage change between June 30, 2018 and 2017:

	2018	2017	2016	% Change 2018–2017
Leasehold improvements	\$ 26,539	\$ 16,906	\$ 15,773	57%
Equipment and computer software	16,750	16,235	7,159	(3)%
Work-in progress	9,821	12,701	14,581	(23)%
	<u>53,110</u>	45,842	37,513	16%
Less accumulated depreciation and amortization	<u>(14,980)</u>	(11,520)	(8,863)	30%
Net capital assets	<u>\$ 38,130</u>	\$ 34,322	\$ 28,650	11%

Additional information about NYCEDC's capital assets is presented in Note 9 to the financial statements.

Contacting NYCEDC's Financial Management

This financial report is designed to provide our customers, clients and the public with a general overview of NYCEDC's finances and to demonstrate NYCEDC's accountability for the resources at its disposal. If you have any questions about this report or need additional financial information, contact the Chief Financial Officer of New York City Economic Development Corporation, 110 William Street, New York, NY 10038, or visit NYCEDC's website at:
<https://www.nycedc.com/about-nycedc/contact-us>.

New York City Economic Development Corporation
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Statements of Net Position (in thousands)

	June 30	
	2018	2017 (Restated)
Assets		
Current assets:		
Cash and cash equivalents – current	\$ 92,080	\$ 83,968
Restricted cash and cash equivalents – current	124,844	117,140
Unrestricted investments	111,515	86,132
Restricted investments	41,482	23,405
Current portion of loans and mortgage notes receivable	5,518	2,326
Accrued interest receivable from loans	186	234
Due from the City, including \$163,411 and \$147,423, respectively, under contracts with the City	215,672	217,650
Tenant receivables, net of allowance for uncollectible amounts of \$28,817 and \$21,317, respectively	73,241	59,621
Prepaid expenses	3,037	3,405
Other receivables	18,106	4,339
Land deposits in escrow	570	808
Total current assets	686,251	599,028
Non-current assets:		
Restricted cash and cash equivalents	154,844	158,318
Unrestricted investments	54,721	95,744
Restricted investments	9,544	30,941
Loans and mortgage notes receivable, less current portion (less allowance for loan losses of \$866 and \$792, respectively)	21,623	20,110
Tenant receivables non-current	–	736
Capital assets, net	38,130	34,322
Land held for development, at cost	132,387	132,387
Other assets	3,135	1,875
Total non-current assets	414,384	474,433
Total assets	1,100,635	1,073,461
Deferred outflows of resources		
Derivative instrument – fuel futures	–	167
Liabilities		
Current liabilities:		
Accounts payable and accrued expenses, including \$105,744 and \$87,692, respectively, under contracts with the City	191,314	176,809
Deposits received on pending sales of real estate	13,116	24,763
Due to the City: real estate obligations and other	18,968	8,592
Unearned revenue	34,885	36,053
Other liabilities	3,520	2,040
Total current liabilities	261,803	248,257
Non-current liabilities:		
Tenant security and escrow deposits payable	71,426	64,039
Net OPEB liability	1,563	20,811
Due to the City: real estate obligations	130,154	130,554
Unearned revenue, including unearned grant revenue of \$28,154 and \$25,001, respectively, under contracts with the City	136,582	119,789
Retainage payable	47,158	54,572
Other liabilities	2,174	1,757
Total non-current liabilities	389,057	391,522
Total liabilities	650,860	639,779
Deferred inflows of resources		
Deferred inflows of resources related to OPEB	250	–
Deferred inflows of resources related to fuel futures	1,276	–
Total deferred inflows of resources	1,526	–
Net position:		
Restricted by law or under various agreements	102,543	107,507
Unrestricted	307,576	292,020
Net investment in capital assets	38,130	34,322
Total net position	\$ 448,249	\$ 433,849

See accompanying notes.

New York City Economic Development Corporation
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Statements of Revenues, Expenses, and Changes in Net Position (in thousands)

	Year Ended June 30	
	2018	2017 (Restated)
Operating revenues:		
Grants	\$ 488,174	\$ 450,527
Property rentals	214,523	179,146
Fee income	9,835	11,494
Other income	40,032	30,107
Real estate sales, net	8,557	7,183
Total operating revenues	761,121	678,457
Operating expenses:		
Project costs	98,086	112,269
Program costs	391,935	348,827
Property rentals and related operating expenses	87,566	56,749
Ferry related expenses, net	43,932	30,009
Personnel services	64,242	59,039
Office rent	12,999	8,717
Contract and other expenses to the City	30,105	42,490
Other general expenses	22,257	14,158
Total operating expenses	751,122	672,258
Operating income	9,999	6,199
Non-operating revenues (expenses):		
Income from investments	4,446	1,536
Reimbursable grants – Superstorm Sandy	51	3,891
Repairs and other expenses – Superstorm Sandy, net of insurance proceeds	(96)	(2,761)
Other non-operating (expense)/income	–	(39)
Total non-operating revenues, net	4,401	2,627
Change in net position	14,400	8,826
Net position, beginning of year, restated	433,849	425,023
Net position, end of year	\$ 448,249	\$ 433,849

See accompanying notes.

New York City Economic Development Corporation
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Statements of Cash Flow (in thousands)

	Year Ended June 30	
	2018	2017 (Restated)
Cash flows from Operating activities		
Real estate sales	\$ 9,556	\$ 3,883
Property rentals	192,235	172,306
Grants from the City	502,743	510,218
Fee income	10,833	11,494
Other income	33,455	45,047
Project costs	(124,690)	(104,878)
Program costs	(373,968)	(357,212)
Property rentals and related operating expenses	(76,379)	(53,038)
Ferry expenses	(43,747)	(27,151)
Personnel services	(62,995)	(59,549)
Contribution to OPEB trust	(20,000)	–
Office rent	(9,234)	(8,717)
Contract and other expenses to the City	(26,728)	(42,490)
Other general and administrative expenses	(12,720)	(14,525)
Repayments of loans and mortgage receivable	(4,704)	(5,673)
Tenant security and escrow deposits	7,387	15,225
Reimbursable grants – Superstorm Sandy	51	3,891
Expenses paid for Superstorm Sandy	(96)	(2,761)
Other	(5,431)	(3,338)
Net cash (used in) provided by operating activities	(4,432)	82,732
Cash flows from Capital and related financing activities		
Purchase of capital assets	(6,869)	(7,891)
Non-operating revenues	–	(39)
Net cash used in capital and related financing activities	(6,869)	(7,930)
Cash flows from Investing activities		
Sale of investments	156,523	139,297
Purchase of investments	(137,563)	(156,798)
Deposits on land	238	(19,475)
Interest income	4,445	1,536
Net cash provided by (used in) investing activities	23,643	(35,440)
Net increase in cash and cash equivalents	12,342	39,362
Cash and cash equivalents, beginning of year	359,426	320,064
Cash and cash equivalents, end of year	\$ 371,768	\$ 359,426

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Notes to Financial Statements (continued)

	Year Ended June 30	
	2018	2017 (Restated)
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 9,999	\$ 6,199
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Depreciation and amortization	3,060	2,219
Net cash provided by non-operating activities	(45)	1,130
Changes in assets, liabilities and deferred inflows of resources	-	
Changes in operating assets and liabilities:		
Accrued interest receivable	49	(43)
Due to/from the City	11,955	47,186
Other non-current assets	(1,260)	(988)
Tenant receivables	(12,884)	(6,098)
Prepaid expenses and other receivables	(13,400)	13,213
Loans and mortgage notes receivable	(4,704)	(5,673)
Tenant security and escrow deposits payable	7,387	15,225
Accounts payable and accrued expenses	14,505	993
Deposits received on pending sales of real estate	(11,647)	(7,904)
Net OPEB liability	(19,248)	(1,124)
Unearned grant revenue	15,625	13,940
Deferred inflows of resources	1,526	-
Retainage payable	(7,414)	4,006
Other current liabilities	1,646	(465)
Other non-current liabilities	418	916
Net cash (used in) provided by operating activities	\$ (4,432)	\$ 82,732
Supplemental disclosures of non-cash activities		
Unrealized gain (loss) on investments	\$ 218	\$ (1,504)

See accompanying notes.

New York City Economic Development Corporation
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Notes to Financial Statements

June 30, 2018

1. Background and Organization

The accompanying financial statements include the assets, liabilities, net position and the financial activities of the New York City Economic Development Corporation (NYCEDC or the Corporation).

NYCEDC is a not-for-profit corporation organized under the New York State Not-for-Profit Corporation Law (the NPCL) that generates income that is exempt from federal taxation under section 115 of the Internal Revenue Code (IRC). NYCEDC's primary activities consist of rendering a variety of services to administer certain economic development programs on behalf of the City of New York (the City) relating to the attraction, retention and expansion of commerce and industry in the City. These services and programs include encouragement of construction, acquisition, rehabilitation and improvement of commercial and industrial enterprises within the City, and the provision of financial assistance to qualifying business enterprises as a means of helping to create and retain employment therein. These services are generally provided under two annual contracts with the City: the amended and restated contract (Master Contract) and the Maritime Contract. The services provided under these contracts and other related agreements with the City are herein referred to as the Contract Services.

In order to provide these services, NYCEDC primarily generates revenues from property rentals and real estate sales. To present the financial position and the changes in financial position of NYCEDC's rental portfolio in a manner consistent with the limitations and restrictions placed upon the use of resources and NYCEDC's contractual agreements with the City and other third parties, NYCEDC classifies its asset management operations into the following five portfolios:

Commercial Leases Portfolio: NYCEDC manages property leases between the City and various commercial and industrial tenants. For ground leases, these agreements include restrictions on the use of the land to the construction or development of commercial, manufacturing, industrial or residential facilities. The leases also generally provide for minimum rentals plus provisions for additional rent.

Brooklyn Army Terminal Portfolio: The Brooklyn Army Terminal (BAT) is an industrial property owned by the City that is leased to NYCEDC. Under the terms of the BAT lease, a reserve account of \$500,000 was established from net BAT revenues for property operating and capital expenses.

New York City Economic Development Corporation
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Notes to Financial Statements (continued)

1. Background and Organization (continued)

Maritime Portfolio: This portfolio was established to account for NYCEDC's management and maintenance of wharf, waterfront, public market, public aviation, and intermodal transportation properties and the NYC Ferry system on the City's behalf pursuant to the Maritime Contract.

Other Properties Portfolio: This portfolio was established to account for the activities of certain City-owned properties and other assets for which NYCEDC assumed management responsibilities. Pursuant to various agreements between NYCEDC and the City, the net revenue from three of the properties is retained for property operating and capital expenses or for expenses of projects in the area. The retained amounts as of June 30, 2018 and 2017 were \$3.3 million and \$5.5 million, respectively.

42nd Street Development Project Portfolio: This portfolio was established as a joint effort between the City and the State to redevelop the 42nd Street district into a vibrant office and cultural center. Ownership for all the properties was transferred from the State to the City by October 31, 2012. NYCEDC has assumed management and administrative responsibilities for all leases in connection with the 42nd Street Development Project (Note 14).

2. Summary of Significant Accounting Policies

Basis of Accounting and Presentation

NYCEDC follows enterprise fund reporting; accordingly, the accompanying financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. In its accounting and financial reporting, the Corporation follows the pronouncements of the Governmental Accounting Standards Board (GASB).

Impact of New Accounting Standards Adopted

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, was issued in June 2015. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities.

New York City Economic Development Corporation
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Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

This Statement replaces the requirements of both Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers.

This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB. This Statement also addresses certain circumstances in which a non-employer entity provides financial support for OPEB of employees of another entity. In this Statement, distinctions are made regarding the particular requirements depending upon whether the OPEB plans through which the benefits are provided are administered through trusts that meet the following criteria:

- Contributions from employers and non-employer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.
- OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.
- OPEB plan assets are legally protected from the creditors of employers, non-employer contributing entities, the OPEB plan administrator, and the plan members.

As a result of adopting this pronouncement, the Corporation's Net Position as of July 1, 2016, Statement of Net Position as of June 30, 2017 and the Statement of Revenues, and Expenses and Changes in Net Position for the year ended June 30, 2017 have been restated to reflect the required adjustments.

New York City Economic Development Corporation
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Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

	<u>As previously reported</u>	<u>Adjustment</u>	<u>As restated</u>
As of July 1, 2016:			
Net position	\$ 426,239	\$ (1,216)	\$ 425,023
As of June 30, 2017:			
Net OPEB liability	22,291	(1,480)	20,811
Net position	432,369	1,480	433,849
For the year ended June 30, 2017:			
Personnel services	61,735	(2,696)	59,039
Total operating expenses	674,954	(2,696)	672,258
Operating income	3,503	2,696	6,199
Change in net position	6,130	2,696	8,826

Recently issued GASB Pronouncements

In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. Provisions of this statement are effective for fiscal years beginning after December 15, 2019. The Corporation is evaluating the impact this standard will have on its financial statements.

In April 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. The primary objective of this statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The provisions of this statement are effective for fiscal years beginning after June 15, 2018. The Corporation does not anticipate any related impact on its financial statements.

New York City Economic Development Corporation
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Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. The objectives of this statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. Provisions of this statement are effective for fiscal years beginning after December 15, 2019. The Corporation does not anticipate any related impact on its financial statements.

In August 2018, GASB issued Statement No. 90, *Majority Equity Interests*. The primary objectives of this statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. Provisions of this statement are effective for fiscal years beginning after December 15, 2018. The Corporation is evaluating the impact this standard will have on its financial statements.

Revenue and Expense Classification

NYCEDC distinguishes operating revenues and expenses from non-operating items in the preparation of its financial statements. Operating revenues and expenses generally result from providing the Contract Services to the City in connection with NYCEDC's principal on-going operations. The principal operating revenues are grants from and through the City, rentals of City-owned property, and sales of property (see Real Estate Sales under this Note). NYCEDC's operating expenses include project and program costs, property maintenance charges, and general administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is NYCEDC's policy to use restricted resources first, and then unrestricted resources as needed.

New York City Economic Development Corporation
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Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Grants

NYCEDC administers certain reimbursement and other grant funds from and through the City under its contracts with the City.

A reimbursement grant is a grant awarded for a specifically defined project and is generally administered such that NYCEDC is reimbursed for any qualified expenditures associated with such projects.

NYCEDC records reimbursement grants from the City as revenue when the related program costs are incurred. Differences between the program costs incurred on specific projects and the related receipts are reflected as due from the City or as a part of unearned revenue in the accompanying statements of net position.

Other grants are recorded as revenue when earned.

Property Rental Revenue

Property rental revenue is recognized on a straight-line basis over the term of the leases.

Real Estate Sales

Proceeds from sales of City-owned properties, other than proceeds in the form of a promissory note from the purchaser in favor of NYCEDC, are recognized as income at the time of closing of the sale. For property sales in which NYCEDC accepts a long-term promissory note from a purchaser in lieu of cash, in addition to the note receivable, the corresponding unearned revenue is recorded at the time of closing. Due to collectability risks associated with these promissory notes, such unearned revenue is amortized into income ratably as payments are made.

Deposits received from prospective purchasers prior to closing are included in the accompanying statements of net position as deposits received on pending sales of real estate.

Retainage Payable

Retainage payable is treated as non-current due to the long-term nature of the related contracts.

New York City Economic Development Corporation
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Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Loans and Mortgage Notes Receivable

Loans to finance the acquisition of land and buildings are generally repayable over a 15 to 25 year period. Generally, all such loans for acquisition are secured by second mortgages or other security interests and carry below market interest rates. NYCEDC has also provided loans to City businesses to advance certain economic development objectives.

NYCEDC provides an allowance for loan losses based on an analysis of a number of factors, including the value of the related collateral. Based on established procedures, NYCEDC writes off the balances of those loans determined by management to be uncollectible.

Cash and Cash Equivalents

Cash and cash equivalents include cash in banks and on hand, money market funds, money market deposit accounts, applicable certificates of deposit and highly liquid debt instruments with original maturities of three months or less. Cash equivalents are stated at fair value, other than certificates of deposit, which are valued at cost.

Investments

Investments held by NYCEDC are recorded at fair value.

Restricted Cash and Investments

Restricted cash and investments include amounts related to operations or programs administered on behalf of the City and, accordingly, such amounts are not available for use by NYCEDC for general corporate purposes.

Capital Assets

Capital asset purchases for internal use by NYCEDC in excess of \$10,000 and consisting primarily of leasehold improvements and equipment are capitalized. Leasehold improvements are depreciated using the straight-line method over the shorter of the life of the lease or the estimated useful life assigned. The Corporation also uses the straight-line method for depreciating or amortizing furniture and equipment over the estimated useful life assigned. The useful life of furniture and equipment varies from three to five years. Leasehold improvements have useful lives from 7 to 20 years. Vessels are depreciated over a useful life of 25 years.

New York City Economic Development Corporation
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Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Disbursements made by NYCEDC on behalf of the City for, among other things, capital projects, tenant build-outs, and leasing commissions in connection with rental operations are reflected as expenses in the year they are incurred.

Tax Status

The currently reported income of NYCEDC qualifies for exclusion from gross income for federal income tax purposes under IRC Section 115.

Reclassifications

Certain reclassifications have been adjusted in the prior year financial statements to conform to the current year's presentation.

3. Contracts With the City of New York

NYCEDC Master Contract

The City and NYCEDC have entered into the Master Contract under which NYCEDC has been retained to perform various services primarily related to the retention and expansion of industrial and commercial development within the City, including among other activities (1) facilitating commercial and industrial development projects, (2) stabilizing and improving industrial areas (3) administering public loan, grant, and subsidy programs, (4) encouraging development of intrastate, interstate and international commerce, and (5) managing and maintaining certain City-owned properties.

In partial consideration of the services rendered by NYCEDC pursuant to the Master Contract, NYCEDC may retain (1) net revenues resulting from the sale or lease of City-owned properties, and (2) certain interest and other related income received by NYCEDC for financing programs administered on behalf of the City, up to a cap. Income self-generated by NYCEDC, including interest earned on all cash accounts related to unrestricted operations and certain fees earned for services rendered that are not payable by the City, may be retained by NYCEDC under the Master Contract without regard to the contract cap.

New York City Economic Development Corporation
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Notes to Financial Statements (continued)

3. Contracts With the City of New York (continued)

Pursuant to section 11.05 of the Master Contract, at any time upon written request of the Mayor of the City or his designee, NYCEDC must remit to the City assets having a fair market value up to the amount, if any, by which NYCEDC's unrestricted net position exceeds \$7 million. At the direction of the City, NYCEDC remitted \$8.9 million and \$6.6 million from its unrestricted net position in fiscal years 2018 and 2017, respectively, which are accounted for under contract and other expenses to the City in the statements of revenues, expenses and changes in net position.

The term of the Master Contract is one year commencing on July 1 and may be extended by the City for up to one year. The City may terminate this contract at its sole discretion upon 90 days written notice. Upon termination of this contract, NYCEDC must remit to the City all program funds or other assets subject to certain prescribed limitations.

Maritime Contract

The City and NYCEDC have entered into the Maritime Contract under which NYCEDC has been retained to perform various services primarily related to the retention and expansion of waterfront, intermodal transportation, market, freight and aviation development and commerce.

The services provided under this contract include (1) retaining maritime business and attracting maritime business to the City, (2) managing, developing, maintaining, and promoting the City's waterfront, markets, aviation, freight and intermodal transportation, including the NYC Ferry system, and (3) administering leases, permits, licenses, and other occupancy agreements pertaining to such related properties.

In the performance of its services under the Maritime Contract, NYCEDC collects monies, including but not limited to, rents and other revenues from tenants of certain City-owned properties managed by NYCEDC in connection with its maritime program. In consideration of the services rendered by NYCEDC pursuant to the Maritime Contract, the City has agreed to pay NYCEDC for all costs incurred in the furtherance of the City's objectives under this contract, to the extent such costs have been provided for in the City-approved budget (the Budget) as called for by the

New York City Economic Development Corporation
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Notes to Financial Statements (continued)

3. Contracts With the City of New York (continued)

Maritime Contract. Any Reimbursable Expenses, as defined in the Maritime Contract, may be retained by NYCEDC out of the net revenues generated on the City's behalf, to the extent such expenses are not provided for in the Budget (the Reimbursed Amount). Net revenues generated on the City's behalf for services under the Maritime Contract in excess of the Reimbursed Amount must be remitted to the City on a periodic basis. Historically, at the direction of the City, NYCEDC was required to remit \$16.7 million for each fiscal year pursuant to the Maritime Contract, and such amounts were included in contract and other expenses to the City. Beginning in fiscal year 2017, to partially offset the cost of establishing and operating the NYC Ferry service (Note 12), this amount was not required to be remitted to the City.

Pursuant to section 9.06 of the Maritime Contract, at any time upon written request of the Mayor of the City or his designee, NYCEDC must remit to the City assets having a fair market value up to the amount, if any, by which NYCEDC's maritime net position exceeds \$7 million.

The term of the Maritime Contract is one year commencing on July 1, and may be extended by the City for up to one year. The City may terminate this contract at its sole discretion upon 90 days written notice. Upon termination of this contract, NYCEDC must remit to the City all program funds or other assets subject to certain prescribed limits.

Other Agreements

In addition, NYCEDC remits to the City certain rental amounts collected from the 42nd Street Development Project. The amounts remitted from this source for fiscal year 2018 and 2017 were \$21 million, each (Note 14).

4. Grants

NYCEDC receives grants for specifically defined projects. For the year ended June 30, 2018, grant revenue was \$488 million, of which \$449 million comprised reimbursement grants from and through the City, and the remaining \$39 million was provided by other sources. For the year ended June 30, 2017, grant revenue was \$454 million, of which \$423 million comprised reimbursement grants from and through the City.

New York City Economic Development Corporation
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Notes to Financial Statements (continued)

5. Land Held for Development and Real Estate Obligations due to the City

NYCEDC may purchase land to help achieve the City's and NYCEDC's redevelopment goals. In both fiscal years 2018 and 2017, the land held for development totaled \$132 million. Several acquisitions were obtained using capital funds from the City and these amounts are reflected as real estate obligations due to the City on the statement of net position. As of June 30, 2018 and 2017, real estate obligations due to the City were \$125 million.

The following table summarizes land held for development and real estate obligations due to the City for the fiscal years ended June 30, 2018 and 2017 (dollars in thousands):

	2018	2017
225 125th Street, B1790, L12	\$ 1,972	\$ 1,972
2309-2313 3rd Avenue, B1790, L3,49	858	858
236 East 126th Street, B1790 L31	183	183
246 East 127th Street, B1791, L 25	4,300	4,300
Springfield Gardens, Queens, B13432, L57	54	54
Sub-total of land held for development	7,367	7,367
Boardwalk, Coney Island	105,345	105,345
1047 Home Street, Bronx, B3006, L21	800	800
1051 Home Street, Bronx, B3006, L19	1,200	1,200
1057 Home Street, Bronx, B3006, L17	500	500
1174 Longfellow Avenue, Bronx, B2758, L14	4,000	4,000
3050 W. 21st Street, Brooklyn, B7071, L123	13,175	13,175
Sub-total of land held and RE Obligation to the City	125,020	125,020
Total land held for development	\$132,387	\$132,387

New York City Economic Development Corporation
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Notes to Financial Statements (continued)

6. Other Income

The following table summarizes other income for the fiscal years ended June 30, 2018 and 2017 (dollars in thousands):

	2018		2017
Tenant reimbursements	\$ 7,908	\$	7,620
Developer contributions	3,115		3,330
Interest income from loans	662		732
Loan/bad debt recovery income	1,645		1,145
Miscellaneous income – 420 Albee Square	11,294		–
Miscellaneous income – The Civic Contribution Agreement	–		9,074
Miscellaneous income	15,408		8,206
Total	\$ 40,032	\$	30,107

7. Loans and Mortgage Notes Receivable

NYCEDC has received installment notes from purchasers of certain real property sold by NYCEDC following NYCEDC's purchase of such property from the City. The installment notes are secured by separate purchase money mortgages on the properties sold. At June 30, 2018 and 2017, these mortgage notes totaled \$8.2 million and \$8.4 million, respectively, exclusive of any interest receivable.

NYCEDC has also provided loans to City businesses to advance certain economic development objectives consistent with their corporate mission and contractual obligations with the City. These loans were made to borrowers whose business operations are likely to generate employment, increase tax revenue, improve the physical environment of areas, stabilize neighborhoods, or provide other benefits to the City. Collectively, the installment notes and loans form the Finance Programs.

At June 30, 2018, the loan and mortgage notes portfolio consisted of 13 loans that bear interest at rates ranging from 0% to 9.50% and mature at various dates through October 1, 2046.

New York City Economic Development Corporation
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Notes to Financial Statements (continued)

7. Loans and Mortgage Notes Receivable (continued)

Scheduled maturities of principal for these loans for the next five years and thereafter are as follows (dollars in thousands):

Fiscal Year:	Principal Maturity	Interest
2019	\$ 5,518	\$ 821
2020	1,990	585
2021	1,805	509
2022	4,467	399
2023	869	266
2024–2028	2,279	1,315
2029–2033	2,138	961
2034–2038	5,774	686
2039–2043	1,805	345
2044–2047	1,362	71
	28,007	\$ 5,958
Allowance for uncollectible amounts	(866)	
Loans and mortgage notes receivable, net	\$ 27,141	

The nine largest loans comprise 99% of the entire portfolio. At June 30, 2018, the outstanding loans were extended to the following industries: real estate development 55%, life science 16% and other services 29%.

8. Due to/From the City of New York

NYCEDC is required to remit certain amounts to the City under the Master Contract (Note 3). The unremitted portion of such amounts at June 30, 2018 and 2017 amounted to \$19 million and \$8.6 million, respectively.

Pursuant to the Master Contract with the City, NYCEDC recorded total grants from and through the City in the amount of \$449 million and \$423 million during fiscal years 2018 and 2017, respectively, of which \$163 million and \$147 million in capital funds were unpaid by the City as of June 30, 2018 and 2017, respectively. These unpaid amounts are included in the accompanying statements of net position as due from the City.

New York City Economic Development Corporation
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Notes to Financial Statements (continued)

9. Capital Assets

Changes in capital assets for the years June 30, 2016 to June 30, 2018, consisted of the following (dollars in thousands):

	June 30, 2016	Additions	Depreciation	Disposals	June 30, 2017	Additions	Depreciation	Disposals	June 30, 2018
Leasehold improvements	\$ 15,773	\$ 1,133	\$ -	\$ -	\$ 16,906	\$ 9,633	\$ -	\$ -	\$ 26,539
Equipment	6,533	2,943	-	(29)	9,447	515	-	-	9,962
Vessels	-	6,000	-	-	6,000	-	-	-	6,000
Computer software	627	161	-	-	788	-	-	-	788
Work-in progress	14,581	(1,880)	-	-	12,701	(2,880)	-	-	9,821
Capital assets	37,514	8,357	-	(29)	45,842	7,268	-	-	53,110
Less Accumulated depreciation	(8,863)		(2,686)	29	(11,520)		(3,460)	-	(14,980)
Capital assets, net	\$ 28,651	\$ 8,357	\$ (2,686)	\$ -	\$ 34,322	\$ 7,268	\$ (3,460)	\$ -	\$ 38,130

Depreciation and amortization of capital assets and obligations for the fiscal years ended June 30, 2018 and 2017 were \$3.5 million and \$2.7 million, respectively.

10. Deposits and Investments

Deposits

At year-end, NYCEDC's cash and cash equivalent balance was \$372 million. Of this amount, \$13 million was FDIC insured. Of the remaining balance, \$175 million was invested in funds comprised of U.S. government backed securities. Emergency funds on hand amounted to \$10,000 at June 30, 2018.

At June 30, 2018 and 2017, cash, cash equivalents and investments of \$331 million and \$330 million, respectively, were restricted for use in connection with designated programs of NYCEDC.

Investments

NYCEDC's investment policy permits the Corporation to invest in obligations of the United States of America, where the payment of principal and interest is guaranteed, or in obligations issued by an agency or instrumentality of the United States of America. Other permitted investments include short-term commercial paper, certificates of deposit and bankers' acceptances.

New York City Economic Development Corporation
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Notes to Financial Statements (continued)

10. Deposits and Investments (continued)

As of June 30, 2018 and 2017, the Corporation had the following investments. Investments maturities are shown for June 30, 2018, only (in thousands):

	Fair Value		Investment Maturities at June 30, 2018 in Years	
	2018	2017	Less than 1	1 to 7
Money market mutual funds	\$ 169,728	\$ 150,245	\$ 169,728	\$ –
Money market deposit account	5,251	5,251	5,251	–
FHLB notes	35,257	51,680	8,877	26,380
FHLMC notes	70,499	131,609	48,033	22,466
Commercial paper	47,732	22,637	47,732	–
FFCB notes	14,515	4,487	4,487	10,033
FNMA notes	24,578	25,609	19,292	5,286
US Treasury	24,481	–	24,481	–
Certificates of deposit	200	200	200	–
	<u>392,241</u>	<u>391,718</u>	<u>\$ 328,075</u>	<u>\$ 64,165</u>
Less amount classified as cash equivalents	<u>(174,979)</u>	<u>(155,496)</u>		
Total investments	<u>\$ 217,262</u>	<u>\$ 236,222</u>		

Fair Value Measurements – Fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into these levels: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

Money market funds, categorized as Level 1, are valued at the unadjusted prices quoted in active principal markets for identical assets. US Agencies securities and commercial paper, categorized as Level 2, are valued based on models using observable inputs. Certificates of deposit are valued at cost.

Interest Rate Risk – As a means of limiting its exposure to fair value losses arising from increasing interest rates, the Corporation limits 80% of its investments to instruments maturing within two years of the date of purchase. The remaining 20% of the portfolio may be invested in instruments with maturities up to a maximum of seven years.

New York City Economic Development Corporation
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Notes to Financial Statements (continued)

10. Deposits and Investments (continued)

Credit Risk – It is the Corporation’s policy to limit its investments in debt securities to those rated in the highest rating category by at least two nationally recognized bond rating agencies or other securities guaranteed by the U.S. government or issued by its agencies. As of June 30, 2018, the Corporation’s investments in Federal National Mortgage Association (FNMA), Federal Home Loan Bank (FHLB), Federal Farm Credit Bank (FFCB) and the Federal Home Loan Mortgage Corporation (FHLMC) were rated AA+ by Standard & Poor’s, Aaa by Moody’s and AAA by Fitch Ratings.

Custodial Credit Risk – For investments, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Corporation will not be able to recover the value of its investments or collateral securities that are in the possession of the outside party. Investment securities are exposed to custodial credit risk if the securities are not registered in the name of the Corporation and are held by the counterparty, the counterparty’s trust department or agent.

The Corporation manages custodial credit risk by limiting possession of its investments to highly rated institutions and/or requiring that high-quality collateral be held by the counterparty in the name of the Corporation. At June 30, 2018, the Corporation was not subject to custodial credit risk.

Concentration of Credit Risk – The Corporation places no limit on the amount the Corporation may invest in any United States of America government backed securities. The following table shows investments that represent 5% or more of total investments as of June 30, 2018 and 2017 (dollars in thousands):

Issuer	Dollar Amount and Percentage of Total Investments			
	June 30, 2018		June 30, 2017	
Federal Home Loan Mortgage Corp.	\$ 70,499	32.45%	\$ 131,609	55.71%
Federal Home Loan Bank	35,257	16.23	51,680	21.88
Federal Farm Credit Bank	14,515	6.68	–	–
Federal National Mort. Assoc.	24,578	11.31	25,609	10.84
US Treasury	24,481	11.27	–	–

New York City Economic Development Corporation
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Notes to Financial Statements (continued)

10. Deposits and Investments (continued)

Investment Income

Investment income includes unrealized gains and losses on investments as well as interest earned on bank accounts, certificates of deposit and securities. Investment income amounted to \$4.4 million and \$1.5 million for the fiscal years ended June 30, 2018 and 2017, respectively.

11. Ground Leases and Properties Managed by NYCEDC on Behalf of the City

NYCEDC is contracted by the City to manage and maintain properties on behalf of the City, including certain City-owned properties that are leased to NYCEDC. NYCEDC in turn, leases or subleases the properties to commercial and industrial tenants. For ground leases, these agreements generally include restrictions on the use of the land to the construction or development of commercial, manufacturing, industrial or residential facilities. All managed leases generally provide for minimum rentals plus provisions for additional rent. Certain agreements also provide for renewals at the end of the initial lease term for periods ranging from 10 to 50 years.

The future minimum rental income as of June 30, 2018, payable by the tenants under the leases and subleases, all of which are accounted for as operating leases, are as follows (dollars in thousands):

Fiscal Year	Minimum Rental Income From BAT Tenants	Minimum Rental Income From Commercial Tenants	Minimum Rental Income From Maritime Tenants	Minimum Rental Income From 42nd St Development Proj. Tenants	Minimum Rental Income From Other Tenants	Total
2019	\$ 17,899	\$ 20,494	\$ 38,678	\$ 15,414	\$ 456	\$ 92,941
2020	16,634	19,266	37,531	15,414	251	89,096
2021	14,836	18,358	35,405	15,414	191	84,204
2022	13,981	17,443	34,036	15,414	191	81,065
2023	10,665	16,705	33,147	15,414	191	76,122
2024 - 2028	30,932	64,760	141,835	77,069	953	315,549
2029 - 2033	15,909	54,965	85,091	77,069	953	233,987
2034 - 2038	4,148	54,214	61,133	77,069	445	197,009
2039 - 2043	4,148	49,183	35,249	19,958	-	108,538
2044 - 2048	4,148	46,980	35,249	77,069	-	163,446
Thereafter	4,632	330,713	68,855	162,993	-	567,193
Total	\$ 137,932	\$ 693,081	\$ 606,209	\$ 568,297	\$ 3,631	\$ 2,009,150

The thereafter category includes 41 leases with expiration dates between July 1, 2049 and December 31, 2100.

New York City Economic Development Corporation
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Notes to Financial Statements (continued)

12. NYC Ferry System

In 2016, NYCEDC contracted with HNY Ferry, LLC (HNY) for the provision of citywide ferry services under the new NYC Ferry system. The system is made up of six routes that were designed to meet the transportation needs of neighborhoods traditionally underserved by public transportation. The NYC Ferry routes are being launched over a two year period. As part of the six routes, HNY assumed operational responsibility for the existing East River ferry route in December 2016 to incorporate that route into the NYC Ferry system. NYCEDC launched the first of the new NYC Ferry system routes, the Rockaway route, on May 1, 2017. Routes for South Brooklyn and Astoria, Queens were launched in June and August 2017, respectively. In August 2018, the final two planned routes began for Soundview in the Bronx and the Lower East Side of Manhattan.

The net cost of these operations as of June 30, 2018 and 2017 were \$44 million and \$30 million, respectively. To offset the costs to NYCEDC for establishing and operating the ferry system, NYCEDC was not required to remit to the City \$16.7 million under the Maritime Contract or commercial rents received from the 42nd Street Development Project (Notes 3 and 14).

13. Future Tenant Receivables

Pursuant to the ground leases with certain Forest City companies, costs incurred to acquire the properties prior to execution of these leases are to be reimbursed by the developer. The total to be repaid for these properties is \$40 million, of which \$24.3 million is for Jay Street (One Metrotech Center), \$5.8 million is for Bridge Street (Two Metrotech Center), \$6.3 million is for Tech Place (11 Metrotech Center) and \$3.8 million is for Myrtle Avenue (Nine Metrotech Center). These receivables will be collected over a period ranging from 8 years to 21 years and will be recognized as revenue over the life of the agreements.

14. 42nd Street Development Project

The 42nd Street Development Project (the Project) was conceived in the 1980s as a joint initiative of the City and the State to transform the properties in the 42nd Street area between 7th and 8th Avenues. For a number of years, NYCEDC has overseen the ground leases for the Project on behalf of the City. By October 2012, all title to the properties that comprise the Project transferred from the State to the City.

New York City Economic Development Corporation
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Notes to Financial Statements (continued)

14. 42nd Street Development Project (continued)

Beginning in January 1, 2011 and in accordance with section 11.05 of the Master Contract, NYCEDC transferred to the City all payments in lieu of taxes, real estate taxes and substantially all rental revenues it collected on the Project. Beginning in fiscal year 2017, to partially offset the costs to NYCEDC for establishing and operating the NYC Ferry service (Note 12), NYCEDC has not been required to remit commercial rents from the Project to the City. NYCEDC will continue to pass through to the City all payments in lieu of taxes and real estate taxes collected from the Project.

15. Pension Plan

NYCEDC maintains a 401(a) defined contribution pension plan, which covers substantially all full time employees. The pension plan provides for variable contribution rates by NYCEDC ranging from 6% to 18% of the employees' eligible wages, as defined in the IRC. NYCEDC employees receive a non-matching contribution in the amount of 6% of wages at the beginning of the 2nd year of employment. This amount increases to 10% at the beginning of the 4th year of employment; 12% at the beginning of the 5th year of employment; 14% at the beginning of the 6th year of employment; 16% at the beginning of the 11th year of employment; and 18% at the beginning of the 16th year of employment. Employees are 100% vested at the time of contribution. Contributions are made quarterly and are current. The plan is administered at the direction of the NYCEDC Retirement Plan Investment Committee. Pension expense for the fiscal years ended June 30, 2018 and 2017, amounted to \$5.1 million and \$4.4 million, respectively, and is included in personnel services in the accompanying statements of revenues, expenses, and changes in net position.

16. Postemployment Benefits Other Than Pensions

NYCEDC sponsors a single employer defined benefit health care plan that provides postemployment medical benefits for eligible retirees and their spouses. Commonly referred to as a plan for Other Post-Employment Benefits (OPEB), this plan was amended during February 2011 with an effective date of July 1, 2011, and again in July 2016 with an effective date of June 30, 2016. The amendments include revisions to the definition of what constitutes an eligible participant and the closure of the plan to new participants. As a result of these amendments, the plan maintains the current benefit structure, but plan participation will continue for only certain groups of members, who are (i) all retired members, (ii) all active employees hired prior to April 1, 1986, who are ineligible for Medicare coverage when they depart EDC, and (iii) all active employees who started working prior to January 1, 2011 with at least 10 years of service as of that date or will be age 60 or older by June 30, 2023. As of June 30, 2018 the plan has not issued a stand alone report.

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Notes to Financial Statements (continued)

16. Postemployment Benefits Other Than Pensions (continued)

Benefit provisions and contribution requirements for the plan are administered and managed by NYCEDC and can be amended by NYCEDC. There is no statutory requirement for NYCEDC to continue this plan. The plan is a contributory plan with retirees subject to contributions established for either the Low or High version of the plan. Retirees receiving the post-employment health benefits pay a premium amount equal to what a current NYCEDC active employee pays, based on his or her family status. Under the Low option, retirees make contributions in the amount of \$50 a month for single coverage and \$100 a month for family coverage. Under the High option, retiree contributions are \$100 a month for single coverage and \$200 a month for family coverage. Additional costs may be incurred by the retiree under either the Low or High plan version.

As of July 1, 2016, NYCEDC adopted GASB Statement No. 75, “Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions” (“GASB 75”). This Statement established guidelines for reporting costs associated with “other postemployment benefits” (“OPEB”). This Statement replaces GASB Statement No. 45. The Corporation’s annual OPEB cost for the plan is calculated based on the Entry Age Normal level percentage cost method, an amount actuarially determined in accordance with the parameters of GASB Statements 75. In FY18, NYCEDC established and funded an irrevocable trust for the payments to fund this obligation.

Employees Covered by Benefit Terms. At June 30, 2018 and 2017, the following employees were covered by the benefit terms:

	2018	2017
Active Employees	68	73
Inactive Employees and/or beneficiaries currently receiving benefit payments	38	36
Total participants	106	109

Contributions. NYCEDC has the right to establish and amend the contribution requirements. For the year ended June 30, 2018 and 2017, the average contribution rate was 243% and 7% respectively, of covered payroll. Employees are required to contribute to the plan at the active rates.

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Notes to Financial Statements (continued)

16. Postemployment Benefits Other Than Pensions (continued)

Net OPEB Liability

NYCEDC's net OPEB liability was measured at June 30, 2018 and restated as of June 30, 2017 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2018.

Actuary Assumptions. The total OPEB liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods in the measurement, unless otherwise specified:

Inflation	3.0% per annum, compounded annually
Investment rate of return	3.2% per annum, compounded annually
Salary increases	4.25%
Healthcare costs trend rates	8.4% grading down to an ultimate rate of 4.7% for <65, 7.5% grading down to an ultimate rate of 4.7% for <65

Mortality rates were based on "Health care costs – from birth to death" sponsored by the society of actuaries and prepared by Dale H. Yamamoto (May 2013). The mortality improvement scale was updated to the MP-2017 scale.

The actuary assumptions used in the June 30, 2018 valuation were based on information provided by the NYCEDC for the period of July 1, 2017 through June 30, 2018. Update procedures were used to roll back the total OPEB liability to NYCEDC's year end of June 30, 2017.

Rate of return: For the year ended June 30, 2018, the annual money-weighted rate of return on investments net of investment expense, was 0.00% because the contribution was made, in cash, on June 27, 2018. The money-weighted rate of return expresses investment performance, net of investment expenses, adjusted for the changing amounts actually invested.

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Notes to Financial Statements (continued)

16. Postemployment Benefits Other Than Pensions (continued)

The long-term expected rate of return on OPEB plan investments was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. The goals of the OPEB plan's investment policy are to invest for the sole purpose of funding the OPEB plan obligation in a prudent manner and to conserve and enhance to value of the trust assets through appreciation and income generation, while maintaining a moderate investment risk at June 30, 2018. The cash balance in the trust was \$20 million. Of this amount, \$19.8 million is uninsured and uncollateralized.

These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation for each major asset class is summarized in the following table for 2018 and 2017:

<u>Asset Class</u>	<u>Allocation</u>
US Large Cap	2%
Global Equity ex US	1%
Hedge Funds	2%
Intermediate US Government	30%
Long US Government	65%
	<u>100%</u>

Discount Rate. The discount rate used to measure the total OPEB liability was 3.2 percent at June 30, 2018 and June 30, 2017 and based on the S&P Municipal Bond 20 Year High Grade Rate Index. The projection of cash flows used to determine the discount rate assumed that Corporation's contributions will be made at rates equal to the actuarially determined contribution rates. The plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees until 2049.

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Notes to Financial Statements (continued)

16. Postemployment Benefits Other Than Pensions (continued)

Changes in Net OPEB Liability

For the year ended June 30, 2018 in (dollars in thousands):

	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Balances at beginning of the year	\$ 20,811	–	\$ 20,811
Changes for the year:			
Service cost	561	–	561
Interest	666	–	666
Difference between expected and actual experience	(103)	–	(103)
Changes of assumptions	(147)		(147)
Employer Contributions	–	20,000	(20,000)
Net investment income	–	–	–
Benefit payments	(225)	–	(225)
Administrative expense	–	–	–
Net changes	752	20,000	(19,248)
Balances at end of the year	\$ 21,563	\$ 20,000	\$ 1,563

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate. The following presents the net OPEB liability of the NYCEDC, as well as what the NYCEDC's net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.2) or 1 percentage point higher (4.2) than the current discount rate (dollars in thousands):

	1% Decrease (2.2%)	Discount Rate (3.2%)	1% Increase (4.2%)
Net OPEB liability, June 30, 2018	\$4,353	\$1,563	(2,344)

Sensitivity of the net OPEB Liability to Changes in the Healthcare Cost Trend rates. The following presents the net OPEB liability of the Corporation, as well as what the Corporation's net OPEB liability would be if it were calculating using healthcare cost trend rates that are 1 percentage point lower or 1 percent point higher (dollars in thousands):

	1% Decrease (7.4% Decreasing to 2.2%)	Healthcare Cost Trend Rates (8.4% decreasing to 4.5%)	1% Increase (9.4% decreasing to 5.7%)
Net OPEB liability, June 30, 2018	\$(2,811)	\$1,563	\$5,138

New York City Economic Development Corporation
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Notes to Financial Statements (continued)

16. Postemployment Benefits Other Than Pensions (continued)

OPEB Expense and Deferred Outflows of Recourses and Deferred Inflows of Resources Related to OPEB

For the year's ended June 30, 2018 and 2017 NYCEDC recognized OPEB expense of \$1,183,145 and \$1,206,116, respectively. The June 2017 figure was actuarially recalculated as a result of adopting GASB 75, resulting in a reduction of expense in that year. OPEB expense is reported in the NYCEDC's financial statements as part of salaries and benefits expense. At June 30, 2018 NYCEDC reported deferred inflows of resources related to OPEB from the following sources:

	Deferred Inflows	Deferred Outflows
Net difference between projected and actual earnings on OPEB plan Investments	\$250	\$0

Amounts reported will be recognized in OPEB expense as follows (dollars in thousands):

Year ended June 30:	
2019	\$ 43.7
2020	43.7
2021	43.7
2022	43.7
2023	43.6
2024	31.6
	\$ 250.0

New York City Economic Development Corporation
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Notes to Financial Statements (continued)

17. Blended Component Unit – CLIC Captive Insurance

In 2016, NYCEDC established the City Lights Insurance Company (CLIC) as a single parent captive insurance company wholly-owned by NYCEDC. CLIC was incorporated on May 26, 2016 and is domiciled in the State of New York. It commenced business operations on July 1, 2016.

At June 30, 2018, CLIC had no investments and maintained a cash balance of approximately \$1 million with JP Morgan Chase.

CLIC continues to provide coverage for two lines of insurance, cyber insurance and additional terrorism insurance. Effective July 1, 2016, CLIC began directly providing excess cyber coverage to NYCEDC and its affiliates, with limits of \$9 million per loss and in the aggregate, in excess of \$1 million of underlying insurance and self-insured retentions.

CLIC also began directly providing terrorism insurance for acts of Nuclear, Biological, Chemical or Radiological terrorism, with limits of \$6 million per occurrence and in the aggregate for any certified act of terrorism.

This policy covers certified terrorism losses as defined under the Terrorism Risk Insurance Act of 2002 (TRIA) and subsequent extensions. Under the TRIA coverage, the United States Government provides a backstop on a quota share basis for 83% (decreasing by 1% per calendar year until equal to 80%) if the total loss affecting all involved insurers exceeds \$100 million.

The financial results for CLIC for the year ended June 30, 2018 and 2017 are set forth below.

Statements of Net Position

The following table summarizes CLIC's financial position at June 30, 2018 and 2017 (dollars in thousands):

	<u>2018</u>	<u>2017</u>
Total assets	\$ 1,087	\$ 1,042
Total liabilities	<u>6</u>	<u>14</u>
Total net position	<u>\$ 1,081</u>	<u>\$ 1,028</u>

New York City Economic Development Corporation
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Notes to Financial Statements (continued)

17. Blended Component Unit – CLIC Captive Insurance (continued)

Statement of Revenues, Expenses and Changes in Net Position

The following table summarizes CLIC’s change in net position for the fiscal years ended June 30, 2018 and 2017 (dollars in thousands):

	2018	2017
Operating revenues	\$ 128	\$ 127
Operating expenses	75	99
Operating income	53	28
Change in net position	53	28
Total net position, beginning of year	1,028	1,000
Total net position, end of year	\$ 1,081	\$ 1,028

18. Other Related-Party Transactions

New York City Land Development Corporation (LDC)

On May 8, 2012, the City formed LDC as a local development corporation organized under section 1411 of the NPCL. LDC is engaged in economic development activities by means of assisting the City with the leasing and selling of certain properties. No management fees were established between NYCEDC and LDC in the current fiscal year. Instead, NYCEDC provides LDC with operating grant funding for LDC’s general and administrative expenses. For the periods ended June 30, 2018 and 2017, \$1,517 and \$1,015, respectively, was provided to LDC for such expenses.

New York City Industrial Development Agency (IDA)

NYCEDC is responsible for administering the economic development programs of IDA. For both fiscal years ended June 30, 2018 and 2017, NYCEDC earned management fee income from IDA of \$3.3 million. In fiscal year 2018, a contingency fee of \$54,434 was earned by NYCEDC from IDA’s recapture of benefits from one project company. Such amounts are included in fee income in NYCEDC’s accompanying statements of revenues, expenses and changes in net position. At June 30, 2018 and 2017, the amounts due from IDA totaled \$1.3 million and \$2.2 million, respectively.

New York City Economic Development Corporation
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Notes to Financial Statements (continued)

18. Other Related-Party Transactions (continued)

Build NYC Resource Corporation (Build NYC)

Build NYC was incorporated under section 1411 of the NPCL in 2013. Pursuant to an agreement between NYCEDC and Build NYC, NYCEDC provides management services to Build NYC and administers Build NYC's financial books and records. For both fiscal years ended June 30, 2018 and 2017, NYCEDC earned management fee income from Build NYC of \$3.3 million.

The Trust for Cultural Resources of New York City (TCR)

Pursuant to an agreement between NYCEDC and TCR, NYCEDC collected fees from TCR for management services. For the fiscal year ended June 30, 2018 and 2017, NYCEDC earned management fees of \$312,188 and \$310,000, respectively from TCR.

New York City Neighborhood Capital Corporation (NCC)

NCC is not-for-profit corporation organized under the NPCL. NCC has all power and authority to make qualified low-income community investments in the City of New York and allocate federal tax credits. NYCEDC provided full management services to NCC.

19. Accounting for Derivatives and Fuel Hedging Activity

As described in Note 12, NYCEDC, on behalf on the City, contracted in June 2016 with HNY for the provision of citywide ferry services for the new NYC Ferry system. NYCEDC was initially responsible for the cost of up to 3.3 million gallons of ultra-low sulfur diesel fuel per annum under the six year operating agreement with HNY. Due to the unexpected increase in demand for ferry services, NYCEDC is in the process of increasing the number of vessels in service, and the related annual fuel cap. Beginning in fiscal year 2020, the annual cap will increase to 5.7 million gallons. The cap will increase gradually to reach 8.2 million gallons by fiscal year 2023. Although the contract caps the number of gallons that NYCEDC is responsible for, the price per gallon is subject to market conditions. Consequently, NYCEDC was authorized by its Board of Directors to implement an energy price risk management program to manage NYCEDC's exposure to the cost of fuel for NYC Ferry.

NYCEDC enters into all fuel hedging arrangements for the sole purpose of hedging against cash flow fluctuations and increasing budgetary certainty. NYCEDC is represented in these transactions by an advisor and designated evaluation agent also known as a Qualified Independent Representative (QIR).

New York City Economic Development Corporation
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Notes to Financial Statements (continued)

19. Accounting for Derivatives and Fuel Hedging Activity (continued)

The following risks are generally associated with hedging instruments:

Basis risk: a systemic risk that arises from variations between hedge relative price and cash/spot price of the hedged commodity at any given point of time. However, NYCEDC uses the NY harbor low-sulfur diesel futures pricing index as the reference for both the hedging instruments as well as the delivery contracts so there is a high correlation between the prices paid for the commodity and the futures contracts pricing.

Cash flow risk: the risk of experiencing outflow of cash to meet margin calls for future contracts due to falling prices for future contracts. This risk is naturally mitigated by the opposite movement of the actual prices paid as compared to the futures contract prices.

Counterparty Risk: the risk that the counterparty will not fulfill its obligations under the option contracts. To minimize such exposure, NYCEDC diversifies and executes transactions with multiple counterparties.

Termination Risk: the risk that the underlying hedge transactions will not run to maturity due to a counterparty event. To minimize this risk, NYCEDC will not purchase contracts where the counterparty has an option to terminate while NYCEDC is performing.

Beginning in September 2017, NYCEDC executed International Swaps and Derivatives Association (“ISDA”) master agreements with Chase Bank, N.A. (JPMorgan) and Citibank, N.A. (Citibank) paving the way to use swap and call option contracts for hedging purposes. Subsequently, NYCEDC purchased call option contracts from JPMorgan, with a notional volume of 2.8 million gallons to hedge against the fuel cap for calendar year 2018 and a call option contract from Citibank, with a notional volume of 1.6 million gallons, covering the first half of calendar year 2019.

New York City Economic Development Corporation
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Notes to Financial Statements (continued)

19. Accounting for Derivatives and Fuel Hedging Activity (continued)

As of June 30, 2018, the fair value of NYCEDC's ultra-low sulfur diesel call option contracts, within the Level 2 category of the fair value hierarchy, were as follows:

Notional Amount (Gallons)	Maturity	Fair Value 6/30/2018	Strike Price Gallon
Counter Party: JPMorgan		\$ 66,110	\$ 1.92
294,000	18-Jul	85,005	1.92
294,000	18-Aug	87,947	1.92
252,000	18-Sep	78,437	1.92
294,000	18-Oct	95,012	1.92
210,000	18-Nov	70,303	1.92
210,000	18-Dec	72,768	1.92
		<u>\$ 555,582</u>	
Counter Party: Citibank			
252,000	19-Jan	\$ 96,963	\$ 1.88
210,000	19-Feb	80,440	1.88
294,000	19-Mar	110,522	1.88
294,000	19-Apr	109,826	1.88
294,000	19-May	110,175	1.88
294,000	19-Jun	112,762	1.88
		<u>\$ 620,688</u>	
		<u><u>\$ 1,176,270</u></u>	
Total Options value			

Additionally, NYCEDC continued to use futures contracts as a hedging vehicle. On June 30, 2018, NYCEDC maintained a position of 51 futures contracts for ultra-low sulfur diesel. These contracts cover a percentage of the fuel commitment for the first three years of the HNY operating contract period.

New York City Economic Development Corporation
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Notes to Financial Statements (continued)

19. Accounting for Derivatives and Fuel Hedging Activity (continued)

As of June 30, 2018, the fair values of NYCEDC's commodity futures contracts, based on average daily rates are listed below. These contracts fall within the Level 2 category investments of the fair value hierarchy.

Notional Amount (Gallons)	No. of Contracts	Maturity Date	Fair Value June 30, 2017	in \$ Price/Gal lon
42,000	1	Aug-18	\$ (2,192)	\$2.26
42,000	1	Sep-18	1,399	\$2.18
42,000	1	Oct-18	(290)	\$2.22
42,000	1	Jan-19	407	\$2.22
42,000	1	Jun-19	962	\$2.17
84,000	2	Aug-19	470	\$2.20
84,000	2	Sep-19	3,772	\$2.16
84,000	2	Oct-19	1,806	\$2.19
84,000	2	Nov-19	1,949	\$2.19
84,000	2	Dec-19	6,229	\$2.15
84,000	2	Jan-20	6,552	\$2.16
84,000	2	Feb-20	5,384	\$2.18
84,000	2	Mar-20	6,481	\$2.15
84,000	2	Apr-20	6,552	\$2.13
84,000	2	May-20	5,603	\$2.19
84,000	2	Jun-20	5,447	\$2.12
84,000	2	Jul-20	6,002	\$2.10
84,000	2	Aug-20	886	\$2.16
84,000	2	Sep-20	1,999	\$2.14
84,000	2	Oct-20	1,978	\$2.13
84,000	2	Nov-20	1,974	\$2.13
84,000	2	Dec-21	3,192	\$2.10
84,000	2	Jan-21	6,972	\$2.06
84,000	2	Feb-21	5,649	\$2.07
84,000	2	Mar-21	5,855	\$2.06
84,000	2	Apr-21	5,930	\$2.05
84,000	2	May-21	5,275	\$2.06
42,000	1	Jun-21	1,974	\$2.06
42,000	1	Jul-21	1,957	\$2.10
Total Fair Value			\$ 100,174	

New York City Economic Development Corporation
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Notes to Financial Statements (continued)

20. Commitments and Contingencies

NYCEDC has an aggregate contractual commitment of \$169.4 million under different self-funded economic development initiatives and projects, including but not limited to the NYC Ferry system and the City of New York Early-Stage Life Sciences project.

Additionally, NYCEDC rents office space under a current lease agreement expiring in fiscal year 2020. A new lease agreement was entered into effective March 2018 with an expiration date of May 31, 2039. The future minimum rental commitments as of June 30, 2018, required under the current and new operating leases are as follows (dollars in thousands):

Fiscal year:	
2019	\$ 19,932
2020	13,599
2021	12,333
2022	12,332
2023	12,332
2024 to 2028	61,663
2029 to 2033	61,663
2034 to 2038	61,663
2039 and thereafter	10,277
	<u>\$ 265,794</u>

Accordingly, rent expense for office space amounted to \$12.5 million and \$8.7 million for fiscal years ended June 30, 2018 and 2017, respectively.

The Corporation's Finance Program is designed to provide financial assistance to certain eligible businesses with the expectation of spurring economic development benefits for the City. In this regard, NYCEDC acts as a guarantor under two loan guarantee programs: the NYC Capital Access Program and the Revolving Loan Guarantee Program. The loan guarantee programs enable qualified businesses to gain access to bank loans or lines of credit. NYCEDC guarantees can be up to 35% of the loan amount. As of June 30, 2018, the Corporation's aggregate commitment for these programs is \$5 million.

New York City Economic Development Corporation
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Notes to Financial Statements (continued)

20. Commitments and Contingencies (continued)

NYCEDC was the co-trustee along with 42nd Street Development Corporation (a subsidiary of New York State Urban Development Corporation d/b/a Empire State Development Corporation (ESDC)) for the use of certain development funds under the 42nd Street Development Project. The trustees jointly extended a loan to the New Amsterdam Development Corporation (NADC) for renovation of the New Amsterdam Theatre. The principal loan amount of \$25.6 million was equally disbursed by the trustees and matures on January 31, 2027. Interest on the loan has ranged between 3% and 3.5%. NYCEDC's portion of the loan, \$12.8 million, was reimbursed to NYCEDC by the City. The conduit loan payment constitutes both a receivable from NADC and a payable to the City. This transaction is not reflected in the financial statements as it does not have any impact on NYCEDC's financial position.

NYCEDC is party to a funding agreement among ESDC, the City and the Trustees of Columbia University (Columbia). The agreement was signed on November 20, 1992 as part of the Audubon building lease assignment for the benefit of Columbia. At inception Columbia received \$10 million from the City, through NYCEDC, and \$8 million directly from ESDC to pay for eligible site development costs. Under the lease agreement, Columbia is required to repay the \$18 million no later than April 5, 2020. NYCEDC's responsibilities in this transaction are limited to redistributing the repayment to the City and ESDC upon collection from Columbia. This is a conduit loan payment from Columbia to the City and ESDC. This transaction is not reflected in the financial statements as it does not have any impact on NYCEDC's financial position.

NYCEDC, and in certain situations as co-defendant with the City, IDA, Build NYC and/or LDC, is involved in personal injury, property damage, breach of contract, environmental and other miscellaneous claims and lawsuits in the ordinary course of business. NYCEDC believes it has meritorious defenses or positions with respect thereto. In management's opinion, such litigation is not expected to have a materially adverse effect on the financial position of NYCEDC.

21. Risk Management

NYCEDC is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; injuries to employees; and natural disasters. NYCEDC carries commercial insurance coverage for these risks.

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Notes to Financial Statements (continued)

22. Net Position

In order to present the financial condition and operating results of NYCEDC in a manner consistent with the limitations and restrictions placed upon the use of resources, NYCEDC classifies its net position into three categories: restricted net position, unrestricted net position and net investment in capital assets. The restricted net position includes net position that has been restricted in use in accordance with the terms of an award or agreement (other than the net position generally available for City program activities under the Master Contract and the Maritime Contract) or by law.

Net investment in capital assets includes capital assets net of accumulated depreciation used in NYCEDC's operations. The unrestricted net position includes all net position not included above.

The Master Contract and the Maritime Contract limit the use of all unrestricted net position to City program activities except for unrestricted net position resulting from income self-generated by NYCEDC.

Changes in Net Position

The changes in net position during fiscal years 2018 and 2017 are as follows (in thousands):

	Restricted	Unrestricted	Net Investment in Capital Assets	Total
Net position, June 30, 2016	\$ 95,144	\$ 301,228	\$ 28,651	\$ 425,023
Increase in net position	2,225	6,601	–	8,826
Capital assets additions	–	(7,890)	7,890	–
Retirements/depreciation	–	2,219	(2,219)	–
Adjustment – NYC Ferry	10,137	(10,137)	–	–
Net position, June 30, 2017*	\$ 107,506	\$ 292,021	\$ 34,322	\$ 433,849
Increase (decrease) in net position	(4,963)	19,363	–	14,400
Capital assets additions	–	(7,268)	7,268	–
Retirements/depreciation	–	3,460	(3,460)	–
Net position, June 30, 2018	\$ 102,543	\$ 307,576	\$ 38,130	\$ 448,249

*Restricted balance is adjusted to reflect the reclassification of the NYC Ferry portfolio from the unrestricted net position to the restricted net position.

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Notes to Financial Statements (continued)

23. Superstorm Sandy

Superstorm Sandy (Sandy) made landfall in New York City on October 29, 2012. The severe and widespread water and wind damage affected many individuals, businesses and organizations. Many City assets that are managed, maintained, and/or leased by NYCEDC were directly impacted by Sandy. Affected assets primarily included waterfront facilities, wharfs, and public markets, all of which are managed by NYCEDC pursuant to the Master and Maritime Contracts. NYCEDC has and will continue to remediate, clean up, and restore these properties to pre-storm conditions. Property and flood insurance coverage were in effect for certain properties, and claims payments were received from insurers and recorded as non-operating revenues. Related expenses were recorded as non-operating expenses. For the years ended June 30, 2018 and 2017, repairs and other expense, net of insurance proceeds totaled of \$96,345 and \$2.8 million respectively. Additional non-operating revenues of \$51,477 and \$3.9 million for years ended June 30, 2018 and 2017, respectively, have been recognized pursuant to federal reimbursable grants from the FTA and FEMA. The decrease in expenses and related reimbursable grants is in line with the declining trend over the past couple of year as the reimbursement cycle for the restoration projects approaches completion.

The following table summarizes Superstorm Sandy net (income) expense at June 30, 2018 and 2017 and total amount from October 29, 2012 to June 30, 2017 (dollars in thousands):

	Years Ended June 30		From October 29, 2012 To June 30, 2018
	2018	2017	Total
Repairs and other expenses – Sandy	\$ 96	\$ 2,761	\$ 48,209
Less: Insurance proceeds	–	–	(28,831)
	96	2,761	19,378
Less: Reimbursable grants-FEMA	(51)	(3,831)	(12,863)
Less: Reimbursable grants-FTA	–	(60)	(6,244)
Less: Reimbursable grants-State	–	–	(16)
Net Sandy-related (income) expenses	\$ 45	\$ (1,130)	\$ 255

Required Supplementary Information

New York City Economic Development Corporation
(A Component Unit of the City of New York)

Schedule of Changes in Net OPEB Liability

	2018	2017
Total OPEB liability:		
Service cost	\$ 561,356	\$ 612,729
Interest	665,475	593,387
Difference between expected and actual experience	(102,921)	—
Changes of assumptions	(147,173)	—
Benefit payments	(224,937)	(224,937)
Net change in total OPEB liability	751,800	(583,769)
Total OPEB liability - beginning	20,811,427	21,395,196
Total OPEB liability - ending (a)	\$ 21,563,227	\$ 20,811,427
Total fiduciary net position:		
Contributions - employer	\$ 20,000,000	\$ —
Net investment income	—	—
Benefits payments	—	—
Administrative expenses	—	—
Net change in fiduciary net position	20,000,000	—
Trust fiduciary net position - beginning	-	—
Trust fiduciary net position - ending (b)	\$ 20,000,000	\$ —
Corporation's net OPEB liability - end of year (a-b)	\$ 1,563,227	\$ 20,811,427
Trust fiduciary net position as a percentage of the total OPEB liability	92.75%	0.00%
Covered-employee payroll	\$ 8,231,020	\$ 7,895,463
Corporation's net OPEB liability as a percentage of covered-employee payroll	18.99%	263.59%

New York City Economic Development Corporation
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Schedule of Changes in Net OPEB Liability (continued)

Notes to Schedule:

Benefit changes: None.

Changes of assumptions: Updated the discount rate from the unfunded rate of 3.13% based on the S&P Municipal Bond 20 Year High Grade Rate Index as of June 30, 2017 to 3.20% based on the long-term rate of return assumption on plan assets based on NYCEDC's current investment policy. Reflected updated legislation enacted by the Health Care and Education Affordability Reconciliation Act and the Tax Cuts and Jobs Act in the calculation of the liability due to Cadillac tax.

Note: This schedule is intended to present information for 10 years. Additional years will be presented when available.

Schedule of OPEB Contributions

	2018
Actuarially determined contribution	\$ —
Contributions in relation to the actuarially determined contribution	20,000,000
Contribution deficiency (excess)	\$ (20,000,000)
Covered-employee payroll	8,231,020
Contributions as a percentage of covered-employee payroll	242.98%

New York City Economic Development Corporation
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Schedule of OPEB Contributions (continued)

Valuation date:	June 30, 2018. Results were rolled back to June 30, 2018.
Actuarial cost method:	Entry age normal, level percent of pay. Service costs are attributed through all assumed ages of exit from active service.
Amortization method:	
Asset valuation method:	Fair value.
Inflation:	3.0% per annum, compounded annually
Salary increases:	4.25% per annum
Investment rate of return:	The valuation uses a discount rate of 3.2% per annum, net of investment expenses and including inflation. This is the long-term rate of return assumption on plan assets based on NYCEDC's current investment policy.
Health care trend rates:	8.4% grading down to an ultimate rate of 4.7% for <65, 7.5% grading down to an ultimate rate of 4.7% for <65
Mortality:	Based on the RP-2014 White Collar Employee and Healthy Annuitant Mortality tables with application of the MP-2017 improvement scale on a fully generational basis.
Benefit changes	None

Note: This schedule is intended to present information for 10 years. Additional years will be presented when available.

Supplementary Information

New York City Economic Development Corporation
(A Component Unit of the City of New York)

Combining Schedule of Revenues, Expenses, and Changes in Net Position (in thousands)

	Total Unrestricted	Restricted											June 30	
		Maritime Fund	*NYC* Ferry	Total Maritime Adjustment	Total Maritime & NYC Ferry	Brooklyn Army	Other Properties	Finance Programs	Capital Programs	Public Purpose & Other Fund	CDBG Fund	Apple 42nd Street	Total Restricted	2018
Operating revenues:														
Grants	84,054	-	-	-	-	-	-	391,388	-	12,732	-	404,120	488,174	450,527
Property rentals	53,546	90,106	-	-	90,106	20,940	4,096	-	-	-	45,835	160,977	214,523	179,146
Fee income	9,005	579	-	-	579	80	5	37	-	52	77	830	9,835	11,494
Other income	20,550	9,315	12,722	(12,722)	9,315	4,222	47	228	-	3,666	2,004	19,482	40,032	30,107
Other Income - 42nd Street	22,710	-	-	-	-	-	-	-	-	-	(22,710)	(22,710)	-	-
Real estate sales, net	8,557	-	-	-	-	-	-	-	-	-	-	-	8,557	7,183
Total Operating revenues	198,422	100,000	12,722	(12,722)	100,000	25,242	4,148	265	391,388	3,718	12,732	25,206	562,699	678,457
Operating expenses:														
Project costs	84,510	-	-	-	-	-	-	-	-	1,360	12,216	-	13,576	112,269
Program costs	-	-	-	-	-	-	-	547	391,388	-	-	-	391,935	348,827
Property rentals and related operating expenses	14,691	47,815	-	-	47,815	14,770	6,251	-	-	-	4,039	72,875	87,566	56,749
Ferry related expenses	-	-	56,744	(12,812)	43,932	-	-	-	-	-	-	43,932	43,932	30,009
Personal Services	56,559	5,332	-	-	5,332	1,300	-	149	-	218	684	7,683	64,242	59,039
Office rent	12,999	-	-	-	-	-	-	-	-	-	-	-	12,999	8,717
Contract and other expenses to the City	8,906	-	-	-	-	-	31	-	-	-	21,168	21,199	30,105	42,490
Other general expenses	13,256	8,142	-	-	8,142	666	2	68	-	123	-	9,001	22,257	14,158
Total operating expenses	190,921	61,289	56,744	(12,812)	105,221	16,736	6,284	764	391,388	1,701	12,900	25,207	560,201	672,258
Operating income	7,501	38,711	(44,022)	90	(5,221)	8,506	(2,136)	(499)	-	2,017	(168)	(1)	2,498	6,199
Nonoperating revenues (expenses):														
Income (Loss) from Investments	3,574	91	-	-	91	-	9	416	-	355	-	1	872	1,536
Grants - Superstorm Sandy	51	-	-	-	-	-	-	-	-	-	-	-	51	3,891
Emergency repairs and other - Superstorm Sandy, net of insurance proceeds	(96)	-	-	-	-	-	-	-	-	-	-	-	(96)	(2,761)
Non-operating income/(expense)	-	-	90	(90)	-	-	-	-	-	-	-	-	-	(39)
Total nonoperating revenues (expenses):	3,529	91	90	(90)	91	-	9	416	-	355	-	1	872	2,627
Income before transfers	11,030	38,802	(43,932)	-	(5,130)	8,506	(2,127)	(83)	-	2,372	(168)	-	3,370	8,826
Interfund transfers	8,333	(38,802)	38,802	-	-	(8,506)	-	5	-	-	168	-	(8,333)	-
Change in net position	19,363	-	(5,130)	-	(5,130)	-	(2,127)	(78)	-	2,372	-	-	(4,963)	8,826
Total net position, beginning of year	326,343	7,000	10,137	-	17,137	500	5,456	54,742	3,512	26,159	-	-	107,506	425,023
Total net position, end of year	\$ 345,706	\$ 7,000	\$ 5,007	\$ -	\$ 12,007	\$ 500	\$ 3,329	\$ 54,664	\$ 3,512	\$ 28,531	\$ -	\$ -	\$ 102,543	\$ 433,849

II. Government Auditing Standards Section



**Report of Independent Auditors on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of the
Financial Statements Performed in Accordance
With *Government Auditing Standards***

The Management and the Board of Directors
New York City Economic Development Corporation

We have audited, in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of New York City Economic Development Corporation (NYCEDC), a component unit of The City of New York, which comprise the statement of net position as of June 30, 2018, and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 30, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered NYCEDC's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the NYCEDC's internal control. Accordingly, we do not express an opinion on the effectiveness of the NYCEDC's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether NYCEDC’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity’s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Ernst + Young LLP

September 30, 2018