

## Audit Committee Meeting - January 28, 2015

### **I. Call to Order**

Mr. Bernard Rosen, the Chair, called the meeting to order at 9:30 a.m.

The Chair noted that the minutes from the January 21, 2015 meeting, as well as the minutes from this meeting, will be sent to Committee members in advance of the next meeting in March.

### **II. Executive Session**

The Chair asked for a motion for the Committee to enter the Executive Session to discuss non-public financial matters. The motion was made by Mr. Bud Larson, seconded by Mr. Mark Kaplan, and was unanimously approved.

### **III. Return to Public Session. Resolution on Selection of the City's Independent Auditor.**

The Chair asked for a motion to approve the resolution regarding Audit Committee selection of The City of New York's (the City) independent auditor (*see attached*). Mr. Larry Schimmel moved for the approval of the resolution. Mr. Mark Kaplan seconded the motion. There were no objections, and the motion carried.

January 28, 2015

#### **IV. Financial Statements and Management Letter Reviews**

The next item on the agenda was the review of the financial statements and management letters for the following entities: New York City Economic Development Corporation (EDC), the New York City Land Development Corporation (LDC), the New York City Industrial Development Agency (IDA), and Build NYC Resource Corporation (Build NYC) for the fiscal year ended June 30, 2014. Mr. Spencer Hobson, Executive Vice President of Finance at EDC, LDC, IDA and Build NYC, introduced Mr. Bulent Celik, Controller, and Mr. Raafat Osman, Deputy Controller, of EDC, LDC, IDA, and Build NYC, and Ms. Kim Hancy and Ms. Amy Wong, the representatives of Ernst & Young LLP (EY), EDC's, LDC's, IDA's, and Build NYC's independent auditor.

There was a discussion as to why EDC, LDC, IDA and Build NYC operate as separate legal entities when in substance they are the same entity. The representatives explained that some of the entities may perform functions not permitted by other entities. For example, LDC is able to acquire or lease City property outside of the auction process, whereas EDC is not able to do so. Changing the charter so that there would not be many spin-offs is a legal matter and, that in some cases, federal law and/or tax codes would have to be changed.

##### **New York City Economic Development Corporation**

Mr. Celik stated that fiscal year 2014 was a successful year financially for EDC as compared to the previous year in that revenues increased and operating expenses decreased. EDC continued to provide great efforts on remediation and construction work resulting from Superstorm Sandy.

January 28, 2015

Regarding the management letter, EDC had no material weakness or significant deficiencies.

The following was discussed during the presentation:

- EDC has federal, state and City grants.
- The decline in reimbursable grants was a result of less capital project activity.
- Property rentals increased due to the refinancing transactions at the 42<sup>nd</sup> Street Development Project and the Brooklyn Renaissance Plaza.
- EDC has the titles to the properties; EDC develops these properties, then either sells them or passes them through.
- Program and project costs decreased due to less project activity and fewer capital projects.
- Cash and investments decreased as a result of disbursements to the Highland Park Water Syphon project and mortgage payments to the City for Columbus Circle.
- Amount due from the City increased as a result of the Community Development Block Grant (CDBG) Disaster Relief projects relating to Superstorm Sandy.

There was a review of EDC's *Schedule of Investments*:

- The total investment portfolio consisted of federally secured assets, commercial paper, money market and mutual funds as well as CDs.

- The separate *Schedule of Investments* is an auditors' report issued upon completion of the annual audit of investments required by the New York State Public Authorities Accountability Act.

A question and answer period followed. The following matters were addressed:

- The Committee advised that money market funds and mutual funds should not be presented on the same line and that demand accounts at a bank are not money market deposit accounts.
- In fiscal year 2014 EDC's activity was generally broken down between EDC and Apple. Going forward, Apple will be presented as part of EDC.
- EDC's fixed asset policy requires that property be maintained on the books with a position of \$1 until the property is retired, recycled, or discarded, at which time it is taken off of the fixed assets ledger.
- EDC manages the new piers on the West side but does not own the terminals.
- EDC, as a quasi-governmental entity, had been advised by counsel that in the event of the failure of Chase, the monies that EDC collateralized may not be available. EDC has therefore invested in money market funds to secure the money.
- The Committee expressed concern that there was no limit to the concentration of credit risk. EDC explained it has invested primarily in federally-secured investments that were thoroughly secured. The Committee suggested that EDC include that policy in its disclosures.

- EDC has an Audit Committee and a 27-member Board that oversees operations. The Mayor appoints a majority of the Board members.

All of the reporting issues covered in the auditors' management letter comments had been taken into consideration and corrected within the financial statements. Committee members suggested that EDC clearly identify which comments in the management letter have and have not been adopted.

### **New York City Industrial Development Agency**

The Committee decided that, since LDC was small, it would turn its discussion to IDA. Mr. Celik explained that the debt related to the stadiums is conduit debt and is included in the *Statement of Net Position*. IDA's two largest financings were related to the stadiums. Mr. Celik explained that the conduit debt is supported by Payments in Lieu of Taxes (PILOT), and in the event that there is a revenue shortfall, the City would not have any obligation for debt service. At the end of the lease term the ownership of the stadiums revert back to IDA.

A question and answer session followed and the following was discussed:

- IDA has been following the Government Accounting Standards Board's (GASB) exposure draft on tax abatement reporting and is aware that comments are due the following Friday. IDA is comfortable that it has the material needed to conform to the requirements.

- Local Law 62 requires IDA to report to City Council and elected officials more information than what GASB's tax abatement pronouncement is recommending.
- Stadium interest was included in current accounts payable.
- Money market funds are not insured and they are at a depository institution in IDA's name.

### **Build NYC Resource Corporation**

Mr. Celik began his report by saying that that in fiscal year 2014 Build NYC completed its first full fiscal year with a surplus of \$3 million. During fiscal year 2014 Build NYC adopted investment guidelines and started investment activity similar to IDA. Build NYC manages all investments, and decisions are made according to investment guidelines. The investment mix consists of federally secured assets, commercial paper, money market and mutual funds. The federal portion of all investments totaled \$2 million, and the remainder is attributable to certificates of deposits, money market funds and commercial paper. Investment income had an average yield of 0.1%.

A question and answer session followed:

- Build NYC assists not-for-profit organizations.
- Build NYC disclosed that current assets increased as a result of fees from 22 bond transactions during the year; the Committee suggested that Build NYC should detail the amount associated with the bond transactions so there is a relationship between the fees generated and the amounts bonded for in the fiscal year.

- Build NYC explained that it uses all New York banking institutions. However, they are not all on the New York City Banking Commission List.

Build NYC did not have receive any management letter comments.

There being no further questions, the Chair thanked the representatives of EDC, IDA LDC and Build NYC for their participation at today's meeting.

There being no further business before the Committee Ms. Levine made a motion to adjourn which was seconded by Mr. Kaplan and approved unanimously. The Chairman adjourned until the next scheduled meeting on March 4, at 9:30 a.m.