AUDIT COMMITTEE OF THE CITY OF NEW YORK
MINUTES OF THE AUDIT COMMITTEE MEETING
WEDNESDAY, DECEMBER 6, 2017
AT THE OFFICE OF THE COMPTROLLER

ATTENDANCE

Chair	Bernard Rosen
Private Members	Mark Kaplan Bud Larson Michael Spitzer
Public Members	**Representing the Mayor** – John Grathwol **Representing the Comptroller** – Jacqueline Thompson **Representing the Public Advocate** – Umair Khan
Secretary	Katrina Stauffer
Independent Auditors	**Grant Thornton LLP** – Marla Hummel, Cosmo Saginario **BDO LLP** – Sofia Blair, Jeremy Meisel **Ernst & Young LLP** – Lou Roberts **EisnerAmper LLP** – James Connors, Eldean Wilson **Novogradac & Company LLP** – Tamara Forman
Others	**New York City Economic Development Corporation, New York City Industrial Development Agency, Build NYC Resource Corporation, New York City Land Development Corporation, and New York City Neighborhood Capital Corporation** – Fred D'Ascoli, Spencer Hobson, Raafat Osman, Kim Vaccari **Brooklyn Public Library** – Miriam Katowitz, Brett Robinson, Amadu Wagie **Queens Borough Public Library and Affiliate** – Vishnu Dawah, Michael Tragale **New York City Mayor's Office of Operations** – Florim Ardolli, George Davis

New York City Office of Management & Budget – Enid Ellis, Raymond Lee

New York City Comptroller's Office – Camille Arezzo, Leonel Ferreira, Berta Lara, Preston Niblack, Joan Stapleton

New York City Independent Budget Office – Jonathan Rosenberg

Audit Committee Meeting – December 6, 2017

I. Call to Order and Roll Call

Mr. Bernard Rosen, Chairman of the Audit Committee, called the meeting to order at 9:00 a.m. and wished everyone a happy and healthy New Year. Audit Committee Secretary Katrina Stauffer called the roll; all members were present.

II. Approval of Draft Minutes of the Audit Committee Meeting held October 24, 2017.

The next agenda item was the approval of the draft minutes of the October 24, 2017 Audit Committee Meeting. Chairman Rosen inquired if there were any comments on the draft minutes as presented. Hearing none, Chairman Rosen called for a motion to approve the minutes subject to the non-substantive editorial comments submitted to Ms. Stauffer; the Committee approved the draft minutes of the October 24, 2017 meeting.

III. Presentation of the Financial Statements and Management Letters (where applicable).

The next agenda item was the review of the financial statements and management letters (where applicable) of the following entities for the fiscal year ended June 30, 2017:

- New York City Economic Development Corporation (NYCEDC)
- New York City Industrial Development Agency (NYCIDA)

- Build NYC Resource Corporation (Build NYC)
- New York City Land Development Corporation (NYCLDC)
- New York City Neighborhood Capital Corporation (NYCNCC)

Ms. Kim Vaccari, Chief Financial Officer at NYCEDC, introduced the other representatives of NYCEDC, NYCIDA, Build NYC, NYCLDC and NYCNCC present; Mr. Louis Roberts, audit partner at Ernst &Young, LLP, independent auditors for NYCEDC, NYCIDA, Build NYC and NYCLDC; and Ms. Tamara Forman, representative from Novogradac & Company LLP, independent auditors for NYCNCC

Mr. Fred D'Ascoli, Controller at NYCEDC, began his presentation by providing a brief overview of NYCEDC's financial statements. NYCEDC received an unmodified opinion on its financial statements for fiscal year 2017. In fiscal year 2017, NYCEDC launched three new activities: new ferry services, fuel hedging, and captive insurance, all of which were reflected in NYCEDC's note disclosures and financial statements. NYCEDC's total net position was $432 million in fiscal year 2017, an increase of $6 million from the prior year. Total assets were $1.07 billion, an increase of 5 percent from the prior year; this included deferred outflows related to the fuel hedging program.

In the *Statement of Revenues, Expenses, and Changes in Net Position,* net position increased by $6 million in fiscal year 2017 from the prior year, however, overall revenue was reduced primarily due to a reduction in land sales. Total operating revenue was $678 million, a decrease of over $230 from the prior year, driven by a decrease in grants and a lack of real estate sales. The ferry launch added $30 million to expense, which was presented net of passenger revenues collected.

It has been reported that three of the new ferry boats were found to have issues with leaks. These issues appear to be isolated incidents and the problem is being addressed by the operator and the shipbuilder with no additional cost to the City. The issues did not impact service, revenue, or the safety of passengers.

A question and answer session took place after the presentation. Several matters were discussed including:

- The decline in grant revenues was attributed mainly to the winding down of the rebuilding of the Rockaway Boardwalk, which appeared to be a successful project.
- Included in the maritime portfolio were the ferry services, the heliport and skyport, cruise terminals, and other properties.
- The Brooklyn Army Terminal is 98 percent rented.
- Other post-employment benefits (OPEB) are primarily medical health insurance for a small population of retired employees. Annual OPEB costs increased in fiscal year 2017 because the population of retirees that are covered under this program increased.
- The City Lights Insurance Company, a captive insurance company wholly-owned by NYCEDC, was created by NYCEDC to self-insure; initially for cybersecurity and terrorism coverages.
- The potential impact on economic development programs of the proposed Federal tax changes has been closely followed by NYCEDC since these were released. Alternatives are being researched and reviewed that will allow NYCEDC and affiliated entities to ensure economic activity and assistance to communities.

There being no further questions, Chairman Rosen recommended that NYCIDA be the next entity reviewed.

A question and answer session took place regarding NYCIDA. Several matters were discussed:

- Regarding the Bonds Payable on NYCIDA's *Statement of Net Position*, NYCIDA is the issuer, but the borrower is responsible for the debt.
- Not-for-profit organizations that apply for tax benefits from NYCIDA are required to submit an application to NYCIDA and copies of its financial statements. The documents are vetted by NYCIDA and by its Finance Committee and, if approved, the application goes to the full Board for approval, and benefits are granted.
- NYCIDA has an outreach staff for marketing and information about tax benefits for not-for-profit entities. NYCIDA has been well established and visible for quite some time and bankers also direct not-for-profits to NYCIDA and Build NYC.
- The total NYCIDA conduit debt outstanding was $3.3 billion in fiscal year 2017.
- Declining bond ratings for Yankee Stadium bonds have no financial risk to NYCIDA. The financial risk is to the bondholders, although insurance on the debt service is in place. NYCIDA continues to monitor the situation. NYCIDA protects its reputational risk by performing upfront due diligence on projects to get reasonable assurance that the borrower can service the debt.
- NYCIDA monitors its programs to make sure their requirements are being met, as well as to ensure all transactions are in compliance.

There being no further questions, the Committee moved to the Build NYC Resource Corporation.

Build NYC is also a conduit debt issuer. Build NYC received an unmodified opinion in its financial statements from its auditors in fiscal year 2017. Build NYC had taken over the conduit function that NYCIDA no longer provides, resulting in a shift in the management fee between the two corporations. Build NYC had very little financial activity in fiscal year 2017 with the exception of the conduit debt. On the *Statement of Net Position,* total assets was $11.7 million in 2017, liabilities was $290,000, and net position was $11.4 million. *The Statement of Revenues, Expenses, and Changes in Net Position* was flat between the two years due to the shift in the management fee from NYCIDA to Build NYC.

A question and answer session took place after the presentation. Several matters were discussed including:

- Build NYC was created as a separate entity due to a change in law. All not-for-profit tax-exempt bond issues go through Build NYC. Build NYC and NYCIDA have the same Board of Directors and the same audit committee. The business model is to issue conduit debt on behalf of not-for-profit corporations.
- All bond refundings are done through Build NYC.
- The audit of the *Schedule of Investments* did not identify any deficiencies in internal control that would be considered a material weakness, and the investments themselves were within the confines of the investment policies adopted by the Board of Directors.

There being no further questions, the Committee moved to NYCLDC.

NYCLDC was created to assist the City with leasing and selling certain properties. The aggregate nominal fee exchanged for both purchasing and selling the land amounted to $4; NYCLDC’s net position has remained at $4,999 for the past several years. NYCLDC received operating grants from NYCEDC during the year ended June 30, 2017. Grant revenues in the amount of $1,025 were provided by NYCEDC to offset NYCLDC's annual operating expenses and were recorded as operating revenue.

There being no further questions, the Committee moved to the NYCNCC.

NYCNCC was created for the purpose of applying for New Market Tax Credit (NMTC) allocations. In November 2016, NYCNCC was awarded $55 million in NMTC allocations. The complexities of the NMTC program require that a separate subsidiary corporation be established at the time a new transaction is structured. At that time, ownership of the subsidiary corporations shifts to the investor. These financials do not require or include the sub-corporations. The NYCNCC manages those sub-corporations.

There was a revenue increase in fiscal year 2017 of over $1 million, which were fees that have flowed back to NYCNCC from closed transactions, leaving NYCNCC a total unrestricted net position of $550,000 at year end.

A question and answer session took place after the presentation. Several matters were discussed including:

- United Fund Advisors is NYCNCC's consultant, specializing in the type of transactions entered into by NYCNCC.
- Due to Federal requirements, it would be difficult to manage the NYCNCC's program without the assistance of consultants.
- The Disclosure of upcoming accounting pronouncements, which may have impact, is a reporting requirement.

There being no further questions, Chairman Rosen thanked the representatives of NYCEDC, NYCIDA, Build NYC, NYCLDC and NYCNCC for their participation at today's meeting.

Brooklyn Public Library

The next agenda item was the review of the financial statements and management letter of the Brooklyn Public Library (BPL) for the fiscal year ended June 30, 2017.

Brett Robinson, Executive Vice President of Finance Administration, introduced other members of BPL's team and Jim Connors from EisnerAmper LLP, BPL' independent auditors.

BPL serves the Borough of Brooklyn, operated 59 libraries and had 8.4 million visits to branches in fiscal year 2017. BPL has conducted nearly two million computer sessions on 1,600 devices across systems, and had 550,000 unique attachments to its Wi-Fi system across Brooklyn. BPL had 2,000 volunteers, who contributed 85,000 hours of service, hosting over 70,000 programs with nearly one million attendees for those programs. BPL's circulation was 14.5 million items.

The Brooklyn Heights transaction closed on June 15, 2017. The development rights at the Brooklyn Heights facility were sold to a developer, who will create a core and shell for a new Brooklyn Heights library to be owned by the City. In exchange BPL receives the buildout and rent of an interim location, the core and shell of the library at the developers' cost, as well as $52 million in proceeds, $30 million of which comes to BPL as a capital appropriation and $22 million which comes to BPL as cash, the cash piece was included in BPL's financial statements.

Cash and cash equivalents were up slightly in fiscal year 2017 from the prior year; restricted cash was at $21.7 million, which included the $22 million from the Brooklyn Heights transaction, less the amount of money spent on designing the new BPL. Receivables increased slightly; long-term investments also increased by about $2 million. BPL's property and equipment increased, in part due to construction work and technology acquisitions, enabled by funding from the State of New York. Total assets were $134.8 million in fiscal year 2017.

The total operating revenues and support was up to $165 million in fiscal year 2017. The City contributed $3 million due to work done with the Department of Citywide Administrative Services to replace some of BPL's infrastructure systems with more efficient systems. Federal revenue was about the same for fiscal years 2016 and 2017; contribution income increased slightly due to a single contribution from the Stavros Niarchos Foundation for the artist in residence program. Operating expenses increased in large part due to salaries. The City contributed more funding to hire staff. Non-operating activities included $22.9 million relating to the Brooklyn Heights transaction. Investment income, not used for operations, increased by nearly $4 million.

A question and answer session took place after the presentation. Several matters were discussed:

- There were 1,100 fulltime and about 250 part-time employees for the whole system.
- The Audit Committee suggested an economic value be quantified for the volunteers to allow for a sense of value received and to give people some sense of their contribution.
- BPL's investment manager is now Rockefeller Foundation and BPL is investing directly, rather than using mutual funds. BPL has an investment committee at the board

level that monitors the investment manager and results through established benchmarks. BPL chose to move everything over to Rockefeller and give Rockefeller the discretion to manage. There was no penalty for the liquidation.

- Almost all BPL employees are members of the New York State Retirement system. There is an option to not join.
- A lot of time has been invested in planning about cybersecurity. The auditors also conduct a technology controls audit. This is an ongoing evolution and BPL feels the right tools are in place to manage. The public network is completely separate from the staff network. Nothing on the public network is personally identifiable.
- BPL's financial statements are in accordance with generally accepted accounting principles. The auditor works with management to convert the reporting into a GASB format. The Library received an unmodified opinion on its financial statements.
- All considerations from the prior year's management letter have been addressed.
- BPL has a President and Chief Executive, Linda Johnson, who reports to the Board of Trustees, which is made up of approximately 38 members.

There being no further questions, Chairman Rosen thanked the representatives of BPL for their participation at today's meeting.

The Queens Borough Public Library and Affiliate

The next agenda item was the review of the financial statements and management letter of the Queens Borough Public Library and Affiliate (QBPL) for the fiscal year ended June 30, 2017.

QBPL members and Ms. Sophia Blair, the audit partner from BDO USA, LLP, independent auditors for QBPL, introduced themselves. The financial statements were presented for one year, as BDO are new auditors for QBPL. The expectation going forward is that BDO will present comparative financial statements.

QBPL received an unmodified opinion on its financial statements for 2017. Full cooperation was received from management throughout the audit process. There was an increase to net assets in 2017 primarily driven by the investment market conditions. The change in net assets was $3.9 million from fiscal year 2016 to 2017. QBPL's expenses increased in 2017, mostly due to a union wage increase and new staff.

A question and answer session took place after the presentation. Several matters were discussed including:

- QBPL has approximately 1,000 full-time employees and volunteers.
- QBPL's budget is somewhat smaller than BPL.
- The description of vehicles in the Notes will be expanded to include the mobile library vehicles.
- None of the restatement items had impact on cash. Movement was between the three categories of unrestricted, temporarily restricted, and permanently restricted assets.
- QBPL's affiliate, the Queens Library Foundation (Foundation), is comprised of other board members and has a separate executive director. To the extent the QBPL can keep its finances separate from the Foundation, it does so. The Foundation and the QBPL have all their money on separate accounting systems as part of the internal control process.

- The Programs presented in Note 13 are the major categories of programs the Library offers overall and are established programs consistent with prior years. The Library will report back to the Committee regarding the criteria for the major categories.
- The analysis of cybersecurity was considered more fitting as a separate business letter and not as part of the management letter. The letter stated that there was no material weakness, significant deficiencies, or deficiencies in internal control. The Information Technology division has looked into BDO’s business recommendations and plans to implement changes. QBPL currently contracts with a company that provides virus protection.
- A copy of the business letter to management regarding cybersecurity will be provided to the Audit Committee.

There being no further questions, Chairman Rosen thanked the representatives of the QBPL for their participation at today’s meeting.

V. Adjournment

There being no further business before the Committee, Chairman Rosen made a motion to adjourn the December 6, 2017 meeting; the motion was unanimously approved.