

**MINUTES OF MEETING OF THE AUDIT COMMITTEE
OF
NEW YORK CITY ECONOMIC DEVELOPMENT CORPORATION
September 26, 2019**

A meeting of the Audit Committee (the "Committee") of New York City Economic Development Corporation (the "Corporation" or "NYCEDC") was held on Thursday, September 26, 2019 at the Corporation, One Liberty Plaza, Conference Room 12A (Pulaski), New York, New York 10006.

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

- William Candelaria, Committee Chairperson (present in person)
- James McSpirtt (present in person)
- Betty Woo (present in person)
- Michael Schlein (attended by phone)

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

- Finance:
 - Kim Vaccari – CFO
 - Spencer Hobson – EVP/Treasurer
 - Fred D'Ascoli – Controller
 - Amy Chan – Deputy Controller
 - Fanny Fung – Financial Reporting Manager
- Internal Audit ("IA"):
 - Jennie Wallace – EVP
 - Tony Khoury – VP
- Legal
 - Mark Silversmith – Special Counsel

Also present were representatives from Ernst & Young LLP ("EY"):

- Louis Roberts – Engagement Partner
- Nicole Rapport – Senior Manager

The meeting was called to order at 9:09 a.m.

1. Approval of the Minutes of the May 8, 2019 Audit Committee meeting

Mr. McSpirtt asked if there were any questions or comments relating to the minutes of the May 8, 2019 Committee meeting as submitted. There being no questions or comments, Ms. Woo motioned to approve the minutes. Mr. Schlein seconded the motion and the minutes were approved.

2. Presentation of the Annual Financial Statements – Management Discussion

Mr. D'Ascoli submitted the FY2019 Annual Financial Statements and the Annual Investment Report for the Audit Committee's approval. Mr. D'Ascoli indicated that the financial statements present fairly, in all material respects, the financial position of NYCEDC as of FY2019 and FY2018. He stated that the team from EY has examined the financial statements and it will be issuing an unmodified opinion after the completion of the Board meeting on September 27, 2019.

Ms. Chan detailed the Corporation's Statement of Net Position. Total assets reported at year-end were \$1.2 billion, an increase of \$112 million. Ms. Chan stated that NYCEDC had an increase of \$197 million in capital assets, which includes \$147 million in new vessels in addition to \$46 million of leasehold improvements for the new offices at One Liberty Plaza. This increase was offset by an \$87 million decrease in cash and investments that was used to pay for these assets and fund NYCEDC operations. The total liabilities were \$648 million, a decrease of \$3 million. The net position totaled \$562 million, an increase of \$114 million that is comprised of \$63 million restricted, \$263 million unrestricted and \$236 million invested in capital assets.

Ms. Chan discussed the Statement of Revenue, Expenses and Changes in Net Position that tracked the financial performance over the course of the year. NYCEDC had operating revenue of \$754 million, a \$7 million decrease from prior year. The overall revenue decrease of \$7 million included a \$19 million reduction of grant revenue. These funds are in direct proportion with the Corporation's spending on related project and program costs. Therefore, a reduction of these expenses, which was driven by a decrease in NYCEDC's City funded projects, resulted in a reduction in the offsetting revenue. Operating expenses were \$814 million, an increase of \$63 million from prior year. Property rental expenses increased by \$19 million from prior year. The net cost to operate the ferry grew by \$9 million; this is the first year that all the originally planned routes were operational with the addition of Soundview and Lower East Side routes that commenced in August 2018. The contract expenses to the City increased by \$28 million, primarily the result of the \$30 million PEG payment that was requested by the City. Office rent increased by \$6 million as a result of carrying a lease at both 110 William Street and One Liberty Plaza during the construction phase. The Corporation recorded capital contribution from the City for the first time, which totaled \$165 million. This reflects the City's funding for assets carried on NYCEDC's books. This capital contribution offsets the \$51 million loss leaving an increase to EDC's net position of approximately \$114 million.

The Annual Investments Report, which is a PAAA requirement, was the next section presented. NYCEDC's cash is conservatively invested in compliance with the investment policies that were adopted by the Board. Ms. Chan presented the investments in three categories, money market funds (MM), Government backed securities, and commercial paper (CP). The MM category made up 47% of the investment portfolio while the Government backed securities were 41% of the investments. Commercial Paper comprised 12% of the investments. The amounts invested in each category are well within the Board adopted investment guidelines.

EY Update

Mr. Roberts stated that EY will be issuing an unmodified opinion after completing its required subsequent event review procedures through Monday, September 30, 2019, which is the anticipated date of the audit opinion.

Mr. Candelaria asked if there were any questions or comments relating to the approval of the financial statements and investment report as submitted for presentation and approval by the full board. There being no questions or comments, Mr. McSpiritt motioned to approve the financial statements and investment report. Mr. Schlein seconded the motion and the statements were approved.

3. Internal Audit Activity Update

Ms. Vaccari introduced Ms. Jennie Wallace, Executive Vice President and the new head of Internal Audit. Ms. Wallace presented the agenda for the Internal Audit update regarding NYCEDC, which consisted of the FY2019 and FY2020 Audit Plan status, Open Issues Status, and General Audit Department updates.

Ms. Wallace commented that out of the thirteen NYCEDC approved audits for FY2019, ten audits have been completed, two audits, out of NYCEDC's scope, were completed by EY and one audit has been rescheduled due to insufficient data for conducting the audit. She stated that thirteen projects were approved at the May 8, 2019 Audit Committee meeting for FY2020. All Q1/Q2 projects have commenced and are on track with two completed and two in the planning phase. There are no immediate findings that have been identified.

Ms. Wallace stated that there are one hundred fifty audit issues dating back to FY2016. One hundred thirty-one issues are closed, and nineteen issues are open and in process of being remediated.

Next, Mr. Khoury presented the Engineering Audit Unit metrics highlight for FY2019 and FY2020. Engineering Audit Unit reviewed fourteen change orders in May and June of FY2019 for a total of \$2.94 million. IA established a 14-day window for change orders to be reviewed and processed within the Engineering Audit department. Mr. Khoury reported that 100% of the change

orders reviewed in May and 88% of the ones reviewed in June were within the 14-day target window.

In FY2019, Engineering Audit Unit reviewed seventy-three change orders and saved more than a \$1 million. To date for FY2020, Engineering Audit Unit reviewed a total of eight change orders and saved over \$800,000. Since FY2017, IA has reviewed three hundred ninety-three change orders and saved NYCEDC and the city over \$3 million. The number of change orders that IA reviewed decreased from two hundred nine in FY2017 to seventy-three in FY2019, mainly due to a threshold increase from \$100k to \$150k. The dollar amount saved increased from over \$600k in FY2017 to over \$1 million in FY2019. This increase in savings is attributed to the detailed review and proactive approach of the Engineering Audit Unit in getting involved initially in the review process. The Engineering Audit Unit is on track in FY2020 to surpass the amount saved in FY2019.

In addition to reviewing Change Orders, Internal Audit completed two engineering audits from the FY2019 audit plan and currently has three engineering audits on schedule for FY2020, as reflected on the audit plan.

Ms. Wallace discussed some general department updates. She is in the process of assessing the audit function in order to define long term goals, and to identify areas within the function that can be enhanced for efficiency and effectiveness. Ms. Wallace has started making some changes to IA's methodology, such as implementing a controls-first approach to audits to better guide management in mitigating risk and strengthening controls.

Ms. Wallace explained that she is also shifting the team's relationship with Management to a collaborative and consultative tone. The IA team has started working on consultative projects, in addition to audits, to proactively guide management in strengthening processes and controls. IA has so far received positive feedback on this approach from the departments with which the team has so far worked.

4. Session with External Auditors

A private session with EY was held by the Committee.

5. Session with Internal Audit

A private session with Internal Audit was held by the Committee.

6. Session with Management

A private session with Management was held by the Committee.

7. Adjournment

There being no further business to come before the Committee, the meeting was adjourned at 10:40 a.m.