

FINANCIAL STATEMENTS, REQUIRED  
SUPPLEMENTARY INFORMATION AND  
SUPPLEMENTARY INFORMATION

New York City Economic Development Corporation  
(a component unit of The City of New York)  
Years Ended June 30, 2011 and 2010  
With Report of Independent Auditors

Ernst & Young LLP

 **ERNST & YOUNG**

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, 2011 and 2010

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## Report of Independent Auditors

The Board of Directors  
New York City Economic Development Corporation

We have audited the accompanying balance sheets of New York City Economic Development Corporation (“NYCEDC”), a component unit of The City of New York, as of June 30, 2011 and 2010, and the related statements of revenue, expenses and changes in fund net assets and cash flows for the years then ended. These financial statements are the responsibility of NYCEDC’s management. 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. We were not engaged to perform an audit of NYCEDC’s internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of NYCEDC’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of New York City Economic Development Corporation as of June 30, 2011 and 2010, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 3, 2011 on our consideration of 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 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and the schedule of funding progress for the retiree health care plan, as listed in the table of contents, are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Ernst + Young LLP*

October 3, 2011

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

Management's Discussion and Analysis

June 30, 2011 and 2010

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, 2011 and 2010. Please read it in conjunction with the financial statements and accompanying notes.

**Fiscal Year 2011 Financial Highlights**

- Cash, cash equivalents and investments increased \$65 million (or 28%)
- Current portion of loan and mortgage notes receivable increased \$9 million (or 886%)
- Due from The City, net increased \$17 million (or 31%)
- Due from State – ESDC increased \$93 million (or 100%)
- Accounts payable and accrued expenses increased \$33 million (or 26%)
- Deferred revenue increased \$51 million (or 62%)
- Total net assets increased \$92 million (or 42%)
- Grants from The City decreased \$72 million (or 12%)
- Other income – 42<sup>nd</sup> Street increased \$70 million (or 324%)
- Real estate sales increased \$30 million (or 2,119%)
- Project cost decreased \$10 million (or 24%)
- Personnel services decreased \$1 million (or 3%)
- Contract and other expenses to The City decreased \$53 million (or 37%)

**Overview of the Financial Statements**

This annual financial report consists of four parts: *management's discussion and analysis* (this section), *basic financial statements*, *required supplementary information* and *supplementary information*. NYCEDC is a local development corporation organized pursuant to Section 1411 of 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 and long-term financial information about the activities and operations of the Corporation.

These statements are presented in a manner similar to a private business, such as a property management company. 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.

## Financial Analysis of the Corporation

### Net Assets

The following table summarizes NYCEDC's financial position at June 30, 2011, 2010 and 2009 (dollars in thousands) and the percentage changes between June 30, 2011 and June 30, 2010:

	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>% Change 2011 – 2010</b>
Current assets	<b>\$ 568,512</b>	\$ 361,107	\$ 357,842	57%
Noncurrent assets	<b>222,943</b>	238,370	153,133	(6%)
Total assets	<b>\$ 791,455</b>	\$ 599,477	\$ 510,975	32%
Current liabilities	<b>\$ 204,136</b>	\$ 155,488	\$ 167,829	31%
Noncurrent liabilities	<b>275,953</b>	224,451	144,796	23%
Total liabilities	<b>\$ 480,089</b>	\$ 379,939	\$ 312,625	26%
Net assets:				
Restricted	<b>\$ 85,135</b>	\$ 106,847	\$ 108,609	(20%)
Unrestricted	<b>221,929</b>	108,733	87,351	104%
Invested in capital assets	<b>4,302</b>	3,958	2,390	9%
Total net assets	<b>\$ 311,366</b>	\$ 219,538	\$ 198,350	42%

During fiscal year 2011, total assets increased \$192 million or 32% primarily due to an increase in receivables: \$93 million in other receivables for the 42<sup>nd</sup> Street Development Project and \$35 million in grants receivable relating to the South Brooklyn Marine Terminal and the Morris Heights Health Center.

Total liabilities increased \$100 million or 26% primarily due to an increase of \$51 million in deferred revenue. The Corporation received advance funding of \$34 million from the Port Authority of NY/NJ for the Siphon Project between Staten Island and New Jersey, and \$13 million from Con-Edison for the Waterside Repair project. Other liability increases are attributable to increased capital program costs incurred (\$30 million) and increased obligations to The City from higher land sales (\$12 million).

Net assets during fiscal year 2011 increased \$92 million or 42% as a result of the current operating activities noted above.

### **Prior Year**

During fiscal year 2010, total assets increased \$89 million or 17% primarily as a result of an addition to land held for development in the amount of \$105 million relating to the acquisition of several parcels of land in connection to the Coney Island Redevelopment project. This increase was offset by the collection of \$16 million in other receivables from the NYS Urban Development Corporation related to the 42<sup>nd</sup> Street Development Project.

Total liabilities increased \$67 million or 22% primarily due to an increase of \$99 million in real estate obligations due to The City in connection with the Coney Island Development Project. This land will be conveyed to The City for a nominal fee upon completion of this long-term development project within the next 15 years. There were also decreases of \$17 million resulting from recognitions and adjustments, \$11 million in retainage payable on construction contracts, and \$2 million in deposits on pending sales of real estate. Net assets during fiscal year 2010 increased \$21 million or 11% as a result of the current operating activities as noted above.

### **Operating Activities**

NYCEDC is The City's primary engine for economic development charged with leveraging the City's assets to drive growth, create jobs, and improve quality of life. 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 the process of providing its services, NYCEDC primarily generates revenues from property rentals and real estate sales.

The following table summarizes NYCEDC's change in net assets for the fiscal years ended June 30, 2011, 2010 and 2009 (dollars in thousands) and the percentage changes between fiscal years 2010 and 2009:

	2011	2010	2009	% Change 2011 – 2010
Operating revenues:				
Real estate sales, property rentals	\$ 140,749	\$ 97,786	\$ 112,990	44%
Power sales	54,261	53,276	61,209	2%
Grants	548,034	620,371	543,816	(12%)
Fees and other income	128,584	57,166	55,041	125%
Total operating revenues	<u>871,628</u>	<u>828,599</u>	<u>773,056</u>	5%
Operating expenses:				
Project and program costs	533,999	514,845	552,235	4%
Property related expenses	37,675	34,663	38,283	9%
Utility expenses	53,381	52,322	60,524	2%
Personnel services	46,046	47,459	49,503	(3%)
Contract and other expenses to The City	89,905	142,737	50,412	(37%)
Office rent and other expenses	19,709	16,348	19,989	21%
Total operating expenses	<u>780,715</u>	<u>808,374</u>	<u>770,946</u>	(3%)
Operating income	<u>90,913</u>	<u>20,225</u>	<u>2,110</u>	349%
Nonoperating revenues:				
Investment income	915	963	3,373	(5%)
Total nonoperating revenues	<u>915</u>	<u>963</u>	<u>3,373</u>	(5%)
Change in net assets	91,828	21,188	5,483	333%
Total net assets, beginning of year	<u>219,538</u>	<u>198,350</u>	<u>192,867</u>	11%
Total net assets, end of year	<u>\$ 311,366</u>	<u>\$ 219,538</u>	<u>\$ 198,350</u>	42%

During fiscal year 2011, operating revenues increased \$43 million or 5%, primarily the result of \$92 million recorded for the 42<sup>nd</sup> Street Development Project and a \$30 million increase in real estate sales, offset by a \$72 million decrease in reimbursable grants from The City. The \$92 million in revenues generated from the 42<sup>nd</sup> Street Development Project are the result of a revenue sharing arrangement between The City and New York State for ground leases held in this area. The City conveyed these funds to NYCEDC through a directive issued in September 20, 2010. The \$30 million increase in real estate sales included the Whitney Museum (\$19.1 million) and two other properties: Boundary Fence and Railing Systems (\$3.4 million) and Brooklyn Terminal Market Cooperative (\$7.5 million). The \$72 million decrease in reimbursable grants this year is primarily due to a one-time transaction that occurred last fiscal year, the Coney Island site acquisition.

Operating expenses during fiscal year 2011 decreased by \$28 million or 3% primarily due to a decrease of \$53 million in contract and other expenses to The City. The decrease in contract expenses to The City was offset by a \$30 million increase in capital program costs.

During fiscal year 2011, the Corporation amended its defined benefit health care plan relating to post-employment medical benefits for eligible retirees. Criteria for eligibility were changed, thereby causing a substantially slower rate of growth to the Corporation's annual obligation under the plan and a significant decrease in the actuarial accrued liability. As a result, the Corporation incurred related expenses of approximately \$726,000 this fiscal year as compared with approximately \$2,760,000 last fiscal year. This is discussed in further detail under Note 13.

Correspondingly, operating income during fiscal year 2011 increased \$71 million or 349% as a result of the items above.

### **Prior Year**

During fiscal year 2010, operating revenues increased \$56 million or 7%, primarily the result of \$77 million increase in reimbursable grants from The City, \$15 million decrease in real estate sales and property rentals, \$8 million decrease in power sales, and \$2 million increase in fee and other income. The overall increase of \$77 million in grants from The City was primarily attributed to the recognition of \$105 million in grant revenue related to the Coney Island Redevelopment project land acquisition. Additionally, property rentals during the current period decreased by \$15 million as a result of non-recurring UNDC rent and Port Authority lease cancellation fees for the Piers 6 project, which were received in the prior year.

Operating expenses during fiscal year 2010 increased by \$37 million or 5% primarily as a result of the Coney Island Redevelopment project land purchases of \$105 million. This increase was offset by a \$37 million decrease in program costs on the Lincoln Center Project, a \$13 million decrease in other contract expense to The City due to lower additional rent received from UNDC during the current period, an \$8 million decrease in utility expenses as a result of fewer customers enrolled in the NYCPUS program, a \$4 million decrease in property rentals and related operating expenses and a \$4 million decrease in other general and administrative costs. Non-operating revenues decreased \$2.4 million as a result of lower interest rates earned on investments during the year.

Correspondingly, operating income during fiscal year 2010 increased \$18 million or 859% as a result of the items above.

## Capital Assets

The following table summarizes NYCEDC's capital assets for the fiscal years ended June 30, 2011, 2010 and 2009 (dollars in thousands) and the percentage change between June 30, 2011 and 2010:

	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>% Change 2011 – 2010</b>
Leasehold improvements	<b>\$ 1,695</b>	\$ 756	\$ 697	124%
Furniture and fixtures	<b>6,855</b>	6,667	4,989	3%
	<b>8,550</b>	7,423	5,686	15%
Less accumulated depreciation and amortization	<b>(4,248)</b>	(3,465)	(3,296)	23%
Net capital assets	<b>\$ 4,302</b>	\$ 3,958	\$ 2,390	9%

The increase in leasehold improvements during fiscal year 2011 is the result of renovations made to NYCEDC's offices at 110 William Street, New York, NY.

## 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 Public Information Officer, New York City Economic Development Corporation, 110 William Street, New York, NY 10038.

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

Balance Sheets

	June 30	
	2011	2010
<b>Assets</b>		
Current assets:		
Unrestricted cash and cash equivalents – current	\$ 173,215,388	\$ 89,131,550
Restricted cash and cash equivalents – current	25,240,514	21,962,347
Investments	19,392,374	31,767,672
Current portion of loans and mortgage notes receivable	10,370,296	1,051,377
Accrued interest receivable from loans	185,002	3,004,718
Due from The City, including \$182,261,987 and \$152,905,086, respectively, under contracts with The City	196,435,275	167,336,041
Tenant receivables, net of allowance for uncollectible amounts of \$11,789,989 and \$11,564,075, respectively	24,374,879	21,033,958
Prepaid expenses	610,265	945,806
Due from State – ESDC	92,745,332	–
Other receivables	18,708,736	16,963,721
Land deposits in escrow	7,233,750	7,910,000
Total current assets	568,511,811	361,107,190
Noncurrent assets:		
Restricted cash and cash equivalents	46,352,308	57,545,471
Unrestricted investments	10,100,985	–
Restricted investments	21,382,505	30,014,378
Loans and mortgage notes receivable, less current portion (less allowance for loan losses of \$5,921,171 and \$5,972,226, respectively)	31,675,716	38,322,532
Capital assets, net	4,301,642	3,957,726
Land held for development, at cost	108,443,118	108,443,118
Other assets	687,000	87,000
Total noncurrent assets	222,943,274	238,370,225
Total assets	\$ 791,455,085	\$ 599,477,415
<b>Liabilities and net assets</b>		
Current liabilities:		
Accounts payable and accrued expenses, including \$130,584,976 and \$107,318,347, respectively, under contracts with The City	\$ 163,055,170	\$ 129,711,651
Deposits received on pending sales of real estate	5,126,695	6,689,100
Due to The City: real estate obligations and other	20,905,405	8,453,863
Deferred revenue	14,340,364	10,373,185
Other liabilities	707,716	260,560
Total current liabilities	204,135,350	155,488,359
Noncurrent liabilities:		
Tenant security and escrow deposits payable	8,395,858	8,898,629
Deferred interest income	360,000	240,000
Obligation for other post-employment benefits	19,415,000	19,017,744
Due to The City: real estate obligations	105,345,500	105,345,500
Deferred revenue, including deferred grant revenue of \$43,294,508 and \$41,259,632, respectively, under contracts with The City	119,528,079	72,279,434
Retainage payable	22,775,452	18,581,013
Other	133,356	88,356
Total noncurrent liabilities	275,953,245	224,450,676
Total liabilities	480,088,595	379,939,035
Net assets:		
Restricted	85,135,903	106,847,140
Unrestricted	221,928,945	108,733,514
Invested in capital assets	4,301,642	3,957,726
Total net assets	311,366,490	219,538,380
Total liabilities and net assets	\$ 791,455,085	\$ 599,477,415

See accompanying notes.

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

Statements of Revenues, Expenses  
and Changes in Fund Net Assets

	<b>Year Ended June 30</b>	
	<b>2011</b>	<b>2010</b>
Operating revenues:		
Grants	<b>\$ 548,034,260</b>	\$ 620,371,208
Property rentals	<b>109,770,348</b>	96,390,435
Power sales	<b>54,261,376</b>	53,275,525
Fee income	<b>16,544,691</b>	16,653,405
Other income – 42 <sup>nd</sup> Street Development Project	<b>91,745,332</b>	21,642,045
Other income	<b>20,294,100</b>	18,870,266
Real estate sales, net	<b>30,978,293</b>	1,396,041
Total operating revenues	<b>871,628,400</b>	828,598,925
Operating expenses:		
Project costs	<b>33,766,644</b>	44,147,228
Program costs	<b>500,232,669</b>	470,697,469
Property rentals and related operating expenses	<b>37,675,138</b>	34,663,250
Utility expenses	<b>53,381,447</b>	52,321,429
Personnel services	<b>46,046,263</b>	47,459,076
Office rent	<b>7,732,891</b>	7,728,592
Contract and other expenses to The City	<b>89,904,572</b>	142,737,190
Other general expenses	<b>11,975,963</b>	8,618,789
Total operating expenses	<b>780,715,587</b>	808,373,023
Operating income	<b>90,912,813</b>	20,225,902
Nonoperating revenues:		
Income from investments	<b>915,297</b>	962,587
Total nonoperating revenues	<b>915,297</b>	962,587
Change in net assets	<b>91,828,110</b>	21,188,489
Net assets, beginning of year	<b>219,538,380</b>	198,349,891
Net assets, end of year	<b>\$ 311,366,490</b>	\$ 219,538,380

*See accompanying notes.*

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

Statements of Cash Flows

	<b>Year Ended June 30</b>	
	<b>2011</b>	<b>2010</b>
<b>Cash flows from operating activities</b>		
Real estate sales	\$ 30,378,709	\$ 1,350,494
Property rentals	102,084,105	93,131,265
Power sales	54,261,376	53,275,525
Grants from The City	551,037,807	614,475,340
Fee income	16,542,368	16,539,251
Other income	38,015,331	33,006,554
Other income – 42 <sup>nd</sup> Street Development Project	91,745,332	21,642,043
Project costs	(32,071,981)	(46,249,290)
Program costs	(473,384,687)	(481,059,905)
Property rentals and related operating expenses	(32,964,073)	(36,647,413)
Utility expenses	(51,270,340)	(51,516,339)
Personnel services	(45,709,287)	(44,664,141)
Office rent	(7,732,891)	(7,728,592)
Contract and other expenses to The City	(89,897,109)	(40,884,987)
Other general and administrative expenses	(8,101,557)	(5,170,489)
Repayments of loans and mortgage receivable	6,697,873	1,523,791
Tenant security and escrow deposits	(502,771)	174,831
Other	(83,117,419)	(1,948,400)
Net cash provided by operating activities	66,010,786	119,249,538
<b>Cash flows from capital and related financing activities</b>		
Purchase of capital assets	(1,739,677)	(2,646,585)
Net cash used in capital and related financing activities	(1,739,677)	(2,646,585)
<b>Cash flows from investing activities</b>		
Sale of investments	61,408,495	149,434,807
Purchase of investments	(50,816,822)	(144,185,729)
Deposits on land	676,250	(83,250,992)
Interest income	629,810	962,587
Net cash provided by (used in) investing activities	11,897,733	(77,039,327)
Net increase in cash and cash equivalents	76,168,842	39,563,626
Cash and cash equivalents, beginning of year	168,639,368	129,075,742
Cash and cash equivalents, end of year	\$ 244,808,210	\$ 168,639,368

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

Statements of Cash Flows (continued)

	<b>Year Ended June 30</b>	
	<b>2011</b>	<b>2010</b>
<b>Reconciliation of operating income to net cash provided by operating activities</b>		
Operating income	\$ 90,912,813	\$ 20,225,902
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	1,395,761	1,078,685
Changes in operating assets and liabilities:		
Accrued interest receivable	2,819,716	40,650
Due to/from The City	(16,647,692)	108,970,766
Tenant receivables	(3,340,921)	(3,611,193)
Prepaid expenses	(1,409,474)	18,378,473
Due from State – ESDC	(92,745,332)	–
Loans and mortgage notes receivable	(2,672,103)	5,674,397
Tenant security and escrow deposits payable	(502,771)	174,831
Accounts payable and accrued expenses	33,343,519	(3,512,646)
Deposits received on pending sales of real estate	(1,562,405)	(1,948,107)
Deferred interest income	120,000	47,109
Obligation for OPEB	397,256	2,651,335
Deferred grant revenue	51,215,824	(17,398,033)
Retainage payable	4,194,439	(11,444,504)
Other current liabilities	447,156	(43,686)
Other noncurrent liabilities	45,000	(34,441)
Net cash provided by operating activities	<b>\$ 66,010,786</b>	<b>\$ 119,249,538</b>
 <b>Supplemental disclosures of non-cash activities</b>		
Unrealized loss on investments	<b>\$ (846,582)</b>	<b>\$ (931,591)</b>

*See accompanying notes.*

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

Notes to Financial Statements

June 30, 2011

**1. Background and Organization**

The accompanying financial statements include the assets, liabilities, net assets and the financial activities of the New York City Economic Development Corporation (“NYCEDC” or the “Corporation”) and its component unit, Apple Industrial Development Corp. (“Apple”).

NYCEDC is a local development corporation organized pursuant to Section 1411 of the Not-for-Profit Corporation Law of the State of New York (the “State”). NYCEDC’s primary activities consist of rendering a variety of services and administering certain economic development programs on behalf of The City of New York (“The City”) relating to 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 provision of grants to qualifying business enterprises as a means of helping to create and retain employment therein. These services are provided under two contracts with The City (the “NYCEDC Master Contract” and the “NYCEDC Maritime Contract”).

Apple was created in 1980 and provides management and maintenance services for certain City-owned and NYCEDC owned and leased properties. Apple has contracted with NYCEDC to manage wharf, waterfront, public market and aviation properties that NYCEDC is responsible for managing under the NYCEDC Maritime Contract, properties under lease to or owned by NYCEDC, and other properties that NYCEDC is responsible for managing pursuant to the NYCEDC Master Contract or pursuant to other arrangements with The City. Apple has assumed NYCEDC’s rights and obligations under certain management and maintenance service contracts with The City. Complete financial statements for Apple may be obtained at its administrative offices, which are located at 110 William Street, New York, New York 10038.

Pursuant to Governmental Accounting Standards Board Statement No. 14, *The Financial Reporting Entity*, Apple is reported as a blended component unit of NYCEDC. Also pursuant to GASB Statement No. 14, NYCEDC’s financial statements are included in The City’s financial statements as a component unit for financial reporting purposes.

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

Notes to Financial Statements (continued)

**1. Background and Organization (continued)**

In order to present the financial position and the changes in financial position of Apple in a manner consistent with limitations and restrictions placed upon the use of resources and NYCEDC's contractual agreement with The City and other third parties, Apple classifies its operations into the following four portfolios:

*Commercial Leases Portfolio:* Apple has been assigned the rights to manage certain non-cancelable NYCEDC ground leases with The City. NYCEDC subleases the property to commercial and industrial tenants. The sublease agreements generally provide for minimum rentals plus provisions for additional rent, and restrict the use of the land to the construction or development of commercial, manufacturing or industrial facilities.

*Brooklyn Army Terminal Portfolio:* The Brooklyn Army Terminal ("BAT") is an industrial property owned by The City which is leased to NYCEDC and managed by Apple on NYCEDC's behalf. 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.

*Maritime Portfolio:* This portfolio was established to account for Apple's management, promotion, expansion and development of waterfront, public market, public aviation and intermodal transportation properties on NYCEDC's behalf pursuant to the subcontract.

*Other Properties Portfolio:* This portfolio was established to account for the activities of Apple related to certain City-owned and other properties for which Apple assumed management responsibilities. Pursuant to an agreement between NYCEDC and The City, the net revenue from three of the properties is retained by the portfolio for property operating and capital expenses or for expenses of projects in the area. The net assets retained as of June 30, 2011 and 2010 were \$9,813,042 and \$8,479,288, respectively. Net revenues excluded depreciation expenses. Any net revenues from the other properties are payable to NYCEDC pursuant to the subcontract.

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

Notes to Financial Statements (continued)

**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”). In addition, NYCEDC follows only the pronouncements of all applicable Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure issued on or before November 30, 1989, unless they conflict with or contradict GASB pronouncements.

**Recent Accounting Pronouncements**

In June 2010, the GASB issued Statement No. 59, *Financial Instruments Omnibus* (“GASB No. 59”). GASB No. 59 updated and improved existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. The Corporation adopted GASB No. 59 for its 2011 financial statements. The implementation of GASB No. 59 did not have a significant impact on the Corporation.

In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34* (“GASB No. 61”). GASB No. 61 modifies certain requirements for inclusion of component units in the financial reporting entity. For organizations that previously were required to be included as component units by meeting the fiscal dependency criterion, a financial benefit or burden relationship also would need to be present between the primary government and that organization for it to be included in the reporting entity as a component unit. Further, for organizations that do not meet the financial accountability criteria for inclusion as component units but that, nevertheless, should be included because the primary government’s management determines that it would be misleading to exclude them, GASB No. 61 clarifies the manner in which that determination should be made and the types of relationships that generally should be considered in making the determination. GASB No. 61 also amends the criteria for reporting component units as if they were part of the

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Notes to Financial Statements (continued)

**2. Summary of Significant Accounting Policies (continued)**

primary government in certain circumstances and clarifies the reporting of equity interests in legally separate organizations. The provisions of GASB No. 61 are effective for financial statements for periods beginning after June 15, 2012. The Corporation has not completed the process of evaluating the impact of GASB No. 61 on its financial statements.

In December 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* (“GASB No. 62”). This Standard will improve financial reporting by incorporating into the GASB’s authoritative literature certain accounting and financial reporting guidance that is included in the FASB’s and the American Institute of Certified Public Accountants’ (“AICPA”) pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. GASB No. 62 will supersede Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*. The requirements of GASB No. 62 are effective for financial statements for periods beginning after December 15, 2011. The Corporation has not completed the process of evaluating the impact of GASB No. 62 on its financial statements.

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* (“GASB No. 63”). GASB No. 63 provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. Concepts Statement 4 also identifies net position as the residual of all other elements presented in a statement of financial position. GASB No. 63 amends the net asset reporting requirements in GASB Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The Corporation has not completed the process of evaluating the impact of GASB No. 63 on its financial statements.

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Notes to Financial Statements (continued)

**2. Summary of Significant Accounting Policies (continued)**

**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 contract services in connection with NYCEDC's principal on-going operations. The principal operating revenues are grants from The City, rentals of City-owned property, sales of New York Power Authority electric power, and sales of property (see Real Estate Sales). NYCEDC's operating expenses include project and program costs, utility costs, property rental charges and related administration 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.

**Grants**

NYCEDC administers certain reimbursement and other grant funds from 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 deferred revenue in the accompanying balance sheets.

Other grants are recorded as revenue when earned.

**Property Rentals**

Property rentals are recognized on a straight-line basis over the term of the leases.

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

**2. Summary of Significant Accounting Policies (continued)**

**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. Deposits received from prospective purchasers prior to closing are included in the accompanying balance sheets as deposits received on pending sales of real estate.

Beginning in fiscal 1990, for sales of City-owned property in which NYCEDC has accepted a promissory note from a purchaser in lieu of cash, in addition to the note receivable, corresponding deferred revenue is recorded at the time of closing. Due to collectability issues associated with these promissory notes, such deferred revenue is amortized into income ratably as payments are made.

**Retainage Payable**

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

**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 loans are secured by second mortgages or other security interest and carry below market interest rates. 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, certificates of deposit and highly liquid debt instruments with original maturities of three months or less. Cash equivalents are stated at fair value.

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

**2. Summary of Significant Accounting Policies (continued)**

**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 use by NYCEDC in excess of \$10,000 and consisting primarily of furniture and equipment are capitalized and depreciated using the straight-line method over the estimated useful life assigned, which varies from three to five years.

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**

NYCEDC is exempt from federal income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code (the “Code”). In addition, NYCEDC has been classified as an organization that is not a private foundation and has been designated a “publicly supported” organization as specified in Section 509(a) and Section 170(b)(1)(A)(vi) of the Code.

Apple is a New York State not-for-profit corporation and is exempt from federal income taxes under Section 501(c)(3) of the Code.

**Reclassifications**

Certain prior year amounts shown in the accompanying financial statements have been reclassified to conform to current year presentation.

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

**3. Contracts with The City of New York**

**NYCEDC Master Contract**

The City and NYCEDC have entered into the NYCEDC 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 others (1) facilitating commercial and industrial development projects, (2) stabilizing and improving industrial areas in The City, (3) administering public loan, grant and subsidy programs on behalf of The City, (4) encouraging development of intrastate, interstate and international commerce within The City, and (5) managing and maintaining certain City-owned properties.

In partial consideration of the services rendered by NYCEDC pursuant to the NYCEDC 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 the contract cap. For fiscal years ended June 30, 2011 and 2010, net revenues generated from such sources amounted to \$85,298,810 and \$69,872,669, respectively. Income self-generated by NYCEDC, including interest earned on all cash accounts related to unrestricted operations and certain fees earned for services rendered which are not payable by The City, may be retained by NYCEDC under the NYCEDC Master Contract without regard to the contract cap.

Pursuant to section 11.05 of the NYCEDC 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 assets exceeds \$7 million. At the direction of The City, NYCEDC was required to remit \$54,260,486 and \$20,586,488 from its unrestricted net assets in fiscal 2011 and 2010, respectively, which are accounted for as contract and other expenses to The City in the statements of revenues, expenses and changes in fund net assets.

The term of the NYCEDC 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.

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

**3. Contracts with The City of New York (continued)**

**NYCEDC Maritime Contract**

The City and NYCEDC have entered into the NYCEDC 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, and (3) administering leases, permits, licenses, and other occupancy agreements pertaining to such related properties.

In the performance of its services under the NYCEDC 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 (see Note 11). In consideration of the services rendered by NYCEDC pursuant to the NYCEDC 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 ("Budget") as called for by the NYCEDC Maritime Contract. Any Reimbursable Expenses, as defined in the NYCEDC 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"). For the fiscal years ended June 30, 2011 and 2010, the Reimbursed Amount was \$30,311,405 and \$18,999,799, respectively. Net revenues generated on The City's behalf for services under the NYCEDC Maritime Contract in excess of the Reimbursed Amount must be remitted to the City on a periodic basis. The operations covered by the NYCEDC Maritime Contract generated \$16,725,492 and \$16,726,186 in net revenues in both fiscal years 2011 and 2010.

Pursuant to section 9.06 of the NYCEDC 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 assets exceeds \$7 million.

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

**3. Contracts with The City of New York (continued)**

At the direction of The City, NYCEDC was required to remit \$16,718,000 for both fiscal years 2011 and 2010, respectively, pursuant to the NYCEDC Maritime Contract, and such amounts are included in the accompanying Statements of revenues, expenses and changes in fund net assets under contract and other expenses to The City. The entire amounts required were remitted at June 30, 2011 and 2010, respectively.

The term of the NYCEDC 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**

Additionally, the City has directed rental payments for the ground lease for the Times Square Marriott Marquis be sent to NYCEDC. In this case, NYCEDC acts as a conduit and must remit such amounts to The City. For the fiscal years ended June 30, 2011 and 2010, \$10,162,307 and \$9,551,571 was remitted to the City, respectively.

**4. Grants**

NYCEDC receives grants for specifically defined projects. For the year ended June 30, 2011, grant revenue was \$548,034,260, of which \$535,446,395 were reimbursement grants from The City. For the year ended June 30, 2010, grant revenue was \$620,371,208, of which \$605,465,709 were reimbursement grants from The City.

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

**5. Land Held for Development**

NYCEDC may purchase land to help achieve the City's and NYCEDC's redevelopment goals. During fiscal year 2010, NYCEDC purchased several parcels of land in Coney Island ("Coney") to assist with the implementation of a comprehensive economic development plan to strengthen the Coney amusement area. The cost of these property acquisitions was approximately \$105.3 million, for which NYCEDC received Capital funds from the City. Effective March 2010, NYCEDC leased the acquired property acquired to a third party for a ten year period in furtherance of the goals and vision for Coney. NYCEDC may convey the site to the City, for nominal consideration, at any time. This amount is reflected as real estate obligations due to the City. Also included in land held for development is approximately \$3.1 million of other properties. No additional land purchases were made in fiscal year 2011.

**6. Other Income**

The following table summarizes other income for the fiscal years ended June 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Tenant reimbursements	\$ 6,852,236	\$ 6,896,435
Developer contributions	1,395,176	1,431,400
Interest income from loans	1,648,337	1,507,050
Other income	10,398,351	9,035,381
Total	<u>\$ 20,294,100</u>	<u>\$ 18,870,266</u>

**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, 2011 and 2010, these mortgage notes totaled \$14,787,168 and \$11,567,483, respectively, exclusive of 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.

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Notes to Financial Statements (continued)

**7. Loans and Mortgage Notes Receivable (continued)**

These loans were made to borrowers whose business operations are likely to provide employment generation, 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, 2011, the loan and mortgage notes portfolio consisted of 25 loans that bear interest at rates ranging from 0% to 7% and mature at various dates through October 1, 2036.

Scheduled maturities of principal for these loans for the next five years and thereafter are as follows:

<b>Fiscal Year</b>	<b>Principal Maturity</b>	<b>Interest</b>
2012	\$ 10,644,271	\$ 1,147,509
2013	2,050,777	1,373,186
2014	2,106,299	1,281,782
2015	2,188,486	1,186,199
2016	2,791,294	1,084,023
2017 – 2021	9,251,372	3,853,998
2022 – 2026	5,669,737	2,483,127
2027 – 2031	6,189,806	1,391,412
2032 – 2036	7,021,810	728,677
2037	53,331	–
	<u>\$ 47,967,183</u>	<u>\$ 14,529,913</u>

NYCEDC has three loans in fiscal 2011 that represented approximately 49% of the loan portfolio balance. The composition of the nine largest loans, comprising 96% of the entire portfolio, by industry type, at June 30, 2011 was as follows: real estate development 95% and service 1%.

The ability of the borrowers to honor their contracts may be affected by a downturn in The City's economy, which may ultimately limit the funds available to repay interest and principal.

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Notes to Financial Statements (continued)

**7. Loans and Mortgage Notes Receivable (continued)**

The City may, at its discretion, request payment of certain amounts received by NYCEDC from the administration of certain programs within the Finance Programs.

**8. Due to/from The City of New York**

NYCEDC is required to remit amounts to The City under the NYCEDC Master Contract (see Note 3). The unremitted portion of such amounts at June 30, 2011 and 2010 amounted to \$20,905,405 and \$8,453,863, respectively.

Pursuant to the various contracts with The City, NYCEDC recorded total grants from The City in the amount of \$548,034,260 and \$620,371,208 during fiscal years 2011 and 2010, respectively, of which \$182,261,987 and \$152,905,086 were unpaid by The City as of June 30, 2011 and 2010, respectively. These unpaid amounts are included in the accompanying balance sheets as Due from The City.

**9. Capital Assets**

Changes in capital assets for the years June 30, 2009 to June 30, 2011 consisted of the following:

	<u>June 30, 2009</u>	<u>Additions/ Depreciation</u>	<u>Disposals</u>	<u>June 30, 2010</u>	<u>Additions/ Depreciation</u>	<u>Disposals</u>	<u>June 30, 2011</u>
Equipment	\$ 4,034,822	\$ 2,485,676	\$ (622,693)	\$ 5,897,805	\$ 649,091	\$ (579,151)	\$ 5,967,745
Leasehold improvements	696,790	59,356	-	756,146	938,789	-	1,694,935
Computer software	954,662	101,553	(287,038)	769,177	151,797	(34,086)	886,888
Capital assets	5,686,274	2,646,585	(909,731)	7,423,128	1,739,677	(613,237)	8,549,568
Less:							
Accumulated depreciation	(3,296,448)	(1,078,685)	909,731	(3,465,402)	(1,395,761)	613,237	(4,247,926)
Capital assets, net	<u>\$ 2,389,826</u>	<u>\$ 1,567,900</u>	<u>\$ -</u>	<u>\$ 3,957,726</u>	<u>\$ 343,916</u>	<u>\$ -</u>	<u>\$ 4,301,642</u>

Depreciation and amortization of capital assets for the fiscal years ended June 30, 2011 and 2010 were \$1,395,761 and \$1,078,685, respectively.

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

**10. Cash and Investments**

**Cash**

The bank balance of NYCEDC's deposits was \$169,026,671, of which \$6,160,524 was covered by federal depository insurance and \$158,433,838 was collateralized by securities held by the pledging financial institution. The remaining balances of the deposits were not collateralized as of June 30, 2011. Petty cash on hand amounted to \$3,000 at June 30, 2011.

**Investments**

NYCEDC's investment policy permits the Corporation to invest in obligations of the United States of America or in obligations guaranteed by agencies of the United States of America where the payment of principal and interest is guaranteed by the United States of America as well as obligations of the State. All of the Corporation's investments in U.S. agencies carry a guarantee of the U.S. government. Other permitted investments, include short term commercial paper, certificates of deposit and bankers acceptances. All investments are subject to certain limitations and conditions, and are carried at fair value, except for certificates of deposit, which are valued at cost.

Investments at June 30, 2011 and 2010 consist of the following securities with maturities (dollars in thousands):

	<b>Fair Value</b>		<b>Investment Maturities at June 30, 2011 in Years</b>	
	<b>2011</b>	<b>2010</b>	<b>Less than 1</b>	<b>1 to 2</b>
Money market and mutual funds	\$ 72,611	\$ 56,520	\$ 72,611	\$ -
Money market deposit account	68,995	65,138	68,995	-
FHLB notes	9,708	22,747	7,261	2,447
Corporate bonds	-	21,437	-	-
FHLMC notes	11,521	12,964	5,540	5,981
U.S. treasury bills	7,189	6,878	3,665	3,524
Commercial paper	7,798	3,749	7,798	-
FFCB notes	-	3,504	-	-
FNMA notes	13,446	3,000	7,642	5,804
Certificate of deposit and other	1,213	252	972	241
	<b>192,481</b>	196,189	<b>\$ 174,484</b>	<b>\$ 17,997</b>
Less amount classified as cash equivalents	<b>(141,605)</b>	(134,407)		
Total investments	<b>\$ 50,876</b>	<b>\$ 61,782</b>		

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

**10. Cash and Investments (continued)**

At June 30, 2011 and 2010, cash, cash equivalents and investments of \$92,975,327 and \$109,522,196, respectively, were restricted for use in connection with designated programs of NYCEDC.

*Interest Rate Risk* – As a means of limiting its exposure to fair value losses arising from increasing interest rates, the Corporation limits investment maturities to within two years of the date of purchase.

*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 any agency or instrumentality of the U.S. government. As of June 30, 2011, the Corporation’s investments in Federal National Mortgage Association (“FNMA”), Federal Home Loan Bank (“FHLB”), and the Federal Home Loan Mortgage Corporation (“FHLMC”) were rated AAA by Moody’s Investors Service, Standard & Poor’s and Fitch Ratings. Investments in commercial paper were rated in the highest short-term category by at least two major rating agencies (A-1+ by Standard & Poor’s, P-1 by Moody’s, and/or F1+ by Fitch Ratings). Money market and mutual funds are not rated.

*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 uninsured and are not registered in the name of the Corporation.

The Corporation manages custodial credit risk by limiting its investments to highly rated institutions and/or requiring high quality collateral be held by the counterparty in the name of the Corporation. At June 30, 2011, the Corporation was not subject to custodial credit risk.

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

**10. Cash and Investments (continued)**

*Concentration of Credit Risk* – The Corporation places no limit on the amount the Corporation may invest in any one issuer. The following table shows investments that represent 5% or more of total investments as of June 30, 2011 and 2010 (dollars in thousands).

Issuer	<u>Dollar Amount and Percentage of Total Investments</u>			
	June 30, 2011		June 30, 2010	
Federal Home Loan Bank	\$ 9,708	19.10%	\$ 22,747	36.82%
Federal National Mort. Assoc.	13,446	26.45%	–	–
Federal Home Loan Mortgage Corp.	11,521	22.67%	12,964	20.98%
Regions Bank	–	–	6,272	10.15%
Bank of America	–	–	4,707	7.62%
Federal Farm Credit Notes	–	–	3,504	5.67%
Citigroup	–	–	3,343	5.41%

**Investment Income**

Investment income from interest earned on bank accounts, certificates of deposit and securities was \$915,297 and \$962,587 for the fiscal years ended June 30, 2011 and 2010, respectively.

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

NYCEDC has entered into certain ground leases with The City. NYCEDC, in turn, subleases the property to commercial and industrial tenants. Additionally, NYCEDC manages certain properties on behalf of The City for which there are no ground leases. The sublease agreements and leases that NYCEDC manages on behalf of The City generally provide for minimum rentals plus provisions for additional rent and restrict the use of the land to the construction or development of office, commercial, manufacturing or industrial facilities. Certain of the subleases also provide for renewals at the end of the initial lease term for periods ranging from 10 to 50 years.

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Notes to Financial Statements (continued)

**11. Ground Leases and Properties Managed by NYCEDC on Behalf of The City  
(continued)**

The future minimum rental income as of June 30, 2011, payable by the tenants under the subleases and leases managed by NYCEDC on behalf of The City, 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 Transportation/ Commerce Tenants	Minimum Rental Income from Other Tenants	Total
2012	\$ 15,469	\$ 10,131	\$ 39,897	\$ 943	\$ 66,440
2013	13,361	9,898	33,552	846	57,657
2014	11,614	9,797	31,615	775	53,801
2015	10,279	9,566	29,723	478	50,046
2016	7,868	8,711	27,181	123	43,883
2017 – 2021	12,289	37,844	125,065	–	175,198
2022 – 2026	4,210	32,148	100,833	–	137,191
2027 – 2031	–	31,775	65,540	–	97,315
2032 – 2036	–	31,225	47,813	–	79,038
2037 – 2041	–	30,410	22,913	–	53,323
Thereafter	–	253,423	37,628	–	291,051
Total	<u>\$ 75,090</u>	<u>\$ 464,928</u>	<u>\$ 561,760</u>	<u>\$ 3,165</u>	<u>\$ 1,104,943</u>

The thereafter category includes 22 leases with expiration dates between July 1, 2041 and September 13, 2105.

**12. 42<sup>nd</sup> Street Development Project**

The 42<sup>nd</sup> Street Development Project (the “Project”) was conceived in the 1980s to transform the properties in the 42<sup>nd</sup> Street area between 7<sup>th</sup> and 8<sup>th</sup> Avenues. Currently, title to the 42<sup>nd</sup> Street sites that comprise the Project is held by the State of New York through the Empire State Development Corporation (“ESDC”). For a number of years, NYCEDC has overseen the ground leases for the Project on behalf of The City.

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Notes to Financial Statements (continued)

**12. 42<sup>nd</sup> Street Development Project (continued)**

By Memorandum from The City dated September 20, 2010, NYCEDC shall retain 100% of amounts earned and attributable to the period prior to January 1, 2011 regardless of whether such amounts are collected before or after January 1, 2011, subject to the retention cap in section 3.07 of the Master Contract. For the fiscal years ended June 30, 2011 and 2010, NYCEDC has recognized \$91.7 million and \$21.6 million, respectively, as operating revenue in connection with the services it provided to the Project. Also as set forth in the September 20 Memorandum, the overall administration of the Project was to be assumed by NYCEDC. By agreement of the parties, assumption of these responsibilities was to occur on July 1, 2011.

For all periods after January 1, 2011, NYCEDC, pursuant to Section 11.05 of the NYCEDC Master Contract, is to transfer to The City all revenues related to the Project properties that it collects, other than \$1,000,000 per fiscal year of revenues it collects in that fiscal year (including fiscal year 2011). NYCEDC is permitted to keep these revenues pursuant to Section 3.07 of the Master Contract for its administrative services. \$1,000,000 of such revenues has been included as fee income in the statements of revenues, expenses and changes in fund net assets.

**13. Pension Plan**

NYCEDC maintains a defined contribution pension plan, which covers substantially all employees. The pension plan provides for variable contribution rates by NYCEDC ranging from 6% to 14% of the employees' Eligible Wages, as defined in the Code. Pension expense for the fiscal years ended June 30, 2011 and 2010 amounted to \$3,273,397 and \$3,560,018, respectively, and is included in personnel services in the accompanying statements of revenues, expenses and changes in fund net assets.

**14. 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. This plan was amended during February 2011 with the plan amendment effective July 1, 2011. The amendment includes revisions to the definition of what constitutes an eligible participant and the adoption of a plan close date of June 30, 2023. As a result of the amendment, 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

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

**14. Postemployment Benefits Other than Pensions (continued)**

Medicare coverage when they depart NYCEDC, and (iii) all active employees who started working prior to January 1, 2011 and will meet the benefit eligibility requirement of age 60 or older with at least 10 years of service by June 30, 2023. NYCEDC is not required to and does not issue a publicly available financial report for the plan.

Benefit provisions and contribution requirements for the plan are established and amended through NYCEDC’s Board of Directors and there is no statutory requirement for NYCEDC to continue this plan for future NYCEDC employees. The plan is a contributory plan with retirees subject to contributions established for either the Low or High version of the plan. 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. Retirees receiving the post-employment health benefit pay a premium amount equal to what a current NYCEDC employee pays, based on his or her family status. Additional costs may be incurred by the retiree under either the Low or High plan version. At June 30, 2011 and 2010, there were 21 and 20 retirees receiving benefits, all under the Low version of the plan. Employer contributions are made on a pay as you go basis.

NYCEDC’s annual OPEB cost for the plan is calculated based on the annual required contribution “ARC”, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. NYCEDC’s annual OPEB cost for the current year and the related information for the plan are as follows (dollars in thousands):

	<b>2011</b>	<b>2010</b>
Annual required contribution	\$ 2,310	\$ 3,004
ARC adjustment	(2,345)	(899)
Interest on net OPEB obligation	761	655
Annual OPEB cost	726	2,760
Contributions made	(329)	(108)
Increase in net OPEB obligation	397	2,652
Net OPEB obligation – beginning of year	19,018	16,366
Net OPEB obligation – end of year	\$ 19,415	\$ 19,018

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

**14. Postemployment Benefits Other than Pensions (continued)**

NYCEDC's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal years 2011, 2010 and 2009 were as follows (dollars in thousands):

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
06/30/11	\$ 726	45.31%	\$ 19,415
06/30/10	2,760	3.91%	19,018
06/30/09	4,294	3.94%	16,366

The actuarial valuation date is June 30, 2010. The actuarial accrued liability for benefits as of this date was \$23,941,250, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$34,981,451, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 68.4%.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress presented as required supplementary information provides multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Projections of benefits are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between NYCEDC and the plan members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. NYCEDC's June 30, 2011 OPEB obligation does not reflect any estimated or actual adjustments resulting from National Health Care Reform.

For the June 30, 2010 actuarial valuation, the project unit credit actuarial cost method was used. The actuarial assumptions included a 4% discount rate and an annual healthcare cost trend rate of 9% and grading down to an ultimate rate of 5%. The unfunded actuarial accrued liability is being amortized over a 30 year closed period on a level dollar basis. The remaining amortization period at June 30, 2011 was 24 years.

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

**15. Other Related Party Transactions**

**New York City Industrial Development Agency (“IDA”)**

NYCEDC is responsible for administering the economic development programs of IDA. For the fiscal years ended June 30, 2011 and 2010, NYCEDC earned management fee income from IDA of \$6,052,117. In addition a contingency fee of \$1,863,194 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 fund net assets. At June 30, 2011 and 2010, the amounts due from IDA totaled \$3,219,124 and \$945,083, respectively.

**New York City Capital Resources Corporation (“CRC”)**

In 2006, CRC was organized under the Not-for-Profit Corporation Law of the State of New York. NYCEDC is responsible for administering the economic development programs of CRC. In June 30, 2011 and 2010, NYCEDC earned management fee income from CRC in the amount of \$80,000. That amount is included in fee income in NYCEDC’s accompanying statements of revenues, expenses and changes in fund net assets.

**Coney Island Development Corporation (“CIDC”)**

CIDC was incorporated under the Not-for-Profit Corporation Law of the State of New York in 2003. Pursuant to an agreement between NYCEDC and CIDC, NYCEDC provides project management services to CIDC and administers CIDC’s financial books and records. During fiscal year 2011, NYCEDC earned management fees of \$120,000 from CIDC.

**Other City Agencies (“OCAs”)**

During fiscal year 2011, NYCEDC collected additional management fees from various OCAs. These OCAs consisted of the Brooklyn Bridge Park Corporation, the Trust for Governor’s Island, New York City Energy Efficiency Corporation, and the Trust for Cultural Resources of New York City. The management and administrative fees collected during fiscal years 2011 and 2010 totaled \$497,912 and \$310,000, respectively.

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

**16. Commitments and Contingencies**

NYCEDC rents office space under a lease agreement expiring in fiscal year 2015. The future minimum rental commitments as of June 30, 2011 required under the operating lease are as follows:

Fiscal year:	
2012	\$ 7,350,112
2013	7,350,112
2014	7,350,112
2015	7,557,928
2016	7,599,491
Thereafter	24,065,054
	<u>\$ 61,272,809</u>

Rent expense for office space amounted to \$7,732,891 and \$7,728,592 for the fiscal years ended June 30, 2011 and 2010.

NYCEDC, and in certain situations as co-defendant with the City, Apple, New York City Capital Resource Corporation and/or New York City Industrial Development Agency, 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.

In addition, the Office of the New York State Attorney General commenced a state-wide investigation into the activities of local development corporations, including NYCEDC. NYCEDC has cooperated fully with this investigation, but at this time it is unclear whether the investigation will have any effect on the financial statements of NYCEDC.

NYCEDC is the "Obligee" pursuant to a Promissory Note entered into with House of Spices Realty, LLC ("HoS"). The principal amount of the Promissory Note is \$3,600,000 and is subject to certain cancellation provisions set forth in the Promissory Note. If the release conditions are satisfied prior to the Maturity Date, NYCEDC shall mark the Promissory Note "Cancelled" and return it to HoS, and thereafter HoS shall have no further obligation. As collection under the Promissory Note is contingent on the release conditions not being met, the Corporation has concluded that it would be inappropriate to recognize revenue under this agreement.

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

**17. Risk Management**

NYCEDC is exposed to various risks of loss-related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. NYCEDC carries commercial insurance coverage for these risks. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**18. Net Assets**

In order to present the financial condition and operating results of NYCEDC in a manner consistent with limitations and restrictions placed upon the use of resources, NYCEDC classifies its net assets into three categories, invested in capital assets, restricted, and unrestricted net assets. Invested in capital assets includes capital assets net of accumulated depreciation used in NYCEDC's operations. Restricted net assets include net assets that have been restricted in use in accordance with the terms of an award or agreement (other than the net assets generally available for City program activities under the NYCEDC Master Contract and the NYCEDC Maritime Contract) or by law. Unrestricted net assets include all net assets not included above. The NYCEDC Master Contract and the NYCEDC Maritime Contract limit the use of all unrestricted net assets to City program activities except for unrestricted net assets resulting from income self-generated by NYCEDC provided that NYCEDC must remit to The City assets having a fair market value up to the amount, if any, by which NYCEDC's unrestricted net assets exceed \$7 million (see Note 3).

**Changes in Net Assets**

The changes in net assets during fiscal years 2011 and 2010 are as follows:

	<b>Restricted</b>	<b>Unrestricted</b>	<b>Invested in Capital Assets</b>	<b>Total</b>
Net assets, June 30, 2009	\$ 108,609,027	\$ 87,351,038	\$ 2,389,826	\$ 198,349,891
(Decrease) increase in net assets	(1,761,887)	22,950,376	-	21,188,489
Additions	-	(2,646,585)	2,646,585	-
Retirements/depreciation	-	1,078,685	(1,078,685)	-
Net assets, June 30, 2010	106,847,140	108,733,514	3,957,726	219,538,380
(Decrease) increase in net assets	<b>(21,711,237)</b>	<b>113,539,347</b>	-	<b>91,828,110</b>
Additions	-	<b>(1,739,676)</b>	<b>1,739,676</b>	-
Retirements/depreciation	-	<b>1,395,760</b>	<b>(1,395,760)</b>	-
Net assets, June 30, 2011	<b>\$ 85,135,903</b>	<b>\$ 221,928,945</b>	<b>\$ 4,301,642</b>	<b>\$ 311,366,490</b>

## Required Supplementary Information

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

Schedule of Funding Progress for the  
Retiree Health Care Plan

*(Dollars in Thousands)*

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) – Level Dollar (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/c
6-30-2010 (1)	–	\$ 23,941	\$ 23,941	0%	\$ 34,981	68.4%
6-30-2008	–	41,316	41,316	0%	30,645	134.8%
6-30-2006	–	36,134	36,134	0%	32,471	111.3%

(1) Effective July 1, 2011, the plan was amended to include revisions to the definition of what constitutes an eligible participant and the adoption of a plan close date of June 30, 2023. These amendments significantly reduced the number of current and future employees eligible for this benefit and resulted in an overall reduction in the actuarial accrued liability (“AAL”) at June 30, 2011.

## Supplementary Information

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

Combining Statements of Revenues, Expenses and Changes in Fund Net Assets

	Unrestricted	Restricted							Total Restricted	Year Ended June 30		
		Brooklyn Army	Maritime	Other Properties	Finance Programs	Capital Programs	Public Purpose	NYC Public Utility		Apple 42 <sup>nd</sup> Street	2011	2010
Operating revenues:												
Grants	\$ 31,609,086	\$ —	\$ —	\$ —	\$ —	\$ 516,425,174	\$ —	\$ —	\$ —	\$ 516,425,174	\$ 548,034,260	\$ 620,371,208
Property rentals	23,806,062	17,447,036	65,624,201	2,893,049	—	—	—	—	—	85,964,286	109,770,348	96,390,435
Power sales	—	—	—	—	—	—	—	54,261,376	—	54,261,376	54,261,376	53,275,525
Fee income	10,085,058	21,308	55,455	7,113	336	—	6,350,597	24,824	—	6,459,633	16,544,691	16,653,405
Other income – 42 <sup>nd</sup> Street Development Project	91,745,332	—	—	—	—	—	—	—	—	—	91,745,332	21,642,045
Other income	7,925,536	4,296,615	5,682,820	77,773	878,996	—	1,432,360	—	—	12,368,564	20,294,100	18,870,266
Real estate sales, net	30,978,293	—	—	—	—	—	—	—	—	—	30,978,293	1,396,041
Total operating revenues	196,149,367	21,764,959	71,362,476	2,977,935	879,332	516,425,174	7,782,957	54,286,200	—	675,479,033	871,628,400	828,598,925
Operating expenses:												
Project costs	33,063,274	—	—	—	—	—	703,370	—	—	703,370	33,766,644	44,147,228
Program costs	—	—	—	—	483,745	499,748,924	—	—	—	500,232,669	500,232,669	470,697,469
Property rentals and related operating expenses	4,569,825	9,494,231	21,349,101	1,659,244	—	—	—	—	602,737	33,105,313	37,675,138	34,663,250
Utility expenses	—	—	—	—	—	—	—	53,381,447	—	53,381,447	53,381,447	52,321,429
Personnel services	12,008,845	806,929	32,911,573	—	129,780	—	143,871	45,265	—	34,037,418	46,046,263	47,459,076
Office rent	7,556,328	—	—	—	—	—	—	176,563	—	176,563	7,732,891	7,728,592
Contract and other expenses to The City	54,260,486	—	16,725,492	30,636	—	16,522,463	2,365,495	—	—	35,644,086	89,904,572	142,737,190
Other general expenses	8,601,839	37,234	383,683	13,964	344,410	—	83,804	2,511,029	—	3,374,124	11,975,963	8,618,789
Total operating expenses	120,060,597	10,338,394	71,369,849	1,703,844	957,935	516,271,387	3,296,540	56,114,304	602,737	660,654,990	780,715,587	808,373,023
Operating income (loss)	76,088,770	11,426,565	(7,373)	1,274,091	(78,603)	153,787	4,486,417	(1,828,104)	(602,737)	14,824,043	90,912,813	20,225,902
Nonoperating revenues:												
Income from investments	644,188	—	7,373	7,403	50,647	7,463	194,910	3,271	42	271,109	915,297	962,587
Total nonoperating revenues (expenses)	644,188	—	7,373	7,403	50,647	7,463	194,910	3,271	42	271,109	915,297	962,587
Income (loss) before transfers	76,732,958	11,426,565	—	1,281,494	(27,956)	161,250	4,681,327	(1,824,833)	(602,695)	15,095,152	91,828,110	21,188,489
Interfund transfers	36,806,389	(11,426,565)	—	52,260	—	—	(26,034,779)	—	602,695	(36,806,389)	—	—
Change in net assets	113,539,347	—	—	1,333,754	(27,956)	161,250	(21,353,452)	(1,824,833)	—	(21,711,237)	91,828,110	21,188,489
Net assets, beginning of year	112,691,240	500,000	7,000,000	8,479,288	45,545,434	3,012,072	37,714,617	4,595,729	—	106,847,140	219,538,380	198,349,891
Net assets, end of year	\$ 226,230,587	\$ 500,000	\$ 7,000,000	\$ 9,813,042	\$ 45,517,478	\$ 3,173,322	\$ 16,361,165	\$ 2,770,896	\$ —	\$ 85,135,903	\$ 311,366,490	\$ 219,538,380

Report 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 Board of Directors  
New York City Economic Development Corporation

We have audited the financial statements of New York City Economic Development Corporation (“NYCEDC”), a component unit of The City of New York, as of and for the year ended June 30, 2011 and have issued our report thereon dated October 3, 2011. We conducted our audit 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.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered NYCEDC’s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of NYCEDC’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of NYCEDC’s internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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 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. We consider the deficiency described in the accompanying schedule of findings and responses as finding 2011-01 to be a material weakness.

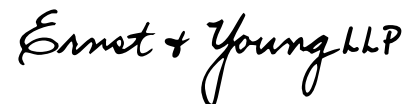
A significant deficiency is a deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and responses as finding 2011-02 to be a significant deficiency.

### **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*.

NYCEDC's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit NYCEDC's responses and accordingly, we express no opinion on them.

This report is intended solely for the information and use of the management, the Board of Directors, others within the entity and The City of New York and is not intended to be and should not be used by anyone other than these specified parties.

The signature of Ernst & Young LLP is written in a cursive, handwritten style in black ink.

October 3, 2011

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

Schedule of Findings and Responses

Year Ended June 30, 2011

**Finding 2011-01 New York City Public Utility Service Program Billings**

Criteria

The NYCEDC Accounting department (“Accounting”) is responsible for maintaining a process that provides for an accurate billing calculation for its New York City Public Utility Service (“NYCPUS”) program.

Condition:

The NYCPUS program was established to resell power to certain eligible business customers at discounted rates as a means of fostering business growth. NYCPUS purchases hydropower at discounted rates from the New York Power Authority (“NYPA”) and this power is delivered locally by Consolidation Edison (“ConEd”) to NYCPUS customers. Effective June 2010, the billing calculation process was transferred from the Energy Department to Accounting. Power sales for the year ended June 30, 2011 were \$54 million.

In conjunction with our audit of NYCEDC, a detailed review of the NYCPUS program was performed. As a result of the testing performed, the following exceptions were noted:

- For the period from May 1, 2010 through June 30, 2011, NYCEDC failed to pass along a rate increase associated with ConEd energy delivery charges. This rate increase was required to be passed along to NYCPUS customers with an additional 1% operating profit mark-up. As a result, NYCPUS customers were under-billed by approximately \$2.5 million.
- NYPA bills NYCPUS based on energy generation and transmission data consisting of power, transmission, energy and ISP charges. These charges are passed-on to NYCPUS customers with an additional 1% operating profit-mark-up. For the period of May 2010 to June 2011, under-billing to NYCPUS customers for NYPA energy generation charges were approximately \$600,000.
- NYCPUS customers were over-billed by approximately \$45,000 due to calculation errors related to “Apportioned Surcharges” billed by ConEd. Such charges are also passed-on to NYCPUS customers. Accounting had added a 1% mark-up, but these costs are to be passed-on on a “dollar-for-dollar” basis. This error was reported to management during the 2010 review of the NYCPUS program, however customers continued to be billed the 1% mark-up in 2011.

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

Schedule of Findings and Responses (continued)

Year Ended June 30, 2011

**Finding 2011-01 New York City Public Utility Service Program Billings (continued)**

Effect:

As a result of the billing discrepancies noted and the lack of timely review of the billings, total under-billings for FY 2011 were approximately \$3 million. As NYCPUS had already received \$1.4 million from the most affected customer, the net amount due from NYCPUS customers amounted to approximately \$1.6 million.

Cause:

We noted that Accounting did not have adequate review procedures to ensure that amounts billed to customers were in accordance with executed agreements with NYPA, ConEd and their customers.

Recommendation:

We recommend that Accounting perform a detailed review monthly of all charges prior to invoicing customers to verify that all billed amounts are accurate. In addition, there should be adequate staff training to ensure that those responsible for preparing the monthly bills understand the intricacies of this complex billing process.

View of Responsible Officials and Planned Corrective Action:

NYCEDC agrees to the audit recommendation. The exceptions noted by the auditors were the result of a lapse in renewal of the NYCPUS program which was held up by the late New York State legislation for the annual budget at the end of FY10 into FY11. During the renewal period ConEd and NYPA, as the service providers of the NYCPUS program, sent multiple revisions of customer statements, which increased the billing rate from the discounted to the normal (market) rate. After the New York State legislature approved the extension of the discounted energy program, a new set of rates were established by ConEd and NYPA. Both organizations submitted multiple revisions of billing statements to retroactively apply the new rates to the period of discontinuance.

As a result of the multiple revisions coming from the service providers, NYCEDC accounting staff completed a reconciliation process which identified the apparent under-billing per customer. NYCEDC accounting staff recognized the discrepancy and alerted Internal Audit to perform a reconciliation of the billing adjustments.

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

Schedule of Findings and Responses (continued)

Year Ended June 30, 2011

**Finding 2011-01 New York City Public Utility Service Program Billings (continued)**

At the conclusion of this extensive effort, the following corrective action plan was established:

- Most customers have been retroactively invoiced for all rate increases issued by ConEd and NYPA. The revised invoice includes the actual billable amount plus the operating mark-up of 1%. The total uncollected balance of \$1.6 million will be collected in full as soon as practical and before the end of this fiscal year.
- As applicable, customers will receive a credit for overbilled invoices relating to erroneous apportioned surcharge calculations. The credit of approximately \$45,000 in total will be applied to the future invoices of the appropriate customers.

In concurrence with the recommendations, NYCEDC has reviewed the conditions that led to the billing discrepancies and management will install the following precautionary measures:

- Allocate additional staffing resources which will be dedicated to the calculation and billing to ensure both timely and accurate results.
- Ensure that staff is adequately trained in the billing process to understand and execute accurate billing.
- Improve the supervisory review process for each billing cycle through detailed review and comparison of both energy purchases and program billing.
- Comprehensive updates to the current process manual as discussed in next audit recommendation.
- Regularly scheduled check-ins with NYPA and ConEd to ensure correct procedures and rates are being used and to resolve any discrepancies that may exist.

Management will also work with NYPA and ConEd to explore a different billing format in an effort to cut down on the number of reconciliations that occur, and to create efficiencies in the billing process, thus minimizing opportunities for discrepancies, while increasing the overall level of control.

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

Schedule of Findings and Responses (continued)

Year Ended June 30, 2011

**Finding 2011-02 Policies and Procedures**

Criteria

A comprehensive policies and procedures manual serves certain basic organizational needs, especially in situations where significant turnover is experienced.

These needs include:

Operational needs – Policies and procedures ensure that fundamental organizational processes are performed in a consistent way that meets the organization’s needs.

Risk management – Established policies and procedures are an important control activity in helping an organization manage risk.

Continuous improvement – Documented procedures improve processes as they help to build important internal communication practices.

Compliance – Well defined and documented processes and procedures along with the associated records that demonstrate process capability can foster effective internal control system compliance with regulations and standards.

Condition:

We noted that NYCEDC’s Accounting Department does not maintain a comprehensive policies and procedures manual. Although the Department does have various written policies and procedures for handling the routine transactions that occur during the year, there is no all-inclusive manual to facilitate the timely recording of transactions, particularly for non-routine or unusual transactions.

Effect:

Due to significant turnover experienced by the Department during the year, certain significant transactions were not recorded on a timely basis due to a lack of familiarity with appropriate procedures for handling large or unusual transactions.

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

Schedule of Findings and Responses (continued)

Year Ended June 30, 2011

**Finding 2011-02 Policies and Procedures (continued)**

Cause:

NYCEDC's current policies and procedures manual is outdated and focuses primarily on routine transactions. Policies and procedures for handling most non-routine transactions are not currently addressed.

Recommendation:

We recommend that management develop a comprehensive policies and procedures manual to assist the Accounting Department in fulfilling its corporate responsibilities in a timely manner.

View of Responsible Officials and Planned Corrective Action:

NYCEDC agrees with the audit recommendation. NYCEDC acknowledges the importance of documented policies and procedures in demonstrating sound internal controls. NYCEDC's accounting department has an extensive policies and procedures manual, but we agree it has not been contemporized for current and non-standard procedures.

Management is in the process of procuring an external and independent consultant that will assist in the creation of a revised and updated Policies and Procedures manual for all financial reporting matters. This will include comprehensive instruction on accounting procedures under the current accounting system, as well as updates to all non-routine transactions. Such updates will concentrate on specific types of transactions unique to NYCEDC and its affiliated entities.

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