

The Dormitory Authority of the State of New York Audit Committee Meeting was held at DASNY's Albany Office located at 515 Broadway, Albany, New York on Tuesday, June 21, 2016 at 4:00 p.m.

The Meeting was called to order by the Audit Committee Chair. Roll call was taken. Those Audit Committee Members present and absent were as follows:

Audit Committee Members Present

Jonathan H. Gardner, Esq., Audit Committee Chair
Paul S. Ellis, Esq., Audit Committee Member
Alfonso L. Carney, Jr., Audit Committee Member

Audit Committee Members Absent

John B. Johnson, Jr., Audit Committee Member
Beryl L. Snyder, Esq., Audit Committee Member

Other Members Present

Gerard Romski, Esq., Board Member
Charles Abel, Designated Representative of the Commissioner of Health, Board Member
(ex officio)

Also Present - Dormitory Authority Staff

Gerrard P. Bushell, President
Michael T. Corrigan, Vice President
Michael E. Cusack, Esq., General Counsel
Kimberly J. Nadeau, Chief Financial Officer
Portia Lee, Managing Director of Public Finance and Portfolio Monitoring
Caroline V. Griffin, Chief of Staff
Debra Pulenskey Drescher, Esq., Managing General Counsel
Kathy D. Ebert, Director, Internal Audit
Daniel W. Petroff, Chief of Strategy and Business Development
Freeman M. Klopott, Director, Communications & Marketing
Karen M. Seiter, Assistant Director, Accounting
Kimberly A. Ellis, Assistant Director, Investments
Karen E. Ehlinger, Manager, Internal Control Analysis
Joshua M. Isaacson, Systems Specialist

Others Present

Greg Driscoll, KPMG
Marie Zimmerman, KPMG
Jeff Koch, KPMG

David Kovalesky, KPMG
Bennie Hadnott, BCA Watson Rice LLP

PUBLIC SESSION

Audit Committee Chair Gardner called the Audit Committee Meeting to order. He informed the Committee Members that Mr. Johnson and Ms. Snyder were unable to attend the Audit Committee Meeting and therefore, the Board Chair appointed himself to the Audit Committee as a temporary Committee Member. The Minutes of the April 11, 2017 Audit Committee Meeting were reviewed and approved.

Audit Committee Chair Gardner asked Ms. Nadeau to review with the Committee Members DASNY's Basic Financial Statements for the Year Ended March 31, 2017. Ms. Nadeau provided an overview of the items to be considered by the Committee Members at the Meeting. She explained that the Committee would hear presentations regarding the Annual Financial Statement Audit, the Annual Investment Report, including Investment Guidelines, and the Annual Public Authorities Accountability Act Report.

Dormitory Authority Basic Financial Statements as of and for the Year Ended March 31, 2017

Ms. Nadeau directed the Committee Members' attention to DASNY's audited Financial Statements and presented a summary of the contents in each of the sections contained therein. She stated that KPMG is expected to deliver an unmodified opinion on DASNY's Financial Statements and Supplementary Information for the year ended March 31, 2017. Ms. Nadeau further stated that there were no material weaknesses or significant deficiencies identified in internal control over financial reporting and that KPMG will not be issuing a management letter. She informed the Committee Members that DASNY is required to submit the Auditor's Report and Basic Financial Statements to the Office of the State Comptroller by June 30, 2017. Ms. Nadeau stated that the full Board will be asked to adopt the Basic Financial Statements for the year ended March 31, 2017 at tomorrow's Board Meeting. She then introduced Greg Driscoll, Lead Engagement Partner at KPMG. Mr. Driscoll introduced the audit team consisting of Jeff Koch, Manager KPMG, and David Kovalesky, Supervising Senior Associate, KPMG, as well as Bennie Hadnott, Partner, BCA Watson Rice LLP.

Mr. Driscoll thanked the Committee Members for the opportunity to serve as auditors for DASNY. He confirmed that KPMG will provide its opinion tomorrow and that there has been no deviation from the audit plan previously presented. Mr. Driscoll introduced the members of the Audit Team, and asked Mr. Hadnott to speak in more detail about the partnership between KPMG and BCA Watson Rice LLP. Mr. Hadnott stated that the firms are in the eighth year of the strategic partnership arrangement and that it has been an overall success. He thanked DASNY for providing BCA Watson Rice LLP with this important opportunity and stated that, as a result, BCA Watson Rice LLP has received high quality training from KPMG that has enabled them to assume additional responsibilities in connection with the DASNY annual audit and undertake additional jobs as well.

The Board Chair asked whether the total number of hours devoted to the annual audit has remained constant over the years. Mr. Hadnott responded that BCA Watson Rice LLP has devoted slightly more hours to the annual audit each year as they have assumed additional responsibilities. Mr. Driscoll stated that KPMG has worked to provide BCA Watson Rice LLP with tasks involving a higher level of responsibility. He then directed the attention of the Committee Members to the Report to the Audit Committee and the required communications to the Audit Committee contained in the draft report.

Mr. Driscoll summarized the scope and deliverables for the annual audit. He stated that the team had been retained to perform an audit of DASNY's Basic Financial Statements for Fiscal Year ending March 31, 2017, and to evaluate DASNY's compliance with the New York State Comptroller's Investment Guidelines for the period ending March 31, 2017. Mr. Driscoll explained that the deliverables for the engagement include an Independent Auditors' Report on the Basic Financial Statements; a Report on Supplementary Information; a Report on Internal Control Over Financial Reporting and Compliance and Other Matters based on an audit of the Financial Statements, which is a required report that would include disclosure of any material weaknesses or significant deficiencies in internal control over financial reporting, as well as any instances of material noncompliance with laws, regulations, contracts or grants, and any instances of fraud or abuse material to the financial statements; a Report on Compliance with the State Investment Guidelines; and Required Communications to the Audit Committee.

Mr. Driscoll outlined the responsibilities of Management, the Audit Committee, and KPMG in connection with the annual audit, and noted that these are set forth on page nine of the audit presentation. He stated that Management is responsible for adopting sound accounting policies, ensuring the fair presentation of financial statements in accordance with generally accepted accounting principles, establishing and maintaining effective internal controls over financial reporting; identifying and confirming that DASNY is in compliance with laws and regulations applicable to its activities; making certain financial information available to the auditors; and providing certain representations regarding the preparation of the financial statements.

Mr. Driscoll informed the Committee Members that the Audit Committee is responsible for oversight of the financial reporting process and oversight of internal control over financial reporting. He stated that together, Management and the Audit Committee are responsible for setting the proper tone, creating appropriate ethical standards, and for establishing and maintaining internal controls to prevent, deter, and detect fraud. Mr. Driscoll emphasized that the preparation of the financial statements is the responsibility of DASNY and that the audit of the financial statements does not relieve Management or the Audit Committee of their responsibilities.

Mr. Driscoll recited the Auditor's responsibilities as set forth on page nine of the presentation. He explained that the auditors conduct the audit in accordance with all applicable rules, regulations and professional standards with an attitude of professional skepticism. He stated that the auditors form and express an opinion about whether the financial statements that have been prepared by Management, with the oversight of the Audit Committee, are presented fairly in all material respects, in conformity with generally accepted accounting principles. Mr. Driscoll emphasized that the audit is planned and performed to obtain reasonable, but not absolute,

assurance about whether the financial statements are free of material misstatement, whether caused by fraud or error. He further stated that the auditors evaluate whether DASNY's internal controls sufficiently address identified risks of material misstatement due to fraud and the risk of Management override of other controls, but do not provide an opinion on the internal controls. He stated that the evaluation of internal controls is undertaken in order to enable the auditors to express an opinion on the financial statements. He noted that KPMG is responsible for communicating all required information and matters of significance to the Audit Committee and Management, as appropriate, and for reviewing other information not covered by the audit report in documents containing the financial statements, such as the Annual Report.

Mr. Driscoll reviewed the Summary of Results on page eleven of the presentation. He advised the Committee Members that there were no significant deviations from the Audit Plan that was presented to the Committee on October 4, 2016. Mr. Driscoll stated that KPMG will be issuing an unmodified opinion on the basic financial statements after full Board approval and receipt of the representation letter. He further stated that there were no transactions deemed both significant and unusual or which lacked authoritative guidance or consensus in conducting the audit this year.

Mr. Driscoll stated that the auditors evaluated Management's judgments and assumptions relative to significant accounting estimates, including the collectability of leases and loans receivables; OPEB liability; net pension liability; interest rate swap valuation; and certain accrued liabilities. He confirmed that the audit did not identify any proposed corrected or uncorrected audit adjustments and that there were no material weaknesses or significant deficiencies identified in internal control over financial reporting. Mr. Driscoll reported that there were no disagreements with Management and no significant difficulties encountered while completing the audit. Mr. Driscoll informed the Committee Members that there were no unresolved reporting or accounting issues, and that the auditors generally have two significant written communications with Management: the engagement letter and management representation letter.

Mr. Driscoll informed the Members that KPMG will issue an unmodified opinion based upon their examination of Investment Compliance and the Supplementary Information reports. He stated that the audit team did not identify any matters requiring the issuance of a formal management letter. Mr. Driscoll disclosed that KPMG evaluated the relationship between a DASNY Board Member and his son, who is a manager in the IT group of KPMG's Albany Office. He reported that it was determined that this individual was not in a position to, and did not, participate in the audit or influence any determination regarding the audit in any way.

Mr. Koch stated that the audit team performed a fraud risk assessment over financial statement reporting, including interviews with key members of Management, Internal Affairs, Internal Audit, and others to discuss the risk of fraud and their knowledge about the risk of fraud. He explained that the audit team reviewed manual journal entries in connection with substantive audit test work to ascertain the possibility of override of Management controls and the possibility of undue pressure to undertake certain actions, as well as all post-closing adjustments; confirmed 100% of cash, investments, and bonds and notes outstanding; reviewed significant accounting estimates for indication of Management bias and updated KPMG's understanding of DASNY's

ethics and accountability program. Mr. Koch reported that the team found no instances of fraud during the audit.

The Board Chair asked whether it is common for KPMG to encounter instances of fraud. Mr. Driscoll responded that the focus of the DASNY audit is fraudulent financial reporting. He explained that the incentive for fraud is greater in private companies. Mr. Driscoll further explained that generally, transactions undertaken by Government entities do not lend themselves to fraudulent financial reporting in the same manner. The Board Chair stated that he was pleased that no Management Letter would be issued again this year and inquired whether this is common. Mr. Driscoll responded that DASNY has internal controls that are generally stronger than other governmental entities.

Mr. Koch informed the Committee Members that certain specialists were retained to assist with specific areas including information technology, risk management, tax, actuarial and valuation. He stated that the specialists tested IT general controls over JD Edwards and SunGard, as well as certain IT application controls. Mr. Koch noted that there were no issues with respect to the application controls. He stated that a tax specialist evaluated DASNY's status as a tax-exempt organization and that an actuarial specialist was retained to assist with evaluating the assumptions used by DASNY in the OPEB obligation calculation. Mr. Koch further stated that there are no findings to report in connection with these areas of focus. Mr. Koch informed the Committee Members that valuation specialists were retained to verify the valuation of 100% of marketable securities. He reported that an engagement quality control review partner provided an independent review of the financial statements; participated in the planning of the audit; reviewed other significant areas where deemed necessary; and reviewed completion procedures to assure that the audit was undertaken in accordance with GAAP and other appropriate standards. Mr. Koch explained that prior to the formal issuance of the reports, the audit team will obtain written representations from Management. He noted that KPMG will also issue reports on 35 individual restricted debt issue financial reports in the coming months and will review DASNY's Annual Report.

Mr. Driscoll thanked the Committee Members for their support of the audit process and stated that he is happy to be on the audit team. Audit Committee Chair Gardner thanked the auditors for their presentation. He also thanked Ms. Nadeau for her hard work in connection with the annual audit.

Ms. Nadeau reviewed some of the more significant items included in this year's financial statements and provide highlights of DASNY's financial results for the year. She stated that some of the highlights for DASNY's lines of business included: another strong year for debt issuance activities with the issuance of over \$6.5 billion in debt; and that within DASNY's construction management line of business, DASNY continued working on the \$100 million program with the New York City Housing Authority ("NYCHA") and the Governor's Office of Storm Recovery ("GOSR") Community Redevelopment Program.

Ms. Nadeau noted that another item that she wished to highlight is the change in the rules related to reporting the fair market value of DASNY's investments that was adopted in 2017. Ms. Nadeau stated that the new rules relate to disclosure only and that there is no impact on the financial

statements themselves. She further stated that the disclosure is intended to provide the user with additional information to assess the reliability of the values.

Ms. Nadeau stated that, overall, DASNY's Financial Statements reflect a loss of \$8.8 million. She explained that the loss is driven by DASNY's Restricted Funds associated with its conduit debt issuances. She further noted that in terms of DASNY's lines of business, DASNY was essentially breakeven, earning just over \$1 million, an improvement over last year's \$2.5 million loss. Ms. Nadeau stated that DASNY would essentially break even for construction management activities, which is to be expected because this is essentially all work for public clients which DASNY bills at cost.

Ms. Nadeau noted that with respect to DASNY's debt issuance activities, there are a combination of issuance and bond administration activities that were favorable, primarily due to a larger portion of work being done for public clients. She stated that the favorability from debt issuance activities was sufficient to support the various New York State initiatives for which DASNY has no specific funding source. Ms. Nadeau noted that in terms of debt issuances, as she noted earlier, DASNY had over \$6.5 billion of issuances. She reported that over 95% of that came from refundings and new money, with over 50% coming from new money, which was fairly evenly split between public and private clients and that approximately 55% was for public clients and 45% for private clients. She stated that in terms of overall distribution on a customer basis, DASNY continues to see the majority - 55% in 2017 - of the issuances coming from public clients.

Ms. Nadeau stated that DASNY had just over \$6 billion in bond retirements for the year, with just over half of that coming from bonds that were refunded by new DASNY bonds. She further stated that DASNY ended the year with just under \$48 billion in outstanding bonds. She noted that the split between public and private clients remained unchanged, with 68% of the outstanding balance related to public clients.

Ms. Nadeau noted that in terms of DASNY's construction management line of business, DASNY's total construction and loan disbursements increased approximately \$400 million in 2017 due to Certified Disbursements - reimbursements to its clients - with DASNY-managed projects increasing slightly. She stated that DASNY's Net Position remained relatively stable in 2017 and that the investment balance also remained essentially unchanged, ending the year at \$3.7 billion with more than 80% related to funds invested for construction projects, grant programs and debt service obligations.

The Audit Committee Members decided unanimously to recommend approval of the Annual Financial Statements to the full Board.

Annual Investment Report for the Year Ended March 31, 2017

Ms. Nadeau directed the Committee Members' attention to the Annual Investment Report for the year ended March 31, 2017. Ms. Nadeau stated that DASNY is required to file the Annual Investment Report with the Office of the State Comptroller. She further stated that the Report includes DASNY's Investment Guidelines, Financial Statements, and summaries of investment income earned and fees paid for the year. Ms. Nadeau reported that there had only been one change in DASNY's Investment Guidelines - the addition of irrevocable letters of credit issued by a federal home loan bank

to DASNY's list of acceptable collateral. She noted that the Board approved this addition at the February 2017 Board Meeting.

Ms. Nadeau thanked her staff for their assistance with the annual audit and briefly described the primary job functions of each employee. She acknowledged Karen M. Seiter, Assistant Director, Accounting; Karma J. Sees, Assistant Director, Financial Management; Kimberly A. Ellis, Assistant Director, Investments; Heidi Lenge, Assistant Director, Accounts Payable; and Geoffrey Arnold, Budget Manager. Ms. Nadeau expressed her appreciation to the entire Finance Division for their assistance, support, and professionalism. She also thanked KPMG for their support and assistance.

The Board Chair thanked Ms. Nadeau for her work and for providing additional information regarding the functions of key staff members. He stated that the repeated absence of a Management Letter is a significant accomplishment. The Board Chair complimented Ms. Nadeau for the work she has done in managing the Finance Division with detail and business acumen and stated that he appreciates her abilities. Audit Committee Chair Gardner agreed with the Board Chair. He informed the Committee Members that he reached out to Ms. Nadeau on Saturday with a question on the Financial Statements and that she provided a detailed response to him the next day.

The Audit Committee Members decided unanimously to recommend approval of the Annual Investment Report to the full Board.

Mr. Ellis moved that the Members go into Executive Session to discuss the financial and credit history of a particular corporation; proposed, pending or current litigation; and the employment history of particular persons or matters leading to the appointment, employment, promotion, demotion, discipline, suspension, dismissal or removal of a particular person. Mr. Carney seconded the motion and the Members went into Executive Session.

EXECUTIVE SESSION

During Executive Session, no action was taken other than a motion to return to Public Session.

PUBLIC SESSION

Public Authorities Accountability Act Annual Report

The President provided the Members with a summary of DASNY's Fiscal 2017 Report to the Authorities Budget Office. He stated that Fiscal Year 2017 was a robust year. He noted that DASNY's Public Finance Division completed 34 bond financings, an increase from last year, including one reoffering, for a total of approximately \$6.5 billion. The President stated that this included the \$829 million issuance on behalf of New York University, the largest for a private client in DASNY's history. He reported that they also completed eight lease transactions with a total value of approximately \$144.2 million under DASNY's Tax-Exempt Leasing Programs.

The President reported that construction expenditures on DASNY-managed projects totaled approximately \$633.7 million and that DASNY ended the fiscal year with a pipeline of 949 projects valued at almost \$6 billion. He noted that in September, DASNY formally broke ground on the largest current project, the \$250 million South Beach Psychiatric Center in Staten Island.

The President stated that DASNY also achieved a 29.1 percent MWBE participation rate on DASNY contracts, even as DASNY continues to execute on older contracts that had goals established before the Governor's current 30 percent target. He further stated that DASNY had its 40th Leadership in Energy and Environmental Design certified project.

The President noted that during the fiscal year, DASNY worked with the New York State Department of Health to streamline the reimbursement process for bond-financed capital expenditures for private health care clients to speed up their ability to access their own funds.

The President stated that DASNY has also achieved a number of process improvements internally through technology enhancements, including automating tasks associated with check runs to reduce staff hours per check run, replacing Windows 7 with Windows 10 to enable greater mobility, and implementing Microsoft's Power Business Intelligence to present data in a dashboard style format that improves visibility into business operations. He noted that DASNY has transformed the Annual Report and marketing materials to improve client out-reach strategy. The President also indicated that DASNY has launched an MWBE Surety Bond Training Program to help MWBEs on their path to becoming prime contractors.

The President then addressed the challenges that DASNY has faced over the past fiscal year. He stated DASNY's success in Public Finance and Construction did not come without challenges. The President stated that DASNY has taken a number of steps in recent years, including in the last fiscal year, to improve its ability to better compete for public finance business. He stated that DASNY is working to reduce construction overhead costs, particularly on smaller projects. He noted that while DASNY experienced a total drop in the value of financing transactions, DASNY did see a slight increase in private client issuances. He explained that, at the same time though, private clients continued to refund away from DASNY.

The President stated that DASNY's public finance business has been impacted significantly by the proliferation of local development corporations ("LDCs") issuing tax-exempt debt and that these entities do not have to comply with the same State oversight procedures that apply to DASNY. He noted that the rise of LDCs is compounded by the narrow spread between tax-exempt and taxable bonds and that a number of DASNY's private client borrowers have elected to finance taxably on their own.

The President reported that with respect to construction, expenditures rose, as did the number of projects. He stated that this represents a continued shift from larger, complex projects to smaller ones, which creates a challenge to maintain a competitive cost structure. He further stated that DASNY is continuing to address these challenges in the current fiscal year by focusing on operational efficiencies and enhanced client outreach.

The President then addressed the metric analysis and some of the challenges DASNY faces on the ground in project delivery. He noted that the delivery of construction projects on time and on budget can be negatively impacted by a variety of factors outside DASNY's direct control, including changes requested by clients, unforeseen field conditions and contractor performance issues. He further noted that even with those variables, the Construction Division turned in another strong year overall. The President stated that each of the of the SUNY summer projects, executed on the tight time frame between students moving out in the Spring and returning in the Fall, was done on time last fiscal year. He stated that, as a whole, 33 of 50 full services construction projects that were over \$1 million in value were delivered within 3 months of the expected completion date, and some were completed as early as 12 months ahead of schedule.

The President reported that there were a few outliers, and that these were projects with challenging circumstances about which staff kept the Board informed throughout the process. He noted that the total authorized budget for the 50 projects valued at over \$1 million were collectively completed essentially on-budget.

The President stated that with respect to Public Finance, DASNY operated along targeted timelines, and that the few times that those targets were missed was the result of elements that were outside of DASNY control. He stated that all 23 of its public bond issues that were done through a public negotiated offering were fairly priced as determined by comparison to price and yields in the secondary market.

The President concluded that DASNY's has a committed and dedicated staff that serves as the backbone to all that DASNY achieves. He extended a special thank you to all employees for working so hard, noting that with their help, DASNY is playing a pivotal role in driving economic development across the State.

The President indicated that his report, in highlighting DASNY's successes and challenges, shows DASNY still has room to grow and that DASNY will continue to reach high, noting that the possibilities are enormous and they are ahead of DASNY. He stated that he looks forward to a continued collaboration with the Board in the future.

The Audit Committee Members decided unanimously to recommend approval of the Annual Public Authorities Report to the full Board.

Board Chair Carney moved that the Members go into Executive Session to discuss the financial and credit history of a particular corporation; proposed, pending or current litigation; and the employment history of particular persons or matters leading to the appointment, employment, promotion, demotion, discipline, suspension, dismissal or removal of a particular person. Mr. Ellis seconded the motion and the Members went into Executive Session.

EXECUTIVE SESSION

During Executive Session, no action was taken other than a motion to return to Public Session.

PUBLIC SESSION

The Audit Committee Meeting was adjourned at approximately 6:39p.m.

Respectfully submitted,

Debra Pulenskey Drescher
Assistant Secretary to the
Board of the Dormitory Authority