Minutes of the Meeting of the Trustees of the
Audit Committee of the
City University Construction Fund
205 East 42nd Street, 7th Floor, Room 770
November 1, 2017 at 9:00 a.m.

Trustees Present:
Hon. Brian Obergfell, Chairman
Hon. Philip Berry
Hon. Michael Walsh

In Attendance:
Judith Bergtraum, Executive Director, CUCF
John Antonelli, Deputy Executive Director, CUCF
Jane Sovern, Interim General Counsel, CUCF
Gustavo Ordonez, Chief of Staff, FPCM
Daniel Rothbaum, Controller, CUCF
Nancy Nichols, Special Assistant to the Fund

From PKF O’Connor Davies:
Jonathan Zuckerman, Partner
Samuel Botta, Senior Manager

Chairman Obergfell called the meeting to order at 9:03 a.m., noting the presence of a quorum.

1. Resolution of the City University Construction Fund Approving the Minutes of the Meeting of November 4, 2016.

Chairman Obergfell asked if there were any amendments to be made to the minutes. There being none, he entertained a motion that this item be approved. On motion duly made and seconded, the minutes were approved by Trustees Berry and Obergfell. (Trustee Walsh abstained, as he was not a Committee member at the previous meeting.)


Chairman Obergfell called upon John Antonelli, Deputy Director of the City University Construction Fund to explain the item. Mr. Antonelli said he would provide some context for the resolution, before introducing Jonathan Zuckerman, Partner, and Samuel Botta, Senior Manager at the firm of PKF O’Connor Davies, who will give a presentation.

Mr. Antonelli noted this resolution seeks to obtain approval for the Annual Certificate. The Annual Certificate is accompanied by the CUCF Fiscal Year 2017 Financial Statements. The Certificate, under Education Law 6274, is submitted for the fiscal year ending June 30, 2019.
Included with the certificate are the CUCF annual financial statements dated June 30, 2017. The certificate covers the tuition and fees that will be collected and transferred from the University, the cost of administration of the Fund, and it displays all the outstanding debt related to the project-backed bonds that represent Pre-PIT bonds (prior to 2003). Issuances after 2003 are paid by the State of New York (backed by personal income taxes) which the fund does not project.

Additionally, the PKF auditors prepared a presentation to the Audit Committee, which addresses questions raised last year about cash flow.

Mr. Antonelli introduced Mr. Zuckerman and Mr. Botta, who then gave a presentation explaining the process of auditing financial statements for the City University Construction Fund. They explained that prior to the audit a planning meeting took place with Mr. Antonelli, Dan Rothbaum, and their assistants, Andy Cheng and Vincent Bilello. At this meeting, they discussed financial results and any potential unusual events that may have occurred during fiscal year 2017.

PKF’s fieldwork commenced on August 7, 2017 with a staff of three involved. Based on their audit results, PKF issued three reports: the independent auditors’ report on financial statements, the auditors’ communication to those charged with governance, and the auditors’ communication on internal control as it relates to the financial statements; the last two reports are explained in the handout provided to the Committee.

CUCF is required to file a Form 990 with the Internal Revenue Service. PKF’s tax department has a tax-exempt organization group that is in the process of completing the Form 990.

PKF’s responsibilities include forming and expressing an opinion about whether the information contained in the financial statements is fairly presented and in accordance with generally accepted U.S. accounting principles (GAAP). Also considered was the internal control environment in determining their audit procedures. Upon conclusion, it is their responsibility to communicate any significant matters that may have come to their attention.

Mr. Zuckerman explained CUCF management’s responsibilities and required communications.

He stated audits are planned to include a risk assessment process. He detailed the review of required communications, communication of internal control, including internal control over financial reporting and tax services provided by PKF. Interviews regarding risk of fraud were conducted with management and executive management. Mr. Zuckerman reported they found no fraud or any illegal transactions, and noted that PKF did not encounter any significant difficulties nor did PKF have any disagreements with management.

Mr. Zuckerman continued that PKF is mandated to communicate any material uncorrected misstatements to management and to those charged with governance as a part of the audit. Mr. Zuckerman also stated that independent third party documentation is obtained by PKF to corroborate the balances reported by the Fund. Additionally, the Fund is required to present its
management’s discussion and analysis, and that presentation is evaluated by PKF to make sure it is consistent with information provided in the financial statements.

Mr. Botta reported that the independent auditors report contains an unmodified opinion, as there were no deviations from U.S. generally accepted accounting principles, nor were there any scope limitations that prevented them from providing an opinion.

Chairman Obergfell asked about the decrease in tuition and fees revenues being a function of the reduction of tuition collected from students.

John Antonelli replied that the Construction Fund accepts tuition collected by the University, which is then transferred through CUCF to the City. The University determines the amount of tuition and fees transferred.

Trustee Berry asked if a certain percentage of tuition is held back and not transferred to the CUCF. Mr. Antonelli responded that the amount of tuition that is transferred to the City is determined by the University. A certain portion of the tuition and fees may be allowed to be applied to other University programs. Ms. Bergtraum stated that the University only transfers to the CUCF the amount that will subsequently be transferred to the City. Therefore, the amount of tuition and fees transferred is not reflective of a decrease in the number of students, it’s just a decrease in the amount the University sends.

Ms. Bergtraum stated that that decision on the amount of tuition and fees transferred is made by CUNY, and is provided in the City’s revenue assumptions.

Chairman Obergfell asked whether there were still bonds outstanding that were issued by the Construction Fund prior to DASNY. Mr. Antonelli replied that DASNY always issued the bonds. They were initially backed by appropriations and collateralized by the projects. Currently, they are fully backed by personal income taxes. The shift occurred in 2003.

Trustee Berry asked about the fraud statement, whether there are any instances or issues of fraud or irregularity that is within the Board’s scope of responsibility to the Fund.

PKF Partner Jonathan Zuckerman stated that fraud interviews with members of the Fund are conducted as part of their audit process. Revenue, assets and signature controls are confirmed as well within other entities that transact with the Fund.

Trustee Berry asked whether they validate if the controls in place are adequate and appropriate. Mr. Zuckerman responded that PKF is not required to audit the internal controls, but, through PKF’s audit scope, PKF is able to obtain an understanding of them.

Mr. Zuckerman resumed with his explanation of the cash flow information contained in the handout/presentation. The cash balance increased this year by $9.5 million. The main driver of cash flow was the timing of project funds received, which primarily consisted of advances from
some of the schools. CUCF received a $5 million advance from BMCC; a Hunter advance for $1.8 million; and a Baruch advance for $4 million for future projects that hadn’t commenced as of June 30, 2017. The project advances were offset by a $2.5 million decrease in connection with other operating payables.

Mr. Antonelli addressed a question from Trustee Berry about the timing of the payments, and whether this brought about swings in cash balances and their effect on the projects. Mr. Antonelli stated that all payments for projects for CUCF use bond proceeds, which cannot be advanced. Contractors can only be paid is upon receipt of an invoice. Timing issues arise at year-end when the work is completed prior to July 1 but the invoice is received in the next fiscal year (after June 30). Only then can the CUCF request the funding.

When a payable arises, it can affect the cash flow. There is no way to change this because it is driven by the events as they occur.

Mr. Rothbaum suggested an example: at the end of the Fiscal 2016, CUCF owed the City of New York $16 million. This was because the City of New York is reimbursed every month by CUCF for fund expenses incurred during each month. That $16 million was paid in July of 2016. At the end of this year fiscal year, CUCF owed the City of New York about $11 million – a $5 million swing. Those swings, plus other year over year working capital changes (e.g., payroll is reimbursed by the State, year by year the payroll reimbursement fluctuates) impact cash flow. Next year it may be the cash won’t move much at all.

Mr. Antonelli stated that it is driven by when the expenses occur, because the revenues are only earned after the expenses have been incurred. Only then can the CUCF draw down on the bond proceeds. They cannot be advanced.

Mr. Botta continued with his presentation, stating that as auditors they are responsible for communicating the terms of the audit, including the objective and scope of the audit, in an engagement letter provided to CUCF for signature prior to the audit fieldwork. There were no new accounting policies in Fiscal Year 17. PKF did not see any unusual or significant financial transactions, nor did they encounter any difficulties during their audit process.

Mr. Zuckerman finished the presentation, saying that he was happy to report that they did not become aware of any material weaknesses or significant deficiencies as a part of their audit. He thanked the Board for inviting them to the meeting.

Chairman Obergfell asked if there were further questions about the calendar item under discussion. Mr. Berry thanked the auditors, Mr. Antonelli and Mr. Rothbaum for their provision of the data needed. He had one question concerning changes in net position from Fiscal Year 16 to Fiscal Year 17. He asked if there were further information or insight that could be provided to the Trustees.
Mr. Rothbaum explained that the net position changed by only $25,000 year over year. The reason is due to changes occurring outside of operating revenues and expenses. Each fiscal year, tuition and fees revenues and expenses are equal. Appropriations collected and rentals paid are also equal. Project funds – receivables and payables – at the end of each year there are corresponding revenue and expense journal entries, which result in equal project revenue and expenses. The only changes noted are in non-operating revenues and transfers. This year there were no significant non-operating transactions. Last year, CUCF transferred $1.3 million to CUNY for a CUNY related project. In Fiscal Year 17, CUCF realized $40,000 in investment income resulting from our $5.5 million treasury securities. We had a small payment of $22,000 for a non-operating administrative expense for CUNY. We also earned $9,500 in income from the MWBE conference. For a fund that takes in and transfers out over $3 billion, the net position change is only $25,000.

There being no further questions, the Chair called for the Auditor’s Report to be approved.

On motion duly made and seconded, the Resolution was approved.

There being no further business before the Committee, the meeting was adjourned at 9:28 a.m.