

**Hugh L. Carey Battery Park City Authority**  
**Annual Post-Audit Report to the Audit Committee**  
**(Under AICPA AU-C Section 260)**  
**For the Audit Year Ended October 31, 2016**

**M A R K S P A N E T H**

ACCOUNTANTS & ADVISORS

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**M A R K S P A N E T H**  
ACCOUNTANTS & ADVISORS

January 20, 2017

To the Audit Committee and the Members of the  
Hugh L. Carey Battery Park City Authority

In accordance with auditing standards generally accepted in the United States of America ("U.S. GAAS"), Marks Paneth LLP ("Marks Paneth" or "us" or "we" or "our") is pleased to provide this communication in compliance with the American Institute of Certified Public Accountants ("AICPA") Auditing Standards AU-C Section 260 "*The Auditor's Communication with Those Charged with Governance*." In your case, the Audit Committee (or "you"), on behalf of the Members, the party charged with governance, has the responsibility to oversee the external audit of the Hugh L. Carey Battery Park City Authority (the "Authority") and the Battery Park City Parks Conservancy (the "Conservancy"), collectively referred to as the "Organization." Marks Paneth has a responsibility to bring to the attention of the Members, through the Audit Committee, any accounting, auditing, internal control, or other related matters that we believe warrant their consideration or action. Matters in this communication are concerning the completion of the October 31, 2016 financial statement audit.

This report is intended solely for the information and use of the Audit Committee, Members and management of the Organization, and is not intended to be and should not be used by anyone other than those specified parties, unless permission is granted.

Very truly yours,



MARKS PANETH LLP

Attachment:

- Draft management representation letter

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**1. Auditors' Responsibility**

Our responsibility as the independent auditors is to express an opinion on the Organization's financial statements as of and for the year ended October 31, 2016 based on our audit. Also, it must be emphasized that our audit does not relieve management, and those charged with governance, of their responsibilities.

Our audit was conducted in accordance with auditing standards generally accepted in the United States of America ("U.S. GAAS") and was designed to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. Our audit included tests of the accounting records of the Organization and other procedures we considered necessary to enable us to express an unmodified opinion that the financial statements are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"). In addition, we conducted our audit of the Organization under standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States ("GAS").

Based on our audit, we are prepared to issue an unmodified opinion on the financial statements, subject to the following open items being cleared:

- A) Receipt of legal representation letters from the Organization's general counsel and outside counsel
- B) Receipt of signed management representation letter
- C) Acceptance of the draft financial statements by the Audit Committee
- D) Review by Marks Paneth's Professional Standards Group
- E) Additional post balance sheet review by Marks Paneth to bring our audit report date to that of the management representation letter date

**2. Timing and Meetings Relative to the Engagement**

**I. Interim Review – April 30**

	<u>2016</u>	<u>2015</u>
a. Review fieldwork start	July 5, 2016	June 15, 2015
b. Exit meeting and draft deliverables discussion with management	July/August 2016	July/August 2015
c. Presentation of draft review report to the Audit and Finance Committee	September 20, 2016	September 29, 2015
d. Issuance of review report	September 27, 2016	November 3, 2015

**II. Audit – October 31**

a. Engagement letter issued	June 16, 2016	June 1, 2015
b. Presentation of preliminary audit plan to the Audit Committee	September 20, 2016	September 29, 2015
c. Audit fieldwork start	December 12, 2016	December 9, 2015
d. Exit meeting and draft deliverables discussion with management	January 2017	January 2016
e. Presentation of draft financials to the Audit and Finance Committee	January 26, 2017	January 27, 2016
f. Issuance of signed financials	Late January 2017	January 28, 2016

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**3. Management's Responsibility**

The Organization's management is responsible for making all financial records and related information available to us and for the accuracy and completeness of that information. We have advised you about appropriate accounting principles and their application and assisted in the preparation of your financial statements, but the responsibility for the financial statements remains with you.

The management of the Organization is responsible for establishing and maintaining internal controls. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of the controls. The objectives of internal controls are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management's authorizations and recorded properly to permit the preparation of financial statements in accordance with U.S. GAAP.

In addition, management is responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing us about all known or suspected fraud affecting the Organization involving (a) management, (b) employees who have significant roles in internal control, and (c) others where the fraud could have a material effect on the financial statements. Management is also responsible for informing us of their knowledge of any allegations of fraud or suspected fraud affecting the Organization received in communications from employees, former employees, regulators, or others. In addition, management is responsible for identifying and ensuring that the Organization complies with applicable laws and regulations.

**4. Selection, Application or Changes in Significant Accounting Principles**

The Authority follows specific accounting policies for reporting on its net position, valuation of investments, postemployment benefits, long-term debt and the recognition of revenue. The principles are discussed in detail in Note 2 to the financial statements. There was a new accounting standard promulgated by the Governmental Accounting Standards Board ("GASB") that was adopted by the Authority during the year ended October 31, 2016 (and during the six-month period ended April 30, 2016) as detailed below.

**A) GASB Statement No. 77, "Tax Abatement Disclosures" ("GASB 77")**, requires state and local governments for the first time to disclose information about tax abatement agreements. GASB 77 requires governments to disclose information about their own tax abatements separately from information about tax abatements that are entered into by other governments and reduce the reporting government's tax revenues.

GASB 77 is effective for financial statements for periods beginning after December 15, 2015; however, the Authority adopted GASB 77 in its financial statements for the year ended October 31, 2016 (and has adopted GASB 77 in its interim financial statements for the six-month period ended April 30, 2016). The adoption of GASB 77 required the Authority to disclose the nature and magnitude of the reduction in tax revenues through tax abatement programs. Such disclosures are reflected in Note 3(m) to the financial statements.

**5. Significant Management Judgments and Accounting Estimates**

The preparation of financial statements requires the use of accounting estimates, by which management uses its best judgment in the determination of certain amounts to be recorded in those statements. These amounts are calculated using all information available at the time and applying the knowledge and expertise of management. These amounts are subject to revision as time passes and more information becomes available.

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Matters to note are as follows:

**A) Fair Value of Interest Rate Swap Agreements**

Based on management's determination that the Swaps, which continue in effect after the refunding of the 2003 Series C Bonds in fiscal year 2013, were effective hedges, the Organization has recorded the negative fair value of approximately \$35 million as of October 31, 2016 as both a liability and a deferred outflows of resources. The fair value was provided by the Organization's financial advisor and was derived from financial models based upon reasonable estimates about relevant market conditions.

Under the Swaps, the Organization is to pay the counterparties interest calculated at 3.452% of the notional amount (the outstanding principal balance) on the first of May and November of each year and the Organization receives interest from the counterparties calculated at 65% of the LIBOR rate. Marks Paneth noted that the fair value was determined by taking the net present value of future interest to be received from the counterparties and interest to be paid to the counterparties. Marks Paneth noted that the discount factor is calculated based on the LIBOR rate at October 31, 2016, the last business day of the Organization's fiscal year. Based on the procedures performed, the fair value of the Swaps recorded by the Organization appears reasonable.

**B) OPEB Liability and Expense**

In determining the amount of expenses and liabilities to be recorded for the postemployment benefits other than pension ("OPEB") in accordance with GASB Statement No. 45, "*Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*" ("GASB No. 45"), management, with the aid of an actuary, made assumptions or estimates for rates of return on assets and costs of health care premiums (healthcare cost trend rate). Based on these estimates, management has recorded the OPEB expenses and liabilities for these benefits.

GASB No. 45 permits a plan with less than 200 members, such as the Organization, to perform an actuarial valuation every three years. Accordingly, during 2015 an updated bi-annual actuarial valuation as of November 1, 2015 was completed to reflect the Organization's OPEB liabilities as of October 31, 2016 and the related expenses for the year then ended.

Marks Paneth reviewed the qualifications of the Authority's actuary and the assumptions used by the actuary and found the factors used to be reasonable and in accordance with the provisions of GASB Statement No. 45. Marks Paneth also agreed the current year's OPEB costs and checked the accuracy of the rollforward of the OPEB liabilities to the actuarial valuation reports.

Based on our audit procedures, management's estimate of OPEB expenses and the related liabilities appears reasonable.

**C) Recoverability Period of Project Assets**

Depreciation of project assets is being provided for by the straight-line method over the estimated useful lives of the related assets, which are the remaining lease years (to 2069) for site improvements, 50 years for residential building and through the first appraisal date of each lease for condominium units. The recoverability period used by management appears to be reasonable.

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**6. Significant Recorded and Proposed Unrecorded Audit Adjustments**

We are required to inform the Audit Committee about adjustments or misstatements arising from the audit that could, in our judgment, either individually, or in the aggregate, have a significant effect on the Organization's financial reporting process.

**Adjusting journal entries recorded:**

There were no adjusting entries recorded subsequent to the receipt of our initial trial balance. In the prior year, there was one entry that reduced net position by \$300,000 to increase accrued expenses for additional legal fees.

**Uncorrected misstatements due to non-materiality:**

There were none.

**7. Significant Issues Discussed, or Subject to Correspondence, with Management**

Throughout the year, routine discussions regarding the application of accounting principles or auditing standards were held with management in connection with transactions that have occurred, transactions that are contemplated, or reassessment of current circumstances. In our judgment, such discussions were not held in connection with our retention as auditors.

**8. Disagreements with Management and Audit Difficulties**

For purposes of this report, professional standards define a disagreement with management as a financial accounting, reporting or auditing matter, whether or not resolved to our satisfaction that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit. We received the full cooperation of management and staff throughout the process of performing our audit procedures.

**9. Fraud or Likely Illegal Acts/Conflict of Interest Matters/Other Governance Issues**

Our audit procedures did not detect any such items. We advise all our clients that there is always a risk that fraud or illegal acts may exist and not be detected by any audit firm in performing an audit.

We understand that the Authority has adopted a Code of Ethics for its employees and its Members, and there is an Ethics Officer whose responsibility is to ensure compliance with the Code of Ethics.

**10. Internal Controls: Control and Significant Deficiencies and Material Weaknesses**

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 deficiency in *design* exists when a control necessary to meet the control objective is missing; or an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met.

A deficiency in *operation* exists when a properly designed control does not operate as designed; or the person performing the control does not possess the necessary authority or competence to perform the control effectively.

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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.

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 did not observe any material weaknesses as a result of our audit (see Tab 3). However, we made certain recommendations and suggestions, which, if implemented, could further strengthen the internal controls and business practices. We communicated these matters in the separately issued letter disclosing the observations and recommendations relating to the Organization's information technology environment (see Tab 4).

**11. Consultation with Other Accountants**

We are not aware of any other consultations with other accountants about auditing and accounting matters during the year ended October 31, 2016.

**12. Auditor Independence**

We affirm that Marks Paneth is independent with respect to the Organization in accordance with the AICPA's *Code of Professional Conduct*.

**13. Future Deliverables to be Issued and Other Matters**

**A) Future Deliverables to be Issued**

**Form 990:** The original due date for the Conservancy's Federal Form 990 is March 15, 2017 and we anticipate the Form 990 will be filed with the Internal Revenue Service prior to the initial due date. We expect to issue a draft Form 990 to the Conservancy for its review in February 2017 provided that the necessary tax return information is received from the Conservancy's management.

**B) Other Matters**

**I. Contingencies**

The Organization's management, general counsel and outside legal counsel have advised us of several pending or threatened litigation matters. Such matters are disclosed in Notes 19 and 21 to the Organization's financial statements.

**II. Other**

We have read certain tax and other government filing items to ensure that they have been filed timely, including the payroll tax filings (IRS Forms 941, W-2 and 1099). However, we caution you that it is not our practice to look at all potential filings the Organization may be required to complete. We are unaware of any tax or other governmental filing exposure items.

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**14. New Accounting and Auditing Matters on the Horizon**

There are a number of new pronouncements affecting the public sector. The following brief listing of recently issued new standards is provided to assist those charged with governance of the Authority to be aware of new accounting standards that could have an impact on the Authority. In all cases, management will evaluate the impact of these standards on the Authority's financial statements when they are required to be implemented. However, as indicated in certain of the following cases, some of these new standards would be very unlikely to apply to the Authority's accounting and financial reporting because of the nature of the topics to which they pertain.

- B) GASB Statement No. 73, "Accounting and Financial Reporting for Pension and Related Assets That Are Not within the Scope of GASB 68, and Amendments to Certain Provision of GASB 67 and GASB 68" ("GASB 73")**, provides guidance on assets accumulated for pension plans that are not administered through a trust and provides clarity on certain provision of GASB 67 and GASB 68. The requirements for GASB 73 are effective for fiscal years beginning after June 15, 2015. The adoption of GASB 73 is not anticipated to have an impact on the Authority's financial statements.
  
- C) GASB Statement No. 74, "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans" ("GASB 74")**, establishes financial reporting standards to state and local governmental other postemployment benefit ("OPEB") plans. The requirements of GASB 74 are effective for fiscal years beginning after June 15, 2016. The adoption of GASB 74 is not anticipated to have an impact on the Authority's financial statements.
  
- D) GASB Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions" ("GASB 75")**, establishes accounting and financial reporting standards for OPEB that is provided to employees of state and local governmental employers. The requirements of GASB 75 are effective for fiscal years beginning after June 15, 2017. The Authority has not completed the process of evaluating the effect of GASB 75 on its financial statements.
  
- E) GASB Statement No. 76, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments" ("GASB 76")**, reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction of other event is not specified within the source of authoritative GAAP. The requirements of GASB 76 are effective for fiscal years beginning after June 15, 2015. The adoption of GASB 76 is not anticipated to have an impact on the Authority's financial statements.
  
- F) GASB Statement No. 78, "Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans" ("GASB 78")**, is effective for fiscal years beginning after December 15, 2015. GASB 78 amends the scope and applicability of Statement 68 to exclude pensions provide to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). The adoption of GASB 78 is not anticipated to have an impact on the Authority's financial statements.



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- G) GASB Statement No. 79, “Certain External Investment Pools and Pool Participants” (“GASB 79”),** is effective for fiscal years beginning after December 15, 2015. GASB 79 will enhance comparability of financial statements among governments by establishing specific criteria used to determine whether a qualifying external investment pool may elect to use an amortized cost exception to fair value measurement. Those criteria will provide qualifying external investment pools and participants in those pools with consistent application of an amortized cost-based measurement for financial reporting purposes. That measurement approximates fair value and mirrors the operations of external investment pools that transact with participants at a stable net asset value per share. The adoption of GASB 79 is not anticipated to have an impact on the Authority’s financial statements.
- H) GASB Statement No. 80, “Blending Requirements for Certain Component Units” (“GASB 80”),** is effective for fiscal years beginning after June 15, 2016. GASB 80 is intended to provide clarity about how certain component units incorporated as not-for-profit corporations should be presented in the financial statements of the primary state or local government. The adoption of GASB 80 is not anticipated to have an impact on the Authority’s financial statements.
- I) GASB Statement No. 81, “Irrevocable Split Interest Agreements” (“GASB 81”),** is effective for fiscal years beginning after December 15, 2016. Under a typical irrevocable split-interest agreement, a donor transfers assets for the shared benefit of at least two beneficiaries: a government (often a public college, university, or hospital) and another beneficiary designated by the donor. The donor transfers the related assets to either the government or to a separate third party, such as a bank.

GASB 81 addresses the situations under which these types of arrangements constitute an asset for accounting and financial reporting purposes when the resources are administered by a third party. GASB 81 also provides expanded guidance for circumstances in which the government holds the assets. The adoption of GASB 81 is not anticipated to have an impact on the Authority’s financial statements.

- J) GASB Statement No. 82, “Pension Issues” (“GASB 82”),** is generally effective for reporting periods beginning after June 15, 2016, with earlier application encouraged. GASB 82 addresses practice issues raised by stakeholders during implementation of the GASB’s pension accounting and financial reporting standards for state and local governments.

Specifically, GASB 82 addresses:

- Presentation of payroll-related measures in required supplementary information
- Selection of assumptions and the treatment of deviations from guidance in Actuarial Standards of Practice for financial reporting purposes, and
- Classification of payments made by employers to satisfy plan member contribution requirements.

The adoption of GASB 82 is not anticipated to have an impact on the Authority’s financial statements.

- K) GASB Statement No. 83, “Certain Asset Retirement Obligations” (“GASB 83”),** is effective for reporting periods beginning after June 15, 2018, with earlier application encouraged. GASB 83 addresses accounting and financial reporting for certain asset retirement obligations (“AROs”). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. This statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. The adoption of GASB 83 is not anticipated to have an impact on the Authority’s financial statements.

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There are other new accounting and auditing standards developed by the GASB and AICPA. However, we do not believe these will have a significant impact on the Organization.

**\*\*END\*\***