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, 2015
January 20, 2016

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, 2015 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
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, 2015 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 confirmation of fair value of interest rate swap from Citibank and confirmation of collateral set aside by Bank of America for uninsured bank balances at year-end.

B) Receipt of signed legal representation letter from the Organization’s general counsel

C) Receipt of signed management representation letter

D) Acceptance of the draft financial statements by the Audit Committee

E) Review by Marks Paneth’s Professional Standards Group

F) 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**

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<th>I. Review – April 30</th>
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<td>June 15, 2015</td>
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<td>b. Exit meeting and draft deliverables discussion with management</td>
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<td>June 1, 2015</td>
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<td>b. Presentation of preliminary audit plan to the Audit Committee</td>
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<td>e. Presentation of draft financials to the Audit Committee</td>
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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 classifying its net position, postemployment benefits, long-term debt and the recognition of revenue. The principles are discussed in detail in Note 2 to the financial statements. There were two new accounting standards promulgated by the Governmental Accounting Standards Board (“GASB”) that were adopted by the Authority during the year ended October 31, 2015 (and during the six-month period ended April 30, 2015) as detailed below.

A) GASB Statement No. 68, “Accounting and Financial Reporting for Pensions ("Statement No. 68"),” is effective for fiscal years beginning after June 15, 2014. Statement No. 68 establishes standards of accounting and financial reporting for defined benefit pensions and defined contribution pensions provided to the employees of state and local governmental employers. Statement No. 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. Statement No. 68 also enhances accountability and transparency through revised and new note disclosures and required supplementary information.

The Authority adopted Statement No. 68 in its financial statements for the year ended October 31, 2015 (and in its interim financial statements for the six-month period ended April 30, 2015). The adoption of Statement No. 68 required the Authority to restate its opening net position by approximately $695,000 to reflect the Authority’s accrued pension liability.

B) GASB Statement No. 72, “Fair Value Measurement and Application ("Statement No. 72")”, defines fair value and describes how fair value should be measured, what assets and liabilities should be measured at fair value, and what information about fair value should be disclosed in the notes to the financial statements.
Under Statement No. 72, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Investments, which generally are measured at fair value, are defined as a security or other asset that governments hold primarily for the purpose of income or profit and the present service capacity of which are based solely on their ability to generate cash or to be sold to generate cash.

Before the issuance of Statement No. 72, state and local governments have been required to disclose how they arrived at their measures of fair value if not based on quoted market prices. Under the new guidance, those disclosures have been expanded to categorize fair values according to their relative reliability and to describe positions held in many alternative investments.

The three levels of the fair value hierarchy under Statement No. 72 are described as follows:

- **Level 1**: Valuations based on quoted prices (unadjusted) in an active market that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

- **Level 2**: Valuations based on observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in inactive markets; or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated with observable market data.

- **Level 3**: Valuations based on unobservable inputs are used when little or no market data is available. The fair value hierarchy gives lowest priority to Level 3 inputs.

The new standard is effective for financial statements for periods beginning after June 15, 2015, but was early adopted by the Authority during the year ended October 31, 2015 (and was adopted in its interim financial statements for the six-month period April 30, 2015).

The new disclosures required by Statement No. 72 are disclosed in Note 3(k) to the Authority’s 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. 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 $25.8 million as of October 31, 2015 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, 2015, 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, an updated actuarial valuation as of November 1, 2012 was necessary to reflect the Organization’s OPEB liabilities as of October 31, 2015 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.

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 was one entry recorded subsequent to the receipt of our initial trial balance to increase accrued expenses by $300,000 for additional legal expenses. This entry reduced net position by $300,000 and was based upon the outstanding fees as disclosed by the Authority’s attorneys in the legal representation letters that were received during the audit process.

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 letter, 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.

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**

The Organization’s management has engaged WithumSmith+Brown to provide internal audit services to the Organization. As part of our audit procedures, we read the internal audit reports and related observations and recommendations to assess audit risk.
We are not aware of any other consultations with other accountants about auditing and accounting matters during the year ended October 31, 2015.

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, 2016 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 2016 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 20 and 22 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.

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.

   A) **GASB Statement No. 73, “Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68,”** establishes requirements for those pensions and pension plans that are not administered through a trust meeting specified criteria (in other words, those not covered by Statements 67 and 68). The requirements in Statement 73 for reporting pensions generally are the same as in Statement 68. However, the lack of a pension plan that is administered through a trust that meets specified criteria is reflected in the measurements.
The provisions in Statement 73 are effective for fiscal years beginning after June 15, 2015 – except those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68, which are effective for fiscal years beginning after June 15, 2016. Earlier application is encouraged.

Management determined that Statement 73 does not have an impact on the Authority’s financial statements.

B) GASB Statement No. 74, “Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,” replaces GASB Statement No. 43, “Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.” Statement 74 addresses the financial reports of defined benefit OPEB plans that are administered through trusts that meet specified criteria. The Statement follows the framework for financial reporting of defined benefit OPEB plans in Statement 45 by requiring a statement of fiduciary net position and a statement of changes in fiduciary net position. The Statement requires more extensive note disclosures and required supplementary information (“RSI”) related to the measurement of the OPEB liabilities for which assets have been accumulated, including information about the annual money-weighted rates of return on plan investments. Statement 74 also sets forth note disclosure requirements for defined contribution OPEB plans.

The provisions in Statement 74 are effective for fiscal years beginning after June 15, 2016. Earlier application is encouraged.

The Authority has not completed the process of evaluating Statement 74’s impact on its financial statements.

C) GASB Statement No. 75, “Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,” replaces the requirements of GASB Statement No. 45, “Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.” Statement 75 requires governments to report a liability on the face of the financial statements for the OPEB that they provide.

- Governments that are responsible only for OPEB liabilities related to their own employees and that provide OPEB through a defined benefit OPEB plan administered through a trust that meets specified criteria will report a net OPEB liability, which is the difference between the total OPEB liability and assets accumulated in the trust and restricted to making benefit payments.
- Governments that participate in a cost-sharing OPEB plan that is administered through a trust that meets the specified criteria will report a liability equal to their proportionate share of the collective OPEB liability for all entities participating in the cost-sharing plan.
- Governments that do not provide OPEB through a trust that meets specified criteria will report the total OPEB liability related to their employees.

Statement 75 carries forward from Statement 45 the option to use a specified alternative measurement method in place of an actuarial valuation for purposes of determining the total OPEB liability for benefits provided through OPEB plans in which there are fewer than 100 plan members (active and inactive). This option was retained in order to reduce costs for smaller governments.
Statement 75 requires governments in all types of OPEB plans to present more extensive note disclosures and RSI about their OPEB liabilities. Among the new note disclosures is a description of the effect on the reported OPEB liability of using a discount rate and a healthcare cost trend rate that are one percentage point higher and one percentage point lower than assumed by the government. The new RSI includes a schedule showing the causes of increases and decreases in the OPEB liability and a schedule comparing a government’s actual OPEB contributions to its contribution requirements.

Some governments are legally responsible to make contributions directly to an OPEB plan or make benefit payments directly as OPEB comes due for employees of other governments. In certain circumstances (called special funding situations) Statement 75 requires these governments to recognize in their financial statements a share of the other government’s net OPEB liability.

The provisions in Statement 75 are effective for fiscal years beginning after June 15, 2017. Earlier application is encouraged.

The Authority has not completed the process of evaluating Statement 75’s impact on its financial statements.

D) GASB Statement No. 76, “The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments,” reduces the GAAP hierarchy to two categories of authoritative GAAP from the four categories under GASB Statement No. 55, “The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.” The first category of authoritative GAAP consists of GASB Statements of Governmental Accounting Standards. The second category comprises GASB Technical Bulletins and Implementation Guides, as well as guidance from the AICPA that is cleared by the GASB.

The Statement also addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

These changes are intended to improve financial reporting for governments by establishing a framework for the evaluation of accounting guidance that will result in governments applying that guidance with less variation. That will improve the usefulness of financial statement information for making decisions and assessing accountability and enhance the comparability of financial statement information among governments. The Statement also is intended to improve implementation guidance by elevating its authoritative status to a level that requires it be exposed for a period of broad public comment prior to issuance, as is done for other GASB pronouncements.

The provisions in Statement 76 are effective for reporting periods beginning after June 15, 2015. Earlier application is encouraged. Management determined that Statement 76 does not have an impact on the Authority’s financial statements.

E) GASB Statement No. 77, “Tax Abatement Disclosures,” requires state and local governments for the first time to disclose information about tax abatement agreements. Statement 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.

Statement 77 is effective for financial statements for periods beginning after December 15, 2015. Earlier application is encouraged.
Management determined that Statement 77 does not have an impact on the Authority’s financial statements.

F) GASB Statement No. 78, “Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans,” provides guidance to governments that participate in certain private or federally sponsored multiple-employer defined benefit pension plans (such as Taft-Hartley plans and plans with similar characteristics).

During the implementation of GASB Statement No. 68, Accounting and Financial Reporting for Pensions, stakeholders raised concerns regarding the inability of a small group of governments whose employees are provided pensions through such multiple-employer pension plans to obtain measurements and other relevant data points needed to comply with the requirements of that Statement.

The new guidance in Statement 78 assists these governments by focusing employer accounting and financial reporting requirements for those pension plans on obtainable information. In lieu of the existing requirements under Statement 68, the new guidance establishes separate requirements for employers that participate in these pension plans.

Statement 78 is effective for financial statements for periods beginning after December 15, 2016. Earlier application is encouraged.

Management determined that Statement 78 does not have an impact on the Authority’s financial statements.

G) GASB Statement No. 79, “Certain External Investment Pools and Pool Participants,” is effective for fiscal years beginning after June 15, 2015, except for certain provisions that are effective for fiscal years beginning after December 15, 2015. Statement 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. Management determined that Statement 79 does not have an impact on the Authority’s financial statements.

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**