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, 2017

MARKS PANETH

ACCOUNTANTS & ADVISORS

Marks Paneth LLP
685 Third Avenue
New York, NY 10017
P 212.503.8800
F 212.370.3759
markspaneth.com

MARKS PANETH
ACCOUNTANTS & ADVISORS

January 18, 2018

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, 2017 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

MARKS PANETH LLP

Attachment:

- Draft management representation letter

Morison KSi

Hugh L. Carey Battery Park City Authority
Annual Post-Audit Report to the Audit Committee
For the Audit Year Ended October 31, 2017

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, 2017 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	**2017**	**2016**
a. Review fieldwork start	June 26, 2017	July 5, 2016
b. Exit meeting and draft deliverables discussion with management	July/August 2017	July/August 2016
c. Presentation of draft review report to the Audit and Finance Committee	September 26, 2017	September 20, 2016
d. Issuance of review report	November 2, 2017	September 27, 2016
II. Audit – October 31		
a. Engagement letter issued	June 6, 2017	June 16, 2016
b. Presentation of preliminary audit plan to the Audit Committee	September 26, 2017	September 20, 2016
c. Audit fieldwork start	December 11, 2017	December 12, 2016
d. Exit meeting and draft deliverables discussion with management	January 2018	January 2017
e. Presentation of draft financials to the Audit and Finance Committee	January 24, 2018	January 26, 2017
f. Issuance of signed financials	Late January 2018	January 31, 2017

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 prior year's financial statements. There are no significant changes in accounting principles comprehended for the Authority's October 31, 2017 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 continued 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 $18 million as of October 31, 2017 as both a liability and a deferred outflow 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, 2017, 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, 2017 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 periods 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 were three entries recorded subsequent to the receipt of our initial trial balance. There were two entries that decreased the change in net position by approximately $962,000. In the prior year, there was no adjusting entries recorded subsequent to the receipt of our initial trial balance.

The entries that had an impact on net position for the current year was as follows:

- To increase net position by approximately $58,000 to correct accrued expenses recorded twice by error.
- To decrease net position by approximately $1,020,000 to correct revenue that was recorded by error.

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.

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. <u>Consultation with Other Accountants</u>

We are not aware of any other consultations with other accountants about auditing and accounting matters during the year ended October 31, 2017.

12. <u>Auditor Independence</u>

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

13. <u>Future Deliverables to be Issued and Other Matters</u>

A) Future Deliverables to be Issued

Form 990: The original due date for the Conservancy's Federal Form 990 is March 15, 2018 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 2018 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.

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. 75, *Accounting and Financial Reporting for Postemployment Benefit Other than Pensions* ("GASB 75")** is effective for fiscal years beginning after June 15, 2017. GASB 75 requires the liability of employers and non-employer contributing entities to employees for defined benefit OPEB (net OPEB liability) to be measured as the portion of the present value of projected benefit payments to be provided to current active and inactive employees that is attributed to those employees' past periods of service (total OPEB liability), less the amount of the OPEB plan's fiduciary net position. The Authority has not completed the process of evaluating the effect of GASB 75 on its financial statements.

B) **GASB Statement No. 83, *Certain Asset Retirement Obligations*, ("GASB 83")** is effective for reporting periods beginning after June 15, 2018. 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. Management determined that GASB 83 does not have an impact on the Authority's financial statements.

C) **GASB Statement No.84, *Fiduciary Activities,* ("GASB 84")** is effective for reporting periods beginning after December 15, 2018. GASB 84 establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The Authority has not completed the process of evaluating the effect of GASB 84 on its financial statements.

D) **GASB Statement No.85, *Omnibus 2017,* ("GASB 85")** is effective for reporting periods beginning after June 15, 2017. This statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits (OPEB). The Authority has not completed the process of evaluating the effect of GASB 85 on its financial statements.

E) **GASB Statement No. 86, *Certain Debt Extinguishment Issues*, ("GASB 86")** is effective for reporting periods beginning after June 15, 2017. The primary objective of GASB 86 is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets are acquired with only existing resources – resources other than the proceeds of refunding debt. This statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished. The Authority has not completed the process of evaluating GASB 86, but does not expect it to have an impact on the Authority's financial statements.

F) GASB Statement No.87, *Leases*, ("GASB 87") is effective for reporting periods beginning after December 15, 2019. The objective of GASB 87 is to improve accounting and financial reporting for leases by governments. This statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The Authority has not completed the process of evaluating the impact of GASB 87 on the Authority's financial statements.

****END****