Hugh L. Carey Battery Park City Authority

Annual Post-Audit Report to the Audit and Finance Committee
(Under AICPA AU-C Section 260)

For the Audit Year Ended October 31, 2019

MARKS PANETH

ACCOUNTANTS & ADVISORS

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

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ACCOUNTANTS & ADVISORS

January 20, 2020

To the Audit and Finance 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 and Finance 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 and Finance 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, 2019 financial statement audit.

This report is intended solely for the information and use of the Audit and Finance 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

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Hugh L. Carey Battery Park City Authority
Annual Post-Audit Report to the Audit and Finance Committee
For the Audit Year Ended October 31, 2019

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, 2019 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 various attorneys and the Authority's General Counsel.
B) Receipt of signed management representation letter
C) Acceptance of the draft financial statements by the Members
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	**2019**	**2018**
a. Review fieldwork start	June 24, 2019	June 25, 2018
b. Exit meeting and draft deliverables discussion with management	October 2019	November 2018
c. Presentation of draft review report to the Audit and Finance Committee	October 29, 2019	December 11, 2018
d. Issuance of review report	December 20, 2020	December 19, 2018
II. Audit – October 31		
a. Engagement letter issued	June 3, 2019	May 4, 2018
b. Presentation of preliminary audit plan to the Audit and Finance Committee	October 29, 2019	December 11, 2018
c. Audit fieldwork start	December 11, 2019	December 11, 2018
d. Exit meeting and draft deliverables discussion with management	January 2020	January 2019
e. Presentation of draft financials to the Audit and Finance Committee and Members	January 27, 2020	January 29, 2019
f. Issuance of signed financials	By January 31, 2020	January 31, 2019

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.

GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, ("GASB 88") is effective for reporting periods beginning after June 15, 2018. The objective of GASB 88 is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. GASB 88 requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses.

For notes to financial statements related to debt, GASB 88 also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. The adoption of GASB 88 required additional disclosures which are include in Note 3 (m) to its financial statements.

There were no other changes in accounting principles or new standards adopted in the current year that had an effect on the Authority's financial statements.

Based upon our audit, the financial statement disclosures are neutral, consistent and clear.

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

On August 6, 2019, the Authority refunded its 2013 Series C, 2013 Series D, and 2013 Series E variable-rate Junior Revenue Bonds and issued 2019 Series D and 2019 Series E variable-rate bonds.

The interest rates on these bonds were hedged by interest rate swaps, which were bifurcated as of the date of the refunding. As defined by GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* ("GASB 53"), debt-type instruments (swaps) with market exposure are accounted for by bifurcating the transaction between a borrowing and an embedded derivative. The fair values of each element of the bifurcation can be made by estimating the fair value of the instrument (swaps) less the fair value of the borrowing. GASB 53 requires that associated interest swaps be tested for hedge effectiveness to qualify for the application of hedge accounting. On October 31, 2019, the associated interest swaps were tested and qualified for hedge accounting. Accordingly, the fair value of the interest rate swaps on August 6, 2019 of negative $80 million was recorded as an imputed borrowing and a deferred outflow of resources by the Authority. These amounts are being amortized on a straight-line basis over the remaining life of the swaps and were $78.5 million at October 31, 2019. Apart from the imputed borrowing, the interest rate swap agreements, which continue in effect and continue as a hedge, had a negative fair value (from August 6, 2019) of $747 thousand at October 31, 2019. This negative fair value is recorded as a deferred outflow of resources and a liability in the Authority's statement of net position (deficit).

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. Based on the procedures performed, the fair value of the Swaps recorded by the Organization appears reasonable.

B) OPEB Liability and Expense

The Organization provides other postemployment benefits ("OPEB") to its employees and retirees through the New York State Health Insurance Program (the "Program"). In accordance with GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* ("GASB 75"), the Organization recognizes a net OPEB liability 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 total OPEB liability is determined through an actuarial valuation. As no assets are accumulated in a trust for such OPEB benefits, the total OPEB liability is equal to the Organization's net OPEB liability. As of October 31, 2019, the Organization recognized a net OPEB liability of approximately $34.8 million.

Based on our audit procedures and evaluation of such assumptions and estimates used by the actuary to calculate the OPEB costs and liabilities, management's estimates of the liability appear reasonable and in accordance with the provisions of GASB 75.

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 and Finance 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 the Organization's initial trial balance that decreased the change in net position by approximately $1,312,000. In the prior year, there were two entries recorded subsequent to the receipt of our initial trial balance that decreased the change in net position by approximately $1,034,000.

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

- To decrease net position by approximately $1,312,000 to record bond interest expense on defeased 2009 bonds.

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 Organization 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.

Data Analytics

We extracted data from the Organization's accounts payable and payroll systems and used data analytics software to perform certain procedures including the following:

- We searched for any cash disbursements processed during non-business hours
- We searched for duplicate checks.
- We searched for multiple vendors with similar names or addresses.
- We searched for duplicate employees with the same or similar employee identification numbers.
- We searched for employees with similar names or addresses.
- We compared the vendor database with the payroll database to determine if there were employees and vendors with similar names and addresses.
- We performed journal entry testing to identify unusual items (such as entries made during non-business hours from a remote location, etc.)

Based on these procedures there were no items to report except that we noted that the Authority's vendor listing included duplicate vendors and addressees (see Tab 4).

10. <u>Internal Controls: Control and Significant Deficiencies and Material Weaknesses</u>

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 letters disclosing the observations and recommendations relating to the Organization (see Tabs 4 and 5).

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, 2019.

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, 2020 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 2020 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 that the Organization is a party to litigation and claims in the ordinary course of its operations. The Organization's financial statements do not reflect any provision for these matters as it is the Organization's opinion that such matters will not have an adverse effect on the financial position of the Organization, and that any potential losses would be covered by the Organization's various insurance policies.

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. <u>New Accounting and Auditing Matters on the Horizon</u>

See the pre-audit presentation on October 29, 2019 for discussion of new accounting and auditing matters.

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