

HUGH L. CAREY BATTERY PARK CITY AUTHORITY
A Component Unit of The State of New York
POST AUDIT MEETING
FOR THE YEAR ENDED OCTOBER 31, 2022
JANUARY 24, 2023

This report is intended solely for the information and use of the Audit and Finance Committee, Members, and management of the Hugh L. Carey Battery Park City Authority and is not intended to be and should not be used by anyone other than these specified parties, unless permission is granted.



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Agenda



1. Required Communications to the Audit and Finance Committee
 - Service Delivery Timeline
 - This Year's Audit Results
 - New Developments & Forward Considerations
2. Draft of the Financial Statements as of and For the Year Ended October 31, 2022
3. Draft Report on Internal Control Over Financial Reporting and on Compliance and Other Matters
4. Draft Report on Compliance with Investment Guidelines
5. Appendix: Management's Representations & Background on CBIZ Marks Paneth & MHM

Service Delivery Timeline

Attest Services	2022	2021
Interim Review – April 30:		
Review fieldwork start	June 27, 2022	June 21, 2021
Review of draft deliverables	September 2022	September 2021
Presentation of draft review report to the Audit and Finance Committee	October 11, 2022	September 30, 2021
Issuance of review report	November 30, 2022	November 15, 2021
Audit – October 31:		
Issuance of engagement letter	October 6, 2022	September 23, 2021
Pre-audit communication to the Audit and Finance Committee	October 11, 2022	September 30, 2021
Audit fieldwork start	December 10, 2022	December 13, 2021
Post-audit communication to the Audit and Finance Committee	January 24, 2023	January 25, 2022
Issuance of financial statements	By January 31, 2023	January 31, 2022
Tax Services (performed by CBIZ)		
Preparation of tax returns	February 2023	March 2022
Issue drafts to management	March 2023	April 8, 2022
Filed with tax authorities	April 2023	May 2, 2022

This Year's Audit Results

Matter	Conclusion
Opinion on Financial Statements and Footnotes	■ We have completed our evidence gathering process in order for us to provide reasonable assurance that the financial statements are free from material misstatement whether caused by error or fraud. ■ There were no deviations in the proposed audit report meaning this report is considered “clean” or “unmodified.” ■ We are prepared to issue our auditor’s report that includes an opinion that the financial statements are fairly stated in all material respects in accordance with accounting principles generally accepted in the United States of America (“U.S.GAAP”) upon the Audit and Finance Committee acceptance for issuance and subject to the following open items: 1. Additional post balance sheet review by MHM, including the final review by our internal quality review department. 2. Receipt of report from third-party specialist (Harvest Investments) on the valuation and fair value leveling of the Authority’s interest rate swaps and investments. 3. Receipt of legal letters from the Authority’s General Counsel and outside attorneys. 4. Receipt of various confirmations (investments, bonds payable, interest rate swaps). 5. Receipt of the signed management representation letter. ■ Standard audit reports changed this year as required under auditing standards with more detail covering certain items ■ An emphasis of matter paragraph is added explaining the adoption of the new lease standard

This Year's Audit Results

Matter	Conclusion
Reporting on Supplemental Information	■ We are prepared to issue our report on the fairness of the supplementary information when considered in relation to the financial statements as a whole upon your approval for issuance.
Reporting on Investment Compliance	■ In connection with our audit, nothing came to our attention that caused us to believe that the Authority had not complied, in all material respects, with the terms, covenants, provisions or conditions of its Investment Guidelines insofar as they relate to accounting matters.
Reporting under Government Auditing Standards	■ No instances of noncompliance or other matters identified and reported. ■ No matters relative to internal controls identified and reported from our consideration of controls over financial reporting assessed during the audit.

This Year's Audit Results

Changes in Accounting Policies

- Adoption of GASB 87, *Leases*, as described in Note 2.
- The accounting principles are discussed in detail in Note 2 to the financial statements.

Significant or Unusual Transactions

- None

Alternative Accounting Policies

- No alternative accounting policies were discussed with management.

Our responsibilities were covered in our planning meeting with the Audit and Committee at the start of the audit process.

This Year's Audit Results

Matter	Conclusion
Auditor Detected Adjustments	▪ None
Waived Adjustments	▪ None
Financial Statement Disclosures	▪ The disclosures are neutral, consistent, and clear
Other Information in Documents Containing Audited Financial Statements	▪ We are not aware of other documents that contain the audited financial statements that require work on our part
Disagreements with Management	▪ None
Management Consultations with Other Accountants	▪ Management has informed us that they have not consulted with other accountants
Major Issues Discussed with Management Prior to Our Retention	▪ None
Difficulties Encountered Performing the Audit	▪ None

This Year's Audit Results

Matter	Conclusion
Conflict of Interest Matters & Other Governance Issues	■ We understand that the Authority has adopted a Code of Ethics for its employees and Members.
Other Matters	■ No instances of fraud or illegal acts were noted. ■ No material uncertainties were noted. ■ No significant changes to our planned scope or any additional significant audit risks, required during year end fieldwork. ■ Obtained minutes for the year.

This Year's Audit Results

Major Estimates & Judgments

Certain aspects of accounting are more qualitative and thus require more judgment and estimation by management. The following items represent the more significant qualitative areas:

Major Estimates & Judgments	Audit Results
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, <i>Accounting and Financial Reporting for Derivative Instruments</i> ("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.

This Year's Audit Results

Major Estimates & Judgments (Continued)

Major Estimates & Judgments	Audit Results
Fair Value of Interest Rate Swap Agreements	On August 6, 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 \$59.9 million at October 31, 2022. Apart from the imputed borrowing, the interest rate swap agreements, which continue in effect and continue as a hedge, had a fair value of \$30.3 million at October 31, 2021. This fair value is recorded as a deferred inflow of resources and an asset on 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. We are awaiting the report from a third-party valuation specialist (Harvest Investments), to determine if the fair value of the Swaps recorded by the Organization appears reasonable.

This Year's Audit Results

Major Estimates & Judgments (Continued)

Major Estimates & Judgments	Audit Results
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, <i>Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions</i> ("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, 2022, the Organization recognized a total OPEB liability of approximately \$47.8 million. A consultation was conducted to evaluate the assumptions and estimates used by the actuary to calculate the OPEB costs and liabilities. Based on the actuarial review, management's estimates of the liability appear reasonable and in accordance with the provisions of GASB 75.

This Year's Audit Results

Major Estimates & Judgments (Continued)

Major Estimates & Judgments	Audit Results
Recoverability Period of Project Assets and Construction in Progress	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. Our procedures performed included the following: ■ We obtained an understanding of the Authority's capitalization and depreciation policy. ■ We obtained the details on additions during the year, including capitalized costs, and reviewed supporting documentation. ■ We tested the calculation of depreciation. Based on our audit procedures performed management's estimates of useful lives of the assets appear reasonable as of October 31, 2022. As of October 31, 2022, construction in progress (CIP) amounts of approximately \$32.9 million was included in the site improvements balance, which consists primarily of the resiliency projects that are estimated to be completed in 2026. Such costs will be placed in service and depreciated in future years upon management's estimate of the substantial completion of different components of the resiliency projects.

This Year's Audit Results

Major Estimates & Judgments (Continued)

Major Estimates & Judgments	Audit Results
Pension Benefits	The Organization's eligible employees are eligible for pension benefits through the New York State and Local Retirement System ("NYSLRS"), a cost-sharing multiple employer defined benefit pension plan. Employers participating in cost-sharing plans are required to recognize their proportionate share of the collective pension amounts for all benefits provided through the plan based on an allocation methodology. In determining the amount of expense and liability to be recorded for NYSLRS, the NYSLRS' actuary makes assumptions or estimates for rates of return on assets, future compensation increases, etc. Based on these estimates, the Organization records its proportionate share of the expense and liability for these benefits. As of October 31, 2022, the Authority's proportionate share of the net pension asset (liability) for NYSLRS amounted to an asset of approximately \$2.7 million (the prior year net pension liability was approximately \$30,000). The significant decrease in the liability is primarily a function in the increase in the funded status of the plan from 103.65% as of the current period measurement date (March 31, 2022) to as of the prior period measurement date (March 31, 2021). Based on our audit procedures and evaluation of such assumptions and estimates used to calculate benefit costs and liabilities, management's estimates of the net pension liability appear reasonable.

This Year's Audit Results

Major Estimates & Judgments (Continued)

Major Estimates & Judgments	Audit Results
Leases (GASB 87)	Lease accounting requires management to determine the appropriate borrowing rate used to discount leases as well as the lease term. Determining the lease term requires judgments about renewals or termination options. See slide 17 for details.
Allowance for Doubtful Rents and Other Receivables	Management determined that an allowance for doubtful rents and other receivables of approximately \$16.4 million was necessary at October 31, 2022 (the prior year allowance was approximately \$11.4 million). Management calculates an allowance for doubtful receivables based on management's assessment of the aged basis of its receivables, creditworthiness of tenants, current economic conditions and historical information. See slide 15 for the details of the rents and other receivables and allowance for doubtful receivables as of October 31, 2022 and 2021, respectively.

We have assessed these areas in considering the overall fairness and completeness of the financial statements taken as a whole

This Year's Audit Results

Major Estimates & Judgments (Continued)

The details of accounts receivable as of October 31, 2022 and 2021, respectively:

	2022	2021	Variance	
Rents Receivable	\$ 24,226,390	\$ 15,800,238	\$ 8,426,152	
Interest Receivable	613,905	780,091	(166,186)	
Miscellaneous Receivables	<u>356,784</u>	<u>109,539</u>	<u>247,245</u>	
Total Rents and Other Receivables	25,197,079	16,689,868	8,507,211	
Less Allowance for Doubtful Accounts	<u>(16,443,757)</u>	<u>(11,426,385)</u>	<u>(5,017,372)</u>	
Rents and Other Receivables, Net	8,753,322	5,263,483	3,489,839	
Allowance for Doubtful Accounts, End of Year	(16,443,757)	(11,426,385)	(5,017,372)	
Allowance for Doubtful Accounts, Beginning of Year	<u>(11,426,385)</u>	<u>(2,240,375)</u>	<u>(9,186,010)</u>	
Net Increase in Allowance	(5,017,372)	(9,186,010)	4,168,638	
Direct Write-Offs of Receivables	<u>-</u>	<u>(110,590)</u>	<u>110,590</u>	
Provision for Doubtful Accounts	\$ (5,017,372)	\$ (9,296,600)	\$ (4,279,228)	

This Year's Audit Results

Major Estimates & Judgments

Days Outstanding:

	10/31/2022	10/31/2021
Rents and Other Receivables, Net of Allowance	\$ 8,753,322	\$ 5,263,483
Revenue from Ground Leases	396,020,685	403,683,420
Days Outstanding	8	5

Our procedures performed included the following:

- We reviewed subsequent cash receipts.
- We reviewed aging reports.
- We analyzed write offs and discussed with management.

Based on our audit procedures performed management's estimate for uncollectible accounts receivable appear reasonable as of October 31, 2022.

This Year's Audit Results

Major Estimates & Judgments

■ **Leases – GASB 87**

- The standard requires certain judgments are made by management.

■ **Authority as Lessor**

- The Authority utilized PFM Financial Advisors LLC to calculate the Weighted Average Cost of Capital (“WACC”) used to discount the leases to present value based on remaining lease payments. PFM calculated the Authority’s WACC as 3.265% as of the implementation date of November 1, 2022. The WACC is the future debt cash flows discounted to equal the outstanding proceeds as of November 1, 2020.
- There were 45 leases considered in the calculation of the lease receivables.

■ **Authority as Lessee**

- The Authority concluded that the same discount rate of 3.265% should be used for calculating the lease liability.
- There were 3 leases considered in the calculation of the lease liability.
 - Our procedures include the following:
 - Recalculating a sample of leases to ensure the discounted amount was correct.
 - Comparing the listing of leases for GASB 87 to the Authority’s rental revenue and rent expense accounts (for completeness).
 - Test a sample of leases and compared the remaining payment amounts used to the original or amended lease documents.
- Based on our audit procedures performed management’s estimates of leases appear reasonable.

This Year's Audit Results - Additional Procedures

We performed additional procedures above what is required under U.S. GAAS. Our additional procedures provide added comfort related to **reputational risks**. Certain additional procedures are also designed to assist us in detecting possible **fraud risks**. These additional procedures include utilizing Data Analytic tools. Data Analytic tools are incorporated in our audit methodology to assist with gaining audit efficiencies, helping with the detection of possible fraud risks and validating completeness of the information received. We used such tools to analyze data from the Organization's general ledger, accounts payable and payroll systems looking for outliers and anomalies.

Some of the additional procedures included:

- reviewed on a sample basis top management level employee reimbursements and credit card charges
- journal entry testing to identify unusual items (such as entries made during non-business hours from a remote location)

We did not identify exceptions based on the additional audit tests performed. For any exceptions or anomalies noted we corroborated to supporting documentation and made inquiries of management to ensure that the exceptions are valid.

Discussion Points & Other Control Deficiencies



We did not observe any material weaknesses as a result of our audit procedures.

New Developments & Forward Considerations

Development	What's Changing	When Are the Changes Effective	Recommended Actions
GASB 94, Public-Private and Public- Public Partnerships and Availability Payment Arrangements	Improve financial reporting by addressing issues related to public-private and public-public partnership arrangements ("PPPs").	Fiscal years beginning after October 31, 2022 (i.e., FY 2023).	The Authority should review the standard and determine if there are any contracts that meet these criteria.
GASB 96, Subscription- Based Information Technology Arrangements ("SBITAs")	The statement defines a SBITA, establishes that a SBITA results in a right-to-use subscription asset and a corresponding liability, provides the capitalization criteria for outlays other than subscription payments, and requires note disclosures related to a SBITA.	Fiscal years beginning after October 31, 2022 (i.e., FY 2023).	SBITAs require similar accounting requirements as the lease standard and the Authority should review the standard for any contracts that meet the definition of an SBITA.

New Developments & Forward Considerations

Development	What's Changing	When Are the Changes Effective	Recommended Actions
<i>GASB 97, Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans</i>	Increase consistency and comparability related to the reporting of fiduciary component units and accounting and financial reporting for IRC Section 457 deferred compensation plans that meet the definition of a pension plan.	Fiscal years beginning after June 15, 2021 (i.e., FY 2022).	The adoption of GASB 97 did not have an impact on Authority's financial statements.
<i>GASB 98, The Annual Comprehensive Financial Report</i>	Replaces the term comprehensive annual financial report and its acronym with the term annual comprehensive financial report and its acronym (ACFR).	Fiscal years beginning after October 31, 2022 (i.e., FY 2023).	The adoption of GASB 98 did not have an impact on the Authority's financial statements as it does not issue an ACFR.

New Developments and Forward Considerations

Development	What's Changing	When Are the Changes Effective	Recommended Actions
GASB 99, <i>Omnibus 2022</i>	Addresses practice issues that have been identified in the implementation of certain GASB statements and improves accounting and reporting for financial guarantees.	Effective for reporting periods ranging from immediate to fiscal years beginning after June 15, 2023 (i.e., FY 2024).	The incremental adoption of GASB 99 from now to fiscal year 2024 will not have an impact on Authority's financial statements as the practice issues and the accounting and financial reporting for financial guarantees are not applicable to Authority.

New Developments and Forward Considerations

Development	What's Changing	When Are the Changes Effective	Recommended Actions
GASB 100, Accounting Changes and Error Corrections – An Amendment to GASB Statement No. 62	Enhances accounting and financial reporting requirements for accounting changes and error corrections.	Accounting changes and error corrections in fiscal years beginning after June 15, 2023 (i.e., FY 2024).	The adoption of GASB 100 will only have an impact in fiscal years that the Authority is required to adopt new reporting standards or must correct errors.
GASB 101, Compensated Absences	Updates the measurement and recognition guidance for compensated absences and amends certain previously required disclosures.	Fiscal years beginning after December 15, 2023 (i.e., FY 2025).	The Authority should review their policies relating to accrued time off and the related payments to determine if the standard will have an effect on their financial statements.