

HUGH L. CAREY BATTERY PARK CITY AUTHORITY

A Component Unit of the State of New York

POST AUDIT MEETING
YEAR ENDED OCTOBER 31, 2023

JANUARY 30, 2024

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.



Your Engagement Leadership Team



Philip Marciano
Engagement Leader

☎ Direct: 516.992.5841
✉ Email: Philip.Marciano@cbiz.com



Magdalena M. Czerniawski
Tax Leader

☎ Direct: 212.324.7026
✉ Email: Magdalena.Czerniawski@cbiz.com



Daniel McElwee
Engagement Senior Manager

☎ Direct: 212.201.2992
✉ Email: Daniel.McElwee@cbiz.com



John D'Amico
Professional Standards Leader

☎ Direct: 212.710.1808
✉ Email: John.Damico@cbiz.com

Other Audit Members:

Audit Senior Associate II – Edgardo Curbita
Heather Turk – Staff (LIFMS)
Sylvia Wang – Staff (Wei, Wei & Co.)



Scott Woznicki
Managing Director – Information
Technology

☎ Direct: 617.761.0673
✉ Email: Scott.Woznicki@cbiz.com

Agenda

1. Required Communications to the Audit and Finance Committee
 - Service Delivery Timeline
 - This Year's Audit Results
 - Internal Control Considerations
2. Tab 1 - Draft of the Financial Statements as of and For the Year Ended October 31, 2023
3. Tab 2 - Draft Report on Compliance with Investment Guidelines
4. Tab 3 - Draft Report on Internal Control Over Financial Reporting and on Compliance and Other Matters
5. Tab 4 - Technology Observations and Recommendations Resulting from the FY 2023 IT Audit/Cybersecurity Review
6. Appendix A: Draft Management Representation Letter

Service Delivery Timeline

Attest Services	2023	2022
Interim Review – April 30:		
Review fieldwork start	July 24, 2023	June 27, 2022
Review of draft deliverables	August 10, 2023	September 2022
Presentation of draft review report to the Audit and Finance Committee	August 16, 2023	October 11, 2022
Issuance of review report	August 31, 2023	November 30, 2022
Audit – October 31:		
Issuance of engagement letter	August 4, 2023	October 6, 2022
Pre-audit communication to the Audit and Finance Committee	August 16, 2023	October 11, 2022
Audit fieldwork start	December 11, 2023	December 10, 2022
Post-audit communication to the Audit and Finance Committee	January 30, 2024	January 24, 2023
Issuance of financial statements	By January 31, 2024	January 31, 2023
Tax Services (performed by CBIZ)		
Preparation of tax returns	February 2024	February 2023
Issue drafts to management	February 2024	February 22, 2023
Filed with tax authorities	March 2024	March 2023

This Year's Audit Results

Matter	Conclusion
Opinion on Financial Statements and Footnotes	<ul style="list-style-type: none">■ 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 modifications 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:<ol style="list-style-type: none">1. Additional post balance sheet review by MHM, including the final review by our internal quality review department.2. Receipt of legal letter from Holland and Knight LLP.3. Receipt of the signed management representation letter.

This Year's Audit Results

Matter	Conclusion
Reporting on Supplemental Information	<ul style="list-style-type: none">■ 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	<ul style="list-style-type: none">■ 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	<ul style="list-style-type: none">■ 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 96, *Subscription-Based Information Technology Arrangements*, as described in Note 3.
- The accounting principles are discussed in detail in Note 3 to the financial statements.

Significant or Unusual Transactions

- The Authority issued \$732.5M of bonds of which \$469.7M of proceeds were used to refund all or a portion of the 2013A, 2019D-1, 2019D-2 and 2019E bonds. The gain on refunding of \$22.8 million and is being amortized over the term of the new debt.

Alternative Accounting Policies

- No alternative accounting policies were discussed with management.

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

This Year's Audit Results (Continued)

Matter	Conclusion
Auditor Detected Adjustments	<ul style="list-style-type: none"> There was one adjustment proposed and recorded to reflect the termination of the Pier A lease. This entry resulted in the recognition of a loss on lease termination of \$1,038,000.
Waived Adjustments	<ul style="list-style-type: none"> None
Financial Statement Disclosures	<ul style="list-style-type: none"> The disclosures are neutral, consistent, and clear.
Other Information in Documents Containing Audited Financial Statements	<ul style="list-style-type: none"> We are not aware of other documents that contain the audited financial statements that require work on our part.
Disagreements with Management	<ul style="list-style-type: none"> None
Management Consultations with Other Accountants	<ul style="list-style-type: none"> Management has informed us that they have not consulted with other accountants.
Major Issues Discussed with Management Prior to Our Retention	<ul style="list-style-type: none"> None
Difficulties Encountered Performing the Audit	<ul style="list-style-type: none"> None

This Year's Audit Results (Continued)

Matter	Conclusion
Conflict of Interest Matters & Other Governance Issues	<ul style="list-style-type: none">■ We understand that the Authority has adopted a Code of Ethics for its employees and Members.
Other Matters	<ul style="list-style-type: none">■ 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 and reviewed minutes of the meetings of the Board of Directors and the various committees of the Authority.

This Year's Audit Results

Management's 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
Interest Rate Swap Agreements	<p>On June 20, 2023, the Organization terminated the six Swaps in connection with the partial refunding of the 2019 Series D and the full refunding of the 2019 Series E variable rate bonds with the 2023 Series B fixed-rate bonds. Variable rated bond exposure was reduced, and all the Authority's interest rate Swaps were terminated. The termination of the Swaps had no effect on the Authority's change in net position for the year ended October 31, 2023.</p> <p>On August 3, 2023, the Organization completed the successful sale of \$732.5 million of the 2023 Revenue Bonds. The proceeds of the sale were used to fund the Swap termination costs and reduce the variable rate exposure. Hence, there is no need this year to determine the fair value of the swaps recorded by the Organization.</p>

This Year's Audit Results

Management's Estimates & Judgments

Major Estimates & Judgments	Audit Results
<p>OPEB Liability (Significant Estimate)</p>	<p>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.</p> <p>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, 2023, the Organization recognized a total OPEB liability of approximately \$37.4 million.</p> <p>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.</p>

This Year's Audit Results

Management's Estimates & Judgments

Major Estimates & Judgments	Audit Results
<p>Recoverability Period of Project Assets and Construction in Progress</p>	<p>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.</p> <p>Our procedures performed included the following:</p> <ul style="list-style-type: none"> ■ 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. <p>Based on our audit procedures performed management's estimates of useful lives of the assets appear reasonable as of October 31, 2023.</p> <p>As of October 31, 2023, construction in progress (CIP) amounts of approximately \$84.7 million 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.</p>

This Year's Audit Results

Management's Estimates & Judgments (continued)

Major Estimates & Judgments	Audit Results
<p>Pension Benefits</p>	<p>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.</p> <p>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.</p> <p>As of October 31, 2023, the Authority's proportionate share of the net pension asset (liability) to NYSLRS amounted to approximately \$(6.9 million) (the prior year net pension asset was approximately \$2.7 million). The significant increase to liability is primarily a function of the changes in actuarial assumptions. 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.</p>

This Year's Audit Results

Major Estimates & Judgments (Continued)

Major Estimates & Judgments	Audit Results
Leases (GASB 87)	<p>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. There were no lease modifications in FY 2023 that required adjustments to the related discount rates. However, there was a lease termination that resulted in a recognized loss of \$1,038,000 in the current year.</p>
Allowance for Doubtful Rents and Other Receivables (Significant Estimate)	<p>Management determined that an allowance for doubtful rents and other receivables of approximately \$22.9 million was necessary at October 31, 2023 (the prior year allowance was approximately \$16.4 million).</p> <p>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.</p> <p>See slide 15 for the details of the rents and other receivables and allowance for doubtful receivables as of October 31, 2023 and 2022, respectively.</p>

This Year's Audit Results

Major Estimates & Judgments (Continued)

The details of accounts receivable as of October 31, 2023 and 2022, respectively:

	2023	2022	Variance	
Rents Receivable	\$ 32,170,587	\$ 24,495,921	\$ 7,674,666	
Interest Receivable	540,034	613,905	(73,871)	
Miscellaneous Receivables	<u>87,100</u>	<u>87,252</u>	<u>(152)</u>	
Total Rents and Other Receivables	32,797,721	25,197,078	7,600,643	
Less Allowance for Doubtful Accounts	<u>(22,870,026)</u>	<u>(16,443,757)</u>	<u>(6,426,269)</u>	
Rents and Other Receivables, Net	9,927,695	8,753,321	1,174,374	
Allowance for Doubtful Accounts, End of Year	(22,870,026)	(16,443,757)	(6,426,269)	
Allowance for Doubtful Accounts, Beginning of Year	<u>(16,443,757)</u>	<u>(11,426,385)</u>	<u>(5,017,372)</u>	
Net Increase in Allowance	6,426,269	5,017,372	1,408,897	
Direct Write-Offs of Receivables	<u>949,396</u>	<u>43,500</u>	<u>905,896</u>	
Provision for Doubtful Accounts	\$ 7,375,665	\$ 5,060,872	\$ 2,314,793	

This Year's Audit Results

Major Estimates & Judgments (Continued)

Days Outstanding:

	10/31/2023	10/31/2022
Rents and Other Receivables, Net of Allowance	\$ 9,927,695	\$ 8,753,322
Revenue from Ground Leases	415,827,695	396,020,685
Days Outstanding	9	8

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 the allowance for doubtful accounts appear reasonable as of October 31, 2023.

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 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.

New Developments and Forward Considerations

Development	What's Changing	When Are the Changes Effective	Recommended Actions
GASB 102, Certain Risk Disclosures	Improves financial reporting by providing timely information regarding certain concentrations or constraints and related events that have occurred or have begun to occur that make a government vulnerable to a substantial impact.	Fiscal years beginning after June 15, 2024 (i.e., FY 2025).	The Statement requires the Authority to assess whether it has any <i>concentrations</i> or <i>constraints</i> that may limit its ability to acquire resources or control spending.