January 16, 2015

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, 2014 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

Attachments:

- 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, 2014 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 signed legal representation letter from the Organization’s general counsel

B) Receipt of signed management representation letter

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

D) 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>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 Organization follows specific accounting policies for maintaining its net assets, postemployment benefits and the recognition of revenue. The principles are discussed in detail in Note 3 to the Organization’s financial statements.

There were no changes in accounting policies or principles for the year ended October 31, 2014.

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 $12.1 million as of October 31, 2014 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, 2014, 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, 2014 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 were none.

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, 2014.

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, 2015 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 2015 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. Industry Updates

A) New York State Nonprofit Revitalization Act of 2013

On December 18, 2013, New York State Governor Cuomo signed into law the “New York State Nonprofit Revitalization Act of 2013 (the “Act”) with most provisions taking effect on July 1, 2014.

At the end of this tab we have provided a checklist for you to use as a tool to evaluate the Organization’s compliance with the Act.

The changes in the Act fall into two categories: 1) relieving regulatory burdens on nonprofits; and 2) improving compliance with what to this point have been best practices.
Some of the more significant provisions are as follows:

**Audit Requirements:**

- Threshold for when an audit is required increased to annual revenues of greater than $500,000 with a phase-in to a $1,000,000 threshold by 2021.
  - A new provision of the Act now allows the Attorney General to demand an audit instead of a review upon 120 days notice.
- Requirement for establishment of audit committee consisting of independent directors (or the independent directors of the board must function as the audit committee) to:
  - Oversee the accounting and financial reporting processes of the organization and the audit of its financial statements
  - Retain the auditor each year
  - Review the results of the audit with the auditor
  - Implement and oversee governance policies.
- For organizations with greater than $1,000,000 in annual revenue; the audit committee is also responsible for:
  - Reviewing the scope and planning of audit with the auditor before the audit begins;
  - Discussing material risks and weaknesses in internal control identified by the auditor
  - Annually consider the auditor’s performance
  - Report activities to the board (unless performed by independent directors of the board)

**Governance Requirements:**

- Electronic and videoconferencing communications permitted, including conduct of board meetings.
- Elimination of board approval requirement for entering into ordinary leasing transactions.
- Permit majority of committee approval (rather than full board) for non-substantial property transactions.
- Specifies that committees of the corporation (defined as committees that include non-directors) cannot have the authority to bind the board.
- Prohibit employees from serving as chair of board.
- Eliminate the public notice requirement for private foundations.
- Mandate requirements for conflict of interest policies for all organizations to be affirmed annually
- Determination by board that related-party transactions are reasonable (in certain circumstances, enhanced procedures and documentation required).
  - The Attorney General now has specific enumerated power to challenge related-party transactions.
- Related party cannot be present during board deliberations regarding potential transactions.
- Mandate whistleblower policy for certain sized organizations.
  - Revenue > $1 million with over 20 employees
- Deliberations of compensation arrangements must be made without party in question present.
B) Form 990 – Changes for 2014

Part VI Independent Director

Independent director compensation continues to be an issue. If the director is compensated in the capacity as a director and the compensation is reasonable, then the director’s independence is not impaired. However, if the director is paid as an officer or employee, or over $10,000 for services as an independent contractor, then the director is not independent. If a director is paid over $600 it must be reported on Form 1099-MISC. Whether reimbursable expenses are accounted for as compensation or not depends on whether the organization has an accountable reimbursement policy. If directors are given an “allowance” for which they do not have to account, it would be reported as compensation described above. If the reimbursement is accountable, i.e., reported through an expense report, then it would not be treated as compensation.

Revocation of Exempt Status

In January of 2014, the IRS issued Revenue Procedure 2014-11 outlining revised procedures for organizations that lost their exemption as a result of the Pension Protection Act. The loss of exemption is the result of not filing or reporting for a three year period. The IRS is following a procedure where the three year period begins on the date of incorporation and not on the date the Employer Identification Number (“EIN”) was issued or the organization began to do business or hold assets.

Significant Changes and Concerns

- A short period return cannot be filed electronically unless it’s an initial or final return for which the “Initial Return” or “Terminated” box is checked in Item B of the Form 990 heading.
- If a Form 990-N filer changes its accounting period, it must report this change either on Form 990/990-EZ or Form 1128.
- Returns with a name change can only be paper filed. In addition, corporations must submit a copy of the amendment to the articles of incorporation and proof of filing with the appropriate state authority.
- Instructions for Part VII, Compensation of Officers, Directors, Trustees, Key Employees, Highest compensated Employees, and Independent Contractors:
  o Clarify that director’s compensation for non-director independent contractor services to the organization and related organizations must be reported in Part VII, section A. Also, corporate directors are considered independent contractors, not employees, and director compensation, if any, generally is required to be reported on Form 1099-MISC.
  o If a voting director of the organization is to be compensated by the organization for services unrelated to his/her services as a director, then that compensation would appear in Section A.
  o Clarify that compensation from a management company to one of the organization’s officers, directors, trustees, key employees, or highest compensated employees is generally not reportable in Part VII, Section A. (Warning: New York bases the classification on common law employee status which may be different from the Federal interpretation).
  o Deferred compensation is normally reported in Column F Part VII. The instructions have been modified whereby if the deferral period is within 2-1/2 months following the close of the calendar year they are not included in Column F, Part VII. Column F Part VII should only reflect deferred compensation earned in the reporting year payable in a future year.

- Instructions for Part XI clarify what items are to be included in reporting unrealized gains for unaudited clients. Additionally, Lines 6 and 8 Part XI have been modified as to inclusion of donated facilities and prior period adjustments.
A new Schedule A and related instructions have just been released. Schedule A has gone from 4 pages to 8 pages. The additional pages are dedicated to supporting organizations (509(a)(3)) and the related requirements. The instructions have gone to 19 pages with the additional information dedicated to supporting organizations. There are a series of questions for each of the types - Type 1, Type 2, Type 3 (integrated, non-integrated). For the most part, if any of the test fail, these organizations are to be reclassified as private foundations requiring a 990-PF filing. All supporting organizations need to ensure that the specific requirements for each type are being met. Organizations may need to reevaluate the category being used for each based on their respective organizing documents since each type has very specific requirements. Generally, supporting organizations created before August 17, 2006 will be treated as a “supporting organization” without reference to type. After that date, determination letters should reflect type. Schedule A has a question asking whether the determination by type is included in the exemption letter. There are a number of transactions outlined in the instructions between the supported and supporting organizations that give way to substantial excise taxes. The new Schedule A impacts returns with a year beginning January 1, 2014.

15. 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 Organization to be aware of new accounting standards that could have an impact on the Organization. In all cases, management will evaluate the impact of these standards on the Organization’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 Organization’s accounting and financial reporting because of the nature of the topics to which they pertain.

A) GASB Statement No. 68, “Accounting and Financial Reporting for Pensions (“GASB No. 68”),” is effective for fiscal years beginning after June 15, 2014. GASB 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. GASB 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. GASB No. 68 also enhances accountability and transparency through revised and new note disclosures and required supplementary information. The Organization has not completed the process of evaluating the effect of GASB No. 68 on its financial statements.

B) GASB Statement No. 69, “Government Combinations and Disposals of Government Operations (“GASB No. 69”),” establishes accounting and financial reporting standards related to government combinations and disposals of government operations. GASB No. 69 requires disclosures to be made about government combinations and disposals of government operations to enable financial statement users to evaluate the nature and financial effects of those transactions. The requirements of GASB No. 69 are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013, and should be applied on a prospective basis. Earlier application is encouraged. The Organization has not completed the process of evaluating the effect of GASB No. 69, but it is not expected to have a significant impact on the Organization’s financial statements.
C) GASB Statement No. 70, “Accounting and Financial Reporting for Nonexchange Financial Guarantees (“GASB No. 70”),” requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. GASB No. 70 specifies the information required to be disclosed by governments that extend nonexchange financial guarantees. In addition, GASB No. 70 requires new information to be disclosed by governments that receive nonexchange financial guarantees. The provisions of GASB No. 70 are effective for reporting periods beginning after June 15, 2013. Earlier application is encouraged. The Organization’s management has determined that GASB No. 70 will not have a significant impact on the Organization’s financial statements.

D) GASB Statement No. 71, “Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68 (“GASB No. 71”),” eliminates a potential source of understatement of restated beginning net position and expense in a government’s first year of implementing GASB Statement No. 68, “Accounting and Financial Reporting for Pensions (“GASB No. 68”).” To correct this potential understatement, GASB No. 71 requires a state or local government, when transitioning to the new pension standards, to recognize a beginning deferred outflow of resources for its pension contributions made during the time between the measurement date of the beginning net pension liability and the beginning of the initial fiscal year of implementation. This amount will be recognized regardless of whether it is practical to determine the beginning amounts of all other deferred outflows of resources and deferred inflows of resources related to pensions.

The provisions are effective simultaneously with the provisions of GASB No. 68, which is required to be applied in fiscal years beginning after June 15, 2014. The Organization has not completed the process of evaluating the effect of GASB No. 71 on its 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**