January 25, 2011

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 & Shron LLP ("MP&S" or "us" or "we" or "our") is pleased to provide this communication in compliance with the American Institute of Certified Public Accountants ("AICPA") Statement on Auditing Standards No. 114. 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"). MP&S 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 its consideration or action. Matters in this communication are concerning the completion of the October 31, 2010 financial statement audit.

This report is intended solely for the information and use of the Audit Committee, Members and management of the Authority, 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 & Shron LLP

MARKS PANETH & SHRON LLP

Attachment:
- Management representation letter

1. Auditors' Responsibility

Our responsibility as the independent auditors is to express an opinion on the Authority's financial statements as of and for the year ended October 31, 2010 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 U.S. GAAS and generally accepted government auditing standards, as promulgated by the United States General Accounting Office ("U.S. GAGAS"), 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 Authority and other procedures we considered necessary to enable us to express an unqualified 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").

Based on our audit, we are prepared to issue an unqualified opinion on the financial statements, subject to the following open items being cleared:

A) Receipt of signed management representation letter.

B) Acceptance of the draft financial statements by the Audit Committee.

C) Additional post balance sheet review by MP&S to bring our audit report date to that of the management representation letter date.

2. Management's Responsibility

The Authority'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 will advise you about appropriate accounting principles and their application and will assist in the preparation of your financial statements, but the responsibility for the financial statements remains with you.

The management of the Authority 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 Authority 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 Authority received in communications from employees, former employees, regulators, or others. In addition, management is responsible for identifying and ensuring that the Authority complies with applicable laws and regulations.

3. Selection, Application or Changes in Significant Accounting Principles

The Authority 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 prior year's financial statements. During the year ended October 31, 2010, there was a change in accounting policies and principles related to the adoption of GASB Statement No. 53 as further explained below.

A) GASB Statement No. 53 "*Accounting and Financial Reporting for Derivative Instruments*" ("GASB 53") was effective for the Authority's October 31, 2010 fiscal year. The statement establishes guidance on the recognition, measurement and disclosures related to derivative instruments entered into by governmental entities. GASB 53 requires that most derivative instruments be reported at fair value. Accounting for changes in fair value from reporting period to reporting period would depend on whether the derivatives would meet the statement's very specific criteria to be considered an effective hedge.

In accordance with GASB 53, the Authority evaluated the effectiveness of its six interest-rate exchange agreements (the "Swaps"), determined the Swaps to be effective hedges and recorded the negative fair value of approximately $72.6 million and $50.8 million as of October 31, 2010 and 2009, respectively, as both an asset for the accumulated decrease in the fair value of the Swaps and a liability, representing the negative fair value of the Swaps. As further discussed in Note 10 to the Authority's financial statements, the Authority has restated its financial statements as of and for the year ended October 31, 2009 during the current year to apply GASB 53 to that year.

4. 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 interest rate swaps (the "Swaps") were effective hedges, the Authority has recorded the negative fair value of approximately $72.6 million and $50.8 million as of October 31, 2010 and 2009, respectively, as both an asset for the accumulated decrease in the fair value of the Swaps and a liability, representing the negative fair value of the Swaps. The fair value was provided by the Authority's financial advisor and was derived from financial models based upon reasonable estimates about relevant market conditions.

Under the Swaps, the Authority 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 Authority receives interest from the counterparties calculated at 65% of the LIBOR rate. MP&S tested the calculation of the fair value and 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. MP&S noted that the discount factor is calculated based on the LIBOR rate at October 29, 2010, the last business day of the Authority's fiscal year. MP&S tested the reasonableness of the discount factor and found the discount factor selected by the financial advisor to be reasonable. Other inputs used in the calculation of the fair value are the notional amount and future interest payments/receipts which MP&S recalculated and confirmed with the counterparties. Based on the procedures performed, the fair value of the Swaps recorded by the Authority appears reasonable.

B) OPEB Liability and Expense

In determining the amount of expense and liability to be recorded for the postemployment healthcare plan in accordance with GASB Statement No. 45, "*Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*" ("OPEB"), 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 expense and liability for these benefits.

MP&S 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. MP&S also agreed the current year's OPEB costs and checked the accuracy of the rollforward of the OPEB liability to the actuarial valuation report.

Based on our audit procedures, management's estimate of OPEB expense and the related liability appears reasonable.

5. 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 Authority's financial reporting process.

Adjusting journal entries recorded:

There were none.

Uncorrected misstatements due to non-materiality:

There were none.

6. Significant Issues Discussed, or Subject to Correspondence, with Management

Since we have been engaged, 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.

7. Disagreements with Management and Audit Difficulties

There were no disagreements. We received the full cooperation of management and staff throughout the process of performing our audit procedures.

8. 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.

9. 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 2). However, we made certain recommendations and suggestions, which, if implemented, could further strengthen the internal controls and business practices. We communicated these matters in separate memorandums (see Tab 3 and the separately issued letter disclosing the observations and recommendations relating to the Authority's information technology).

10. Consultation with Other Accountants

We are not aware of any consultations with other accountants about auditing and accounting matters during the year ended October 31, 2010.

11. Auditor Independence

We affirm that Marks Paneth & Shron LLP is independent with respect to the Authority in accordance with the AICPA *Code of Professional Conduct.*

12. Future Deliverables to be Issued and Other Matters

A) Future Deliverables to be Issued

Form 990: The original due date for the Battery Park City Parks Conservancy (the "Conservancy") Federal Form 990 is March 15, 2011 and we anticipate the filing date to be extended through September 15, 2011. We expect to issue a draft Form 990 to the Conservancy for its review in July 2011 and the Form 990 will be filed with the Internal Revenue Service after approval by the Conservancy's Board of Directors.

B) Other Matters

I. Contingencies

The Authority's management, general counsel and outside legal counsel have advised us of several pending or threatened litigation matters. Such matters are disclosed in Note 21 to the Authority'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 Authority may be required to complete. We are unaware of any tax or other governmental filing exposure items.

13. Industry Updates

A) New IRS Form 1099 Requirement for 2012 - The Healthcare Reform Bill passed in the spring of 2010 requires 1099 forms be issued for all vendors who receive more than $600 annually. This will likely dramatically increase the number of 1099 forms issued from the current requirement that it be only to independent contractors. All organizations should insist upon getting the vendor's Taxpayer ID Number ("TIN") before a new vendor is paid and should also request the TINs of all existing vendors.

B) Small Business Jobs Act - On September 27, 2010, President Obama signed into law the Small Business Jobs Act (the "Act") which provided relief on the cell phone issue by de-listing cell phones for years beginning after December 31, 2009. This de-listing did not address the proper tax treatment of employer-provided cell phones.

The Act provided significant relief to organizations in that it removed significant reporting requirements. Although employees are no longer required to maintain logs of their business and personal use of cell phones, the Act does not provide complete relief from recordkeeping for employer-provided cell phones. Employers can significantly loosen but not eliminate their recordkeeping and tax policies associated with these cell phones.

While the Act removes cell phones from the definition of listed property retroactive to the beginning of 2010, the new law does not provide that an employee's limited or de minimis personal use of employer provided cell phones is nontaxable. The IRS has retained its authority to continue to tax employer-provided cell phones on audit. The IRS has not as of yet extended the employer-provided cell phone to the de minimis list which would be necessary in order for it to be nontaxable. Also, it is important to remember that the only de-listing is cell phones. Laptops, etc. are still listed property.

The IRS is still of the position that the value of personal use is includible in employee income and subject to withholding, unless it is excludable as a de minimis fringe benefit which it is not at this point. It is very likely that cell phones (not laptops) will be added to the de minimis list in 2011.

14. New Accounting and Auditing Pronouncements

A) Governmental Accounting Standards Board Statement No. 62, "*Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*," ("GASB 62") - GASB 62 is intended to enhance the usefulness of the Codification of Governmental Accounting and Financial Reporting Standards by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board ("FASB") and AICPA pronouncements.

GASB 62 incorporates into the GASB's authoritative literature the applicable guidance previously presented in the following pronouncements issued before November 30, 1989:

- FASB Statements and Interpretations;
- Accounting Principles Board Opinions; and
- Accounting Research Bulletins of the AICPA's Committee on Accounting Procedure.

By incorporating and maintaining this guidance in a single source, the GASB believes that GASB 62 reduces the complexity of locating and using authoritative literature needed to prepare state and local government financial reports. In addition, GASB 62 is expected to improve financial reporting by eliminating the need for financial statement preparers and auditors to determine which FASB and AICPA pronouncement provisions apply to state and local governments, thereby resulting in a more consistent application of relevant guidance in financial statements of state and local governments. Further, GASB 62 contributes to the GASB's efforts to codify all sources of generally accepted accounting principles for state and local governments so that they can be found within a single source.

The requirements of GASB 62 are effective for financial statements for periods beginning after December 15, 2011. Earlier application is encouraged.

B) **Statement on Auditing Standards No. 118, "*Other Information in Documents Containing Audited Financial Statements*," ("SAS No. 118")** is effective for audits of financial statements for periods beginning on or after December 15, 2010. Early application is permitted. These documents include "annual reports of …organizations for charitable or philanthropic purposes that are available to the public that contain audited financial statements and the auditor's report thereon." SAS No. 118 advises the auditor "to respond appropriately when the auditor becomes aware that documents containing audited financial statements and the auditor's report thereon include other information that could undermine the credibility of those financial statements and the auditor's report."

C) **Statement on Auditing Standards No. 119, "*Supplementary Information in Relation to the Financial Statements as a Whole*,"** is effective for audits of financial statements for periods beginning on or after December 15, 2010. Early application is permitted. The new SAS will clarify in the auditors' report that the auditor has applied additional procedures to be able to conclude that "the accompanying supplementary information is fairly stated in all material respects in relation to the financial statements as a whole."

D) **Statement on Auditing Standards No. 120, "*Required Supplementary Information*,"** is effective for audits of financial statements for periods beginning on or after December 15, 2010. Early application is permitted. This new SAS addresses the auditor's responsibility with respect to information that a designated accounting standard setter requires to accompany an entity's basic financial statements (referred to as *required supplementary information*). SAS 120 will require the auditor to include an explanatory paragraph in the auditor's report on the financial statements to refer to the required supplementary information.

There are several other new pronouncements that have been issued by the AICPA and the GASB affecting the Public Sector. However, we feel they should not significantly impact the Authority.

****END****

Marks Paneth & Shron LLP
Certified Public Accountants & Consultants

Date: January 25, 2011

To: The Audit File of the Hugh L. Carey Battery Park City Authority (the "Authority")

From: Marks Paneth & Shron LLP

Re: **Observations and Recommendations Resulting From the October 31, 2010 Audit**

Matters in this memorandum are as of the date above. If matters should arise between this date and the date of our audit report on the financial statements, we will communicate them to you in a separate letter.

Exhibit I of this memo lists items that we noted during our audit of the Authority's October 31, 2010 financial statements. Included in Exhibit II are those observations and recommendations from the prior year's audit that appear not to require further attention.

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Exhibit I – Current Year Recommendations

1. FIXED ASSETS MODULE

Observation: The Authority's project assets, consisting of land, site improvements and the residential building and condominium with a combined net book value of approximately $470 million as of October 31, 2010, are manually entered into the fixed assets module within Great Plains when they are placed in service. The fixed assets module serves as the basis for the calculation of the depreciation that is reflected in the Authority's financial statements.

As part of our audit procedures applied to project assets, we reviewed the reasonableness of the useful lives of project assets and recalculated depreciation on certain assets. Based on this analysis it was noted that the useful lives for certain of the site improvements are for a period greater than the term of the ground lease, which expires in 2069. As a result, such site improvements may be under-depreciated on an annual basis and would not be fully depreciated upon the expiration of the ground lease when the assets will need to be removed from the general ledger. Management has advised us that it believes there are other assets which are over-depreciated, offsetting the financial statement impact of the under-depreciated assets that we tested.

Recommendation: We recommend the Authority review the useful lives of its project assets and if necessary revise their estimates of the useful lives to ensure that the assets are fully depreciated at the end of the lease term.

Management's Response: Management will review the Fixed Asset Module to ensure assets are fully depreciated at the end of the lease team which ends June 2069 and make appropriate modifications to asset lives.

****END OF NEW RECOMMENDATIONS****

Exhibit II – Prior Year Recommendations That Appear to Not Require Further Attention

2. BANK AND INVESTMENT ACCOUNT RECONCILIATIONS

Prior Year Observation: The Authority maintains numerous bank and investment accounts as part of its statutory responsibilities. Reconciliations from the bank and investment statements to the general ledger are prepared on a monthly basis and are subject to management review. We obtained bank and investment account reconciliations and noted they were prepared on a timely basis. Although the Finance Department has certain processes in place to mitigate the risk of a material misstatement as it relates to bank and investment accounts, the management review of these account reconciliations remains undocumented.

Prior Year Recommendation: We recommend that management of the Authority formalize their controls over bank and investment reconciliations by evidencing their reviews with a signature/initial and date.

Current Year Status: MP&S noted that the review of the bank and investment reconciliations was properly documented through the initialing and dating of the reconciliations by the Controller.

3. OUTSTANDING CHECKS

Prior Year Observation: The Authority prepares bank reconciliations on a monthly basis. Bank balances are adjusted for reconciling items, including outstanding checks to arrive at the balance per the general ledger. We obtained bank reconciliations as part of our audit procedures. During our review, we noted stale outstanding checks dating back as far as 2003. Checks outstanding greater than 6 months are considered void and cannot be cashed. New York State Abandoned Property law requires negotiable instruments, including outstanding checks to vendors (Accounts Payable), be remitted to the Office of the State Comptroller.

Prior Year Recommendation: We recommend the Authority review New York State Abandoned Property law to determine whether any outstanding checks should be remitted to the Office of the State Comptroller. In addition, we recommend state checks not required to be remitted to the Office of the State Comptroller be presented as a liability versus an outstanding checks.

Current Year Status: The Authority has reviewed New York State Abandoned Property law and determined that the provisions referred to in the recommendation are not applicable to public authorities such as the Authority.

4. EXTERNAL SERVICE PROVIDER SAS 70

Prior Year Observation: The Authority utilizes a service organization to process payroll for its employees. Service organizations, although external, are considered an extension of an organization for internal controls purposes. The use of a service organization does relieve an organization of related internal controls. Generally, large service providers release a Type II SAS 70 report, which lists all the relevant controls related to the services they provide. These reports are audited by an external CPA firm, whose report is included with the SAS 70 report.

As part of our audit procedures over payroll, we obtained the Type II SAS 70 report issued by Automatic Data Processing Inc. (“ADP”). We reviewed the report noting the controls identified and performed by ADP appeared commensurate with those necessary had payroll been processed in-house by the Authority. In addition, we did not identify any control deficiencies, which would preclude an organization from relying on the SAS 70 and that the external CPA firm issued an unqualified opinion.

We noted that management of the Authority does not review SAS 70 reports for their payroll service organization. Exceptions to the SAS 70 report could result in the need for the Authority to modify existing processes and controls.

Current Year Status: The Authority has reviewed its existing processes and controls related to payroll processing and found them to be adequate and operating effectively.

**** END ****