Hugh L. Carey Battery Park City Authority

Report to the Audit Committee
(Under AICPA SAS No. 114)

For the Audit Year Ended October 31, 2012

Marks Paneth & Shron LLP
Certified Public Accountants & Consultants
IT ALL ADDS UP.

January 22, 2013

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") and the Battery Park City Parks Conservancy (the "Conservancy), collectively referred to as the "Organization." 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 their consideration or action. Matters in this communication are concerning the completion of the October 31, 2012 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 & Shron LLP

MARKS PANETH & SHRON LLP

Attachment:
- Management representation letter

Hugh L. Carey Battery Park City Authority
Report to the Audit Committee
For the Audit Year Ended October 31, 2012

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, 2012 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 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"). In addition, we conducted our audit of the Authority 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 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. Audit Timing Recap

	2012	2011
a. Engagement letter issued	November 29, 2012	October 27, 2011
b. Presentation of preliminary audit plan to the Audit Committee	January 8, 2013	November 2, 2011
c. Audit fieldwork start	December 10, 2012	December 12, 2011
d. Exit meeting and draft deliverables discussion with management	Mid January 2013	Mid January 2012
e. Presentation of draft financials to the Audit Committee	January 29, 2013	January 31, 2012
f. Issuance of signed financial statements	January 29, 2013	January 31, 2012

3. 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.

4. 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. There was a new standard adopted by the Authority that required changes in the financial statements presentation as follows:

In June 2011, GASB issued GASB No. 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* ("GASB No. 63'). GASB No. 63 addresses the financial reporting for deferred outflows of resources, deferred inflows of resources, and net position. In accordance with GASB No. 63, beginning in the year ended October 31, 2012, the Authority changed the format of the financial statements to comply with the new requirements and changed the balance sheets to statements of net position, and the statements of revenues, expenses, and changes in net assets (deficit) to the statement of revenues, expenses, and changes in net position (deficit). In addition, the Authority is reporting the accumulated decrease in the fair value of interest rate swaps as a deferred outflow of resources in the statement of net position. The format of the financial statements for October 31, 2011 has been changed accordingly for comparative purposes (see note 3k).

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 interest rate swaps (the "Swaps") were effective hedges, the Authority has recorded the negative fair value of approximately $106.7 million and $92.9 million as of October 31, 2012 and 2011, respectively, as both a deferred outflows of resources 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 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 31, 2012, the last business day of the Authority's fiscal year. 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.

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. <u>Significant Recorded and Proposed Unrecorded Audit Adjustments</u>

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.

7. <u>Significant Issues Discussed, or Subject to Correspondence, with Management</u>

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.

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 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 environment (see Tab 4).

11. 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, 2012.

12. Auditor Independence

We affirm that Marks Paneth & Shron LLP is independent with respect to the Authority 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, 2013 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 2013 provided that the necessary tax return information is received from the Conservancy's management.

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 Notes 19 and 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.

14. Industry Updates

See the pre-audit presentation to the Audit Committee on January 8, 2013.

15. New Accounting and Auditing Matters on the Horizon

See the pre-audit presentation to the Audit Committee on January 8, 2013.

****END****

January 29, 2013

Marks Paneth & Shron LLP
622 Third Avenue
New York, NY 10017

We are providing this letter in connection with your audits of the balance sheets 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," as of October 31, 2012 and 2011, and the related statements of revenues and expenses and changes in net assets and cash flows for the years then ended for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the net assets, revenues, expenses, and changes in net assets, and cash flows of the Organization in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP").

We confirm that we are responsible for the fair presentation in the financial statements of net assets, revenues and expenses and changes in net assets, and cash flows in conformity with U.S. GAAP. We are also responsible for adopting sound accounting policies, establishing and maintaining internal control, and preventing and detecting fraud.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, as of the date of this letter, the following representations made to you during your audits:

1. The financial statements referred to above are fairly presented in conformity with U.S. GAAP and include all assets and liabilities under the Organization's control.

2. We have made available to you all:

   a. Financial records and related data.

   b. Minutes of the meetings of the Board of Directors or summaries of actions of recent meetings for which minutes have not yet been prepared.

3. There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices, which has not been disclosed to you.

4. There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements.

5. We acknowledge our responsibility for the design and implementation of programs and controls to prevent and detect fraud.

6. There are no uncorrected financial statement misstatements that need to be summarized in an attached schedule.

7. We have no knowledge of any fraud or suspected fraud affecting the Organization involving:

   a. Management,

   b. Employees who have significant roles in internal controls, or

c. Others where fraud could have a material effect on the financial statements.

8. We have no knowledge of any allegations of fraud or suspected fraud affecting the Organization received in communications from employees, former employees, grantors, regulators, or others.

9. The Organization has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or net assets.

10. The following, if any, have been properly recorded or disclosed in the financial statements:

    a. Related party transactions, including revenues, expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties.

    b. Guarantees, whether written or oral, under which the Organization is contingently liable.

    c. All accounting estimates that could be material to the financial statements, including key factors and significant assumptions underlying those estimates, and we believe these estimates are responsible in the circumstances.

11. There are no estimates that may be subject to a material change in the near term that have not been properly disclosed in the financial statements. We understand that *near term* means the period within one year of the date of the financial statements. We have no knowledge of concentrations existing at the date of the financial statements that make the Organization vulnerable to the risk of severe impact that have not been disclosed in the financial statements. We understand that concentrations include individual or group concentrations of contributors, grantors, clients, customers, suppliers, and lenders. We further understand that severe impact means a significant financially disruptive effect on the normal functioning of the Organization.

12. We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us; and we have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts.

13. The Organization is a public benefit corporation created under the laws of the State of New York and is exempt from taxation and has not conducted any activities that would jeopardize their tax-exempt status.

    The Conservancy is an exempt organization under Section 501(c)(3) of the Internal Revenue Code. Any activities of which we are aware that would jeopardize the Conservancy's tax-exempt status, and all activities subject to tax on unrelated business income or excise or other tax, have been disclosed to you. All required filings with tax authorities are up-to-date.

14. There are no:

    a. Violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.

    b. Unasserted claims or assessments that our lawyers have advised us are probable of assertion, which have not been adequately disclosed in the financial statements.

c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed.

d. Reservations or designation of net assets that were not properly authorized and approved.

15. The Organization has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged, except as discussed with you and disclosed in the financial statements.

16. We have complied with all restrictions on resources and all aspects of contractual and grant agreements that would have a material effect on the financial statements in the event of noncompliance.

17. We have followed all applicable laws and regulations in adopting, approving, and amending budgets.

18. Net position (deficit) components (invested in capital assets, net of related debt; restricted; and unrestricted) are properly classified and approved. The Organization's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for which both restricted and unrestricted assets are available is appropriately disclosed and net position was properly recognized under the policy.

19. Provisions for uncollectible receivables have been properly identified and recorded.

20. Risk disclosures associated with deposits, investment securities and derivative transactions are presented in accordance with Governmental Accounting Standards Board ("GASB") requirements.

21. Capital assets are properly capitalized, reported, and, if applicable, depreciated.

22. In accordance with GASB Statement No. 53, "*Accounting and Financial Reporting for Derivative Instruments*", ("GASB Statement No. 53"), management has evaluated the effectiveness of its interest-rate swaps and determined the swaps to be effective hedges. Accordingly, the Authority has recorded the negative fair value of the swaps, amounting to approximately $106.7 million and $92.9 million as of October 31, 2012 and 2011, respectively, as a liability and recorded a corresponding deferred outflows of resources for the accumulated decrease in the fair value of the interest rate swap agreements.

23. We acknowledge our responsibility for the required supplementary information ("RSI"). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.

24. With respect to the supplementary combining statements of net position, combining statements of revenues, expenses and changes in net position (deficit) and the combining statements of cash flows, we acknowledge our responsibility for presenting the supplementary information in accordance with U.S. GAAP, and we believe the supplementary information, including its form and content, is fairly presented in accordance with U.S. GAAP. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information.

25. We have evaluated the Organization's ability to continue as a going concern and have included appropriate disclosures, as necessary, in the financial statements.

26. We have evaluated and classified any subsequent events as recognized or nonrecognized through the date of this letter. No events, including instances of noncompliance, have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements.

Signature:	Signature:
Printed Name: Demetrios A. Boutris	Printed Name: Robert M. Serpico
Title: President & CEO	Title: Senior Vice President, Finance and Treasurer/CFO