Hugh L. Carey Battery Park City Authority

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

For the Audit Year Ended October 31, 2011

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

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January 13, 2012

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, 2011 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

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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, 2011 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 Government Accountability 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 Organization 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 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 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 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.

3. 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 prior year's financial statements. There were no significant changes in accounting principles for the year ended October 31, 2011.

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 $92.9 million and $72.6 million as of October 31, 2011 and 2010, 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 31, 2011, 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. 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 Organization'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.

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 Organization'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

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.

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 Organization 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 Organization's information technology (see Tab 4).

10. <u>Consultation with Other Accountants</u>

We are not aware of any consultations with other accountants about auditing and accounting matters during the year ended October 31, 2011.

11. <u>Auditor Independence</u>

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

12. <u>Future Deliverables to be Issued and Other Matters</u>

A) Future Deliverables to be Issued

Form 990: The original due date for the Conservancy Federal Form 990 is March 15, 2012 and we anticipate the filing date to be extended through September 17, 2012. We expect to issue a draft Form 990 to the Conservancy for its review in July 2012 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 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 19 and 21 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.

13. **Industry Updates**

A) Form 990 – After extensively revising the Form 990 in 2008, the IRS made a number of "fine-tuning" changes to the Form and its schedules and instructions in 2009 and 2010. Recently, the IRS has invited public input on several issues that have the potential to impact future years' Forms.

The issues are:

1. Whether or not future reporting using "activity codes" for program activities will be required.
2. How an organization's payments to management companies and other third parties that are organized by officers, directors, trustees, and/or key employees should be reported on the Form 990.
3. Whether the various thresholds for reporting compensation to key employees, highest compensated employees, independent contractors, and former officers, directors, trustees, and key employees should be raised, lowered or kept the same.
4. How the reporting of revenue from governmental units can be improved. For example, should certain governmental payments, such as Medicaid and Medicare payments be itemized in Part VIII, line 2? Should Part VIII, line 1e and the related instructions be revised to clarify that government contributions may include grants made pursuant to government contracts?
5. Certain redundancies in reconciling beginning and ending net asset balances potentially could be eliminated.
6. Should additional information about audited financial statements be required to be provided on the Form, such as the type of auditors' opinion (unqualified, qualified, disclaimer) and whether financial statements were audited on a separate basis for consolidated filers?
7. For grants and assistance to entities outside the United States, should the grantee's name and employer identification number be required to be provided in Part II of Schedule F?
8. Should indirect foreign expenditures (such as the expenses of listing a study abroad program in a school's website or catalog) be accounted for and reported on Schedule F, Part I?
9. Should deposits into and withdrawals from a bank account be reported as business transactions in Schedule L?
10. Should separately organized component parts of community trusts be required to file separate Form 990 returns, or if not, how can increased transparency in reporting by community trusts be achieved?
11. Should the requirement to report certain related organizations on Schedule R be eliminated?

B) IRS Focus on Fringe Benefits – At a recent exempt organizations conference sponsored by Georgetown Law Center, an IRS official stated that fringe benefits have become the most common trigger of intermediate sanctions under the Internal Revenue Code. Section 4958 of the Code, enacted in 1996, imposes excise taxes on both "disqualified persons" who receive an "excess benefit" from an exempt organization and any organization manager who knowingly participates in an excess benefit transaction.

Conference attendees report that Peter Lorenzetti, a manager in the Exempt Organizations division of the IRS, cautioned exempt organizations that for excludable working condition fringe benefits, organizations must put in place a comprehensive plan that provides guidance on reimbursements and requires employees to substantiate the expenses. In addition, a panelist at the conference noted that employees must present original receipts, rather than credit card statements, in order to meet these substantiation requirements.

It was recommended that the board of an exempt organization should routinely review the CEO's expense reimbursements to ensure that they are appropriate. Mr. Lorenzetti also reminded exempt organizations that with respect to any taxable fringe benefits, an organization must make its intent to treat such benefits as compensation clear in order to avoid the presumption that the provision of such benefits constitutes an excess benefit transaction.

When an economic benefit is not treated as compensation by the organization, the benefit is presumed to constitute an excess benefit transaction in its entirety, unless the disqualified person can establish that it was properly excludable from income for income tax purposes, or involved a legitimate non-compensatory transaction with the organization.

Executives of not-for-profit organizations often receive fringe benefits as part of their compensation package; however, organizations may fail to include the value of those benefits when calculating the total compensation paid to executives and may fail to report them on the executive's W-2. The danger is that if taxable fringe benefits are not included on the executive's W-2, the omitted amount is an "automatic" excess benefit transaction.

C) IRS Issued Guidance Related to Cell Phones/PDA's – In the past, Section 2043 of the Small Business Jobs Act of 2010 [Pub.L.No 111-240] removed cell phones (and BlackBerrys, etc.) from the "listed property" category. While these devices were no longer considered "listed property," the IRS did not give any indication as to reporting and accountability treatment. This left employers having to make a determination as to the value of personal use of the cell phones to include as employee compensation.

On September 14, 2011, the IRS issued guidance [IRS Notice 2011-72] that included cell phones and BlackBerrys, etc. in the "*de minimis*' fringe benefit category. In this regard, where an employer provides such a device to an employee primarily for non-compensatory business reasons, the IRS will treat the employee's use of the device for business reasons as a working condition fringe benefit [Code section 132(d)].

The value of the cell phone, BlackBerry, etc. is now ***excluded*** from the employee's gross income, and the ***substantiation requirements are no longer needed*** applicable to the benefit since they are deemed satisfied by virtue of its classification as a *de minimis* fringe benefit. Additionally, the value of personal use of a cell phone, BlackBerry, etc. provided by an employer primarily for non-compensatory business reasons will be treated as excludable as a *de minimis* fringe benefit. *De minimis* fringe benefits are those benefits that are considered small enough not to have a material effect on the financial condition of a tax payer and, as such, do not require additional accounting.

IRS Notice 2011-72 ***only*** provides guidance on the tax treatment of cell phones, BlackBerrys, etc. that employers provide to their employees primarily for non-compensatory business purposes. Other employer provided equipment, such as computers, are still treated as listed property.

14. New Accounting 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 Authority to be aware of new accounting standards that could have an impact on the Authority. In all cases, management will evaluate the impact of these standards on the Authority's financial statements when they are required to be implemented. However, as indicated in some cases below, some of these new standards would be very unlikely to apply to the Authority's accounting and financial reporting because of the nature of the topics to which they pertain.

A) **GASB Statement No. 62, "*Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,*"** is effective for periods beginning after December 15, 2011 with earlier application encouraged. Therefore, GASB 62 will be effective for the Authority's October 31, 2013 financial statements. GASB 62 incorporates a large volume of Financial Accounting Standards Board and AICPA accounting pronouncements into the GASB hierarchy of generally accepted accounting principles for governments. While GASB 62 is not intended to affect the substance of these standards, their provisions have been modified to reflect the government environment. Accordingly, while management will evaluate any potential impact of GASB 62 on the Authority, it is not expected that there would be an impact.

B) **GASB Statement No. 63, "*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position,*"** is effective for financial statements for periods beginning after December 15, 2011, with earlier application encouraged. GASB 63 provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position (which is the net residual amount of the other elements). The statement requires that deferred outflows of resources and deferred inflows of resources be reported separately from assets and liabilities. GASB 63 also amends certain provisions of GASB Statement No. 34, "*Basic Financial Statements -- and Management's Discussion and Analysis -- for State and Local Governments"*, and related pronouncements to reflect the residual measure in the statement of financial position as net position, rather than net assets.

A deferred outflow of resources is a consumption of net assets that is applicable to a future reporting period. An example of a deferred outflow of resources is a government's hedging interest rate swap agreement in which the fair value becomes negative. If the hedge is determined to be effectively offsetting the changes in fair value of the debt, the decrease in the fair value of the derivative instrument would be reported as a liability with a corresponding deferred outflow of resources to reflect the fact that this decrease is not expected to be recognized in investment income in future periods.

A deferred inflow of resources is an acquisition of net assets that is applicable to a future reporting period. An example of a deferred inflow of resources is a service concession arrangement that involves a public toll road. If the government receives an up-front payment from an operator, the revenue associated with that payment will be recognized in future years because the arrangement that generated the up-front payment relates to those periods. As the Authority has entered into interest-rate swap agreements in conjunction with the issuance of its bonds payable, the provisions of GASB 63 will be required to be adopted by the Authority for its fiscal year ended October 31, 2013.

C) **GASB Statement No. 64, "*Derivative Instruments: Application of Hedge Accounting Termination Provisions (an amendment of GASB Statement No. 53)*,"** is effective for periods beginning after June 15, 2011, with earlier application encouraged. GASB 64 clarifies that when certain conditions are met, the use of hedge accounting should not be terminated. Those conditions are: (*a*) the collectibility of swap payments is considered to be probable, (*b*) the replacement of the counterparty or credit support provider meets the criteria of an assignment or in-substance assignment as described in the Statement, and (*c*) the counterparty or counterparty credit support provider (and not the government) has committed the act of default or termination event. When all of these conditions exist, the GASB believes that the hedging relationship continues and hedge accounting should continue to be applied. It is not anticipated that GASB 64 will have an impact on the Authority's financial statements. As the Authority has entered into interest-rate swap agreements in conjunction with the issuance of its bonds payable, the provisions of GASB 64 will be required to be adopted by the Authority for its fiscal year ended October 31, 2012.

15. New Auditing Matters on the Horizon

A) **Statement on Auditing Standards No. 118, *Other Information in Documents Containing Audited Financial Statements*,** 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."

The SAS 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."

B) **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."

C) **Statement on Auditing Standards No. 120, *Required Supplementary Information,*** addresses the auditor's responsibility with respect to information that a designated accounting standard setter [defined as: the Financial Accounting Standards Board, the Governmental Accounting Standards Board, the Federal Accounting Standards Advisory Board, and the International Accounting Standards Board] requires to accompany an entity's basic financial statements (hereinafter referred to as *required supplementary information*). In the absence of any separate requirement in the particular circumstances of the engagement, the auditor's opinion on the basic financial statements does not cover required supplementary information.

The objectives of the auditor when a designated accounting standard setter requires information to accompany an entity's basic financial statements are to perform specified procedures in order to:

1. describe, in the auditor's report, whether required supplementary information is presented and

2. communicate therein when some or all of the required supplementary information has not been presented in accordance with guidelines established by a designated accounting standard setter or when the auditor has identified material modifications that should be made to the required supplementary information for it to be in accordance with guidelines established by the designated accounting standard setter.

This SAS is effective for audits of financial statements for periods beginning on or after December 15, 2010. Early application is permitted.

D) **AICPA Auditing Standards Board Clarity Project and Issuance of SAS Nos. 122-124**

The AICPA's Auditing Standards Board ("ASB") launched a significant effort to make U.S. GAAS easier to read, understand and apply. In 2009, the International Auditing and Assurance Standards Board ("IAASB") completed a similar project to clarify its International Standards on Auditing ("ISAs"). The ASB is converging U.S. GAAS with the ISAs while avoiding unnecessary conflict with Public Company Accounting Oversight Board auditing standards. All currently effective Statements on Auditing Standards ("SASs") in AICPA *Professional Standards* are being clarified. In other words, all currently effective U.S. GAAS is being rewritten. In October 2011, the ASB achieved a major milestone in its Clarity Project with the issuance of SASs Nos. 122 through 124.

This publication includes a total of 40 finalized clarified SASs in the following statements:

- SAS No. 122, *Statements on Auditing Standards: Clarification and Recodification*
- SAS No. 123, *Omnibus Statement on Auditing Standards–2011*
- SAS No. 124, *Financial Statements Prepared in Accordance With a Financial Reporting Framework Generally Accepted in Another Country*

This publication also supersedes all but seven outstanding SASs through No. 121, as described below.

i. SAS No. 122, *Statements on Auditing Standards: Clarification and Recodification*

This statement contains the *Preface to* Codification of Statements on Auditing Standards, *Principles Underlying an Audit Conducted in Accordance With Generally Accepted Auditing Standards*, and 39 clarified SASs. This statement recodifies and supersedes all outstanding SASs through No. 121, with the exception of a few SASs.

This statement contains "AU-C" section numbers instead of "AU" section numbers. "AU-C" is a temporary identifier to avoid confusion with references to existing "AU" sections, which remain effective through 2013, in AICPA *Professional Standards*. The "AU-C" identifier will revert to "AU" in 2014, by which time this statement becomes fully effective for all engagements.

This statement recodifies the AU section numbers as designated by SAS Nos. 1–121. AU-C section numbers for clarified SASs based on equivalent ISAs are the same as the equivalent ISA numbers. AU-C section numbers for clarified SASs with no equivalent ISAs have been assigned new numbers. The ASB believes that this recodification structure will aid firms and practitioners that use both ISAs and generally accepted auditing standards. The exhibit, "List of AU-C Sections Designated by Statement on Auditing Standards No. 122, *Statements on Auditing Standards: Clarification and Recodification*, Cross Referenced to List of AU Sections in AICPA *Professional Standards*," to this statement contains a complete two-part cross-reference listing of AU-C and AU section numbers as designated by this statement.

This statement is effective for audits of financial statements for periods ending on or after December 15, 2012.

ii. SAS No. 123, *Omnibus Statement on Auditing Standards–2011*

This statement contains amendments to

- SAS Nos. 117–118
- SAS No. 122, AU-C sections
  - 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards*
  - 230, *Audit Documentation*
  - 260, *The Auditor's Communication With Those Charged With Governance*
  - 705, *Modifications to the Opinion in the Independent Auditor's Report*
  - 915, *Reports on Application of Requirements of an Applicable Financial Reporting Framework*

These amendments conform SAS Nos. 117–118 to SAS No. 122 and address other changes necessitated by the Clarity Project.

This statement is effective for audits of financial statements for periods ending on or after December 15, 2012.

iii. SAS No. 124, *Financial Statements Prepared in Accordance With a Financial Reporting Framework Generally Accepted in Another Country*

SAS No. 124 supersedes SAS No. 51 and redrafts that statement to apply the ASB's established clarity drafting conventions. This statement requires the auditor, in instances where a report that is to be used in the United States was prepared in accordance with a financial reporting framework generally accepted in another country, to include an emphasis-of-matter paragraph to highlight the foreign financial reporting framework, but permits the auditor to express an unqualified opinion.

This statement is effective for audits of financial statements for periods ending on or after December 15, 2012.

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

****END****

January 31, 2012

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, 2011 and 2010, 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.

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 asset components (invested in capital assets, net of related debt; restricted; and unrestricted) are properly classified. The Organization's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for which both restricted and unrestricted net assets are available is appropriately disclosed and net assets were 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 $92.9 as of October 31, 2011 as a liability and recorded a corresponding asset for the accumulated decrease in the fair value of the interest rate swap agreements (deferred outflows of resources).

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 balance sheets, combining statements of revenues, expenses and changes in net assets (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 Authority'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: Gayle M. Horwitz	Printed Name: Robert M. Serpico
Title: President & CEO	Title: Senior Vice President, Finance and Treasurer/CFO