

HUGH L. CAREY BATTERY PARK CITY AUTHORITY
AUDIT COMMITTEE MEETING
One World Financial Center – 24th Floor
New York, NY 10281
January 29, 2009

Members Present

Frank J. Branchini, Chairman
Robert J. Mueller, Member
Charles J. Urstadt, Member
James F. Gill, Ex-Officio Member

Authority Staff in Attendance: James Cavanaugh, President and Chief Executive Officer
Alexandra Altman, Executive Vice President and General Counsel
Lauren Brugess, Administrative Assistant
Megan Churnetski, Assistant General Counsel and Assistant Corporate Secretary
Luis Garcia, Assistant Treasurer, Finance
Carl Jaffee, Senior Development Counsel and Corporate Secretary
Wilson Kimball, Senior Vice President, Operations
Lisa Miller, Vice President, Internal Audit and Compliance
Elisha Rodriguez, Senior Accounting Manager, Finance
Robert M. Serpico, Senior Vice President, Finance and Treasurer/Chief Financial Officer
Roy Villafane, Director, Internal Audit
Katie Slack, Accounting Manager, Finance

Others in Attendance: Tessa Huxley, Executive Director, Battery Park City Parks Conservancy
Matthew Fenton, Battery Park City Broadsheet
Ken Deon, Partner, KPMG LLP
Brendan Kennedy, Manager, KPMG LLP

The meeting, called on public notice in accordance with the New York State Open Meetings Law, convened at 10:15 a.m.

The first item on the agenda was approval of the minutes of the December 2, 2008 meeting.

Upon a motion made by Mr. Mueller and seconded by Mr. Urstadt, the minutes of the December 2, 2008 meeting were unanimously adopted.

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The next item on the agenda, presented by Ms. Miller, was the proposed Audit Plan for fiscal year 2009 (“FY09”). In response to an inquiry by Mr. Mueller, Ms. Miller explained that in formulating an internal audit plan, the Authority considers factors such as the dollar value of contracts,

risk of exposure for monetary loss, importance to the Authority's operation, administrative and regulatory issues and internal processes. In response to Mr. Mueller's further inquiry, Ms. Miller explained that the President and Department Heads are consulted regarding audit plans.

In response to Mr. Urstadt's comment that no system-wide audits are listed in FY09's audit plan, Ms. Miller explained that the consulting firm of MacDonald Page performed a comprehensive system-wide audit of the Authority's financial systems, procurement processes and information technology ("IT") last year.

Ms. Kimball explained that the Authority addressed findings from the IT audit and that KPMG will follow up this year to see whether the Authority has adequately addressed those findings. She also explained that the Authority has several methods to back up its IT. The Authority is required through an Executive Order to encrypt for data protection. Further, she stated, there is a State-prescribed protocol regarding personnel information leaks. In response to inquiry by Mr. Branchini, Ms. Altman explained that the Authority has no private information regarding the residents of Battery Park City.

Mr. Branchini inquired as to whether KPMG will issue a "management letter" to the Authority, and Mr. Serpico responded that KPMG is obligated to inform the Members when it identifies reportable conditions. If there are no reportable conditions or deficiencies, KPMG will issue a letter to the Members to that effect. Mr. Cavanaugh noted that KPMG's view has been that if a finding does not rise to a significant threshold, KPMG will not reduce it to a management letter. Mr. Mueller explained that KPMG would supply an exception-based letter, as opposed to a broad-based overview.

Mr. Branchini stated that it was the consensus of the Committee that the FY09 audit plan be accepted.

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Next, Ms. Miller presented the findings from Ricoh equipment lease audit. She explained that the Ricoh lease is the highest-value contract in the Authority's administration department for FY09. In response to an inquiry by Mr. Branchini, Ms. Miller explained that the Authority has a centralized accounts payable department, but all bills are also approved by the originating department head. She then stated that she would clarify this point within the Ricoh Lease Audit and resubmit it to the Members.

At this point, Ms. Huxley joined the meeting.

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The next item on the agenda, presented by Ms. Miller, was the proposed Audit Committee meeting schedule for FY09. Ms. Miller explained that, at both Mr. Mueller and Mr. Branchini's requests, Audit Committee meetings will be held more frequently over the next year. The Members suggested that Thursdays were most convenient for their schedules. Ms. Miller then noted that the proposed April 14th meeting will accordingly be rescheduled to April 16th, a Thursday. With that change, the Members approved the proposed Audit Committee meeting schedule for fiscal year 2009, as follows: April 16, July 16 and October 15.

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The next item on the agenda, introduced by Mr. Serpico, was the fiscal year 2008 (“FY08”) financial statement highlights and overview. Mr. Serpico stated that the Authority’s financial statements are completed in accordance with Generally Accepted Accounting Principles. The statements are completed on an accrual basis and they follow the Governmental Accounting Standards Board’s pronouncements, he explained. He also noted that this year, for the first time, the Conservancy’s financial statements will be included those of the Authority’s as one consolidated entity.

Mr. Serpico then presented financial highlights from FY08, noting that the Authority had received \$60 million from the developer of Sites 23 and 24, including a large “upfront” payment, \$4.5 million in base rent, \$896,000 in PILOT payments and \$881,000 in other revenue. For FY08, he continued, the Authority’s contribution to the Joint Purpose Fund is \$98.7 million. This fund currently holds \$215.4 million to be spent in a manner and for such purposes as the Authority and the City may jointly decide, he noted.

Next, Mr. Serpico explained that at the end of FY08, the Authority held \$10.2 million in project funds. He noted that the amount of these funds has now diminished below \$6 million. Due to market conditions, the Authority was unable to issue bonds in FY08. However, he continued, the Authority still needs \$100 million to complete its capital projects. To that end, he has discussed with the President and the General Counsel an inducement resolution to be proposed to the Members for more project funds to be derived from operating funds and later reimbursed from debt issuance proceeds,

Additionally, Mr. Serpico reported that the State has included funds from the Authority in its pending budget to help finance a capital program. Mr. Serpico stated that after a large bond issuance including funds for other governmental entities, the Authority bond rating would likely be lowered to “single A”.

Mr. Serpico then recognized the extraordinary efforts of Elisha Rodriguez with regard to her work during this audit cycle. His comments were echoed by Mr. Branchini on behalf of the Members.

Mr. Deon and Mr. Kennedy joined the meeting at this time.

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Next, Mr. Serpico introduced Brendan Kennedy and Ken Deon from KPMG, external auditors, who presented their report for FY08. Mr. Kennedy presented an extensive report on his firm’s services, covering the following subjects: Scope of Services; Audit Risks; Required Communications; KPMG’s System of Quality Controls; Reports; and Emerging Auditing Standards.

He explained that KPMG’s audit examined leasing transactions, journal entries and any other non-recurrent transactions, investments, post-employment benefits, and program disbursements. He noted that KPMG did not identify any material weaknesses regarding those potential audit risks. In accordance with the Statement of Auditing Standards No. 99, Mr. Kennedy continued, KPMG also evaluated the Authority’s process and controls regarding prevention and detection of financial statement fraud and did not identify anything.

Mr. Deon stated that KPMG had no disagreements over financial accounting or reporting matters and no difficulties with management in performing its audit. Significant written

communications between KPMG and Management include engagement letters and year-end management representation letters. The other information included within the financial statements are the Management's Discussion and Analysis ("M D&A") and Other Supplementary Information ("OSI"), which are unaudited, but which KPMG read to ensure that any assertions were consistent with the financial statements. He also stated that the Authority's was one of the most detailed M D&A's he had ever seen.

Mr. Deon continued by stating that KPMG has met all the independence requirements of the AICPA Standards and the Governmental Auditing Standards Board ("GASB") with respect to fees for services. He noted that the Report on Internal Control over Financial Reporting was performed in accordance with Government Auditing Standards. He further reported that the Authority acted in accordance with the Independent Accountants' Report on Investment Compliance. He explained that KPMG will issue a Government Auditing Standards Opinion (a "Yellow Book Letter") which is a report on internal control and compliance at the financial statement level, in which no material weaknesses or significant deficiencies are noted. Further, he stated, KPMG will issue a required letter of communications to the Members.

Mr. Deon then declared that the Authority's internal controls over financial reporting and its accounting records are very good. In response to an inquiry by Mr. Urstadt, Mr. Deon noted that KPMG generally follows the standards of Section 404 of the Sarbanes-Oxley Act.

Regarding emerging Auditing Standards, Mr. Kennedy made particular note of the new Governmental Auditing Standards Board ("GASB") Statement No. 49, which deals with pollution remediation obligations, and GASB No. 51, which deals with intangible assets. He noted that they will not have significant impact on the Authority. The Authority's management has been quite proactive in reviewing these standards and evaluating their impact on the Authority, he stated.

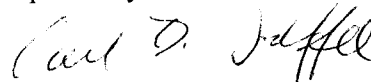
Mr. Urstadt then noted that KPMG should look at the value of the Authority's remaining air as their values could be substantial. Mr. Kennedy responded by stating that the air rights are noted in the financial statements.

Mr. Kennedy continued by describing GASB No. 53, the third latest Accounting Standard, which deals with financial reporting for derivative instruments including interest rate swaps. To ensure that the Authority will be in compliance with this new standard, he continued, KPMG will enlist an audit partner who helped draft GASB No. 53. KPMG is working proactively with management to make sure these new standards are properly addressed in the financial statements, he added.

In response to inquiry from Mr. Branchini, Mr. Serpico stated that the Authority has not experienced an increase in defaults or late payments on maintenance as of the end of FY08, but is monitoring several potential problems related to the national economic crisis. He also noted that the Authority has reserves in place to deal with these matters.

There being no further business, the meeting thereupon adjourned at 11:35 a.m.

Respectfully submitted,



Carl D. Jaffee
Corporate Secretary