

Date: January 13, 2012

To: The Audit File 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"

From: Marks Paneth & Shron LLP

Re: **Observations and Recommendations Resulting From the October 31, 2011 Audit**

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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.

There were no new observations and recommendations that arose during our current year audit.

Included in Exhibit I are those observations and recommendations from the prior year's audit that appear not to require further attention.

#### **Exhibit I – Prior Year Recommendations That Appear to Not Require Further Attention**

##### **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.

**Current Year Status:** Management has reviewed the Fixed Asset Module and made appropriate adjustments to asset useful lives.