

HUGH L. CAREY BATTERY PARK CITY AUTHORITY
AUDIT COMMITTEE MEETING
One World Financial Center – 24th Floor
New York, NY 10281
October 15, 2009

Members Present

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

Authority Staff in Attendance: James E. 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
Carl D. Jaffee, Senior Development Counsel and Corporate Secretary
Lisa Miller, Vice President, Internal Audit and Compliance
Stan Molinski, Director, Information Technology
Robert M. Serpico, Senior Vice President, Finance and Treasurer/Chief Financial Officer
Roy Villafane, Director, Internal Audit

Others in Attendance: Julie Shapiro, Downtown Express
Brian Krapf, George Arzt Communications, Inc.
Brendan Kennedy, KPMG
Greg Driscoll, KPMG
Matt Dunning, Tribeca Tribune

The meeting, called on public notice in accordance with the New York State Open Meetings Law, convened at 10:05 a.m.

The first item on the agenda was approval of the minutes of the April 16, 2009 meeting.

Upon a motion made by Mr. Mueller and seconded by Mr. Urstadt, the following resolution was unanimously adopted:

APPROVAL OF MINUTES OF THE APRIL 16, 2009 MEETING

BE IT RESOLVED, that the minutes of the meeting of the Audit Committee of the Hugh L. Carey Battery Park City Authority held on April 16, 2009 are hereby approved.

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The next item on the agenda was a presentation by KPMG, the Authority's External Auditor. Mr. Kennedy began by introducing Mr. Driscoll, who wrote some of the accounting pronouncements discussed later in the presentation.

KPMG is in the final year of its three year contract, Mr. Kennedy stated. Consistent with the practice of prior years and in accordance with its contract, KPMG will deliver a Review Opinion on the six month period ending April 30, 2009, an Audit Opinion on Basic Financial Statements for the year ended October 31, 2009, an Investment Guidelines compliance report, a report on Internal Control over financial reporting and compliance, and required communications to the Audit Committee, he said.

Mr. Serpico then noted that the Authority is in the process of putting together an RFP for its next External Auditor contract. The RFP will be a widespread solicitation and the Authority will bring the results before the Audit Committee for selection, he explained.

Mr. Kennedy continued by stating that KPMG is substantially complete with its Review Opinion and expects to issue that report sometime in the next week.

In response to inquiry by Mr. Branchini, Mr. Kennedy explained that KPMG has a professional responsibility to report internal control matters and any other compliance matters. This is commonly referred to as the "Yellow Book Report," he stated. This is not an opinion on internal controls, he noted; it is merely a required report, as KPMG is required to communicate any internal control or compliance matters. Mr. Cavanaugh stated that there was a very intensive audit of the Authority's information technology ("IT") systems two years ago.

In response to further inquiry by Mr. Branchini, Mr. Kennedy explained that KPMG's IT review will focus on general controls, such as user access and system security. He noted that the review will ensure that the proper safeguards and firewalls are in place. Because there is less reliance on IT at the Authority as at other organizations, there are not as many procedures, he stated.

Next, Mr. Kennedy presented an overview of selected key activities performed in a KPMG financial statement audit. He noted there are four phases of this review, including planning, control evaluation, substantive testing and completion. To address audit risk, he explained, the firm focuses on understanding and assessing the Authority's organization and operational risks, its entity level controls and its core business processes and related internal controls. He also laid out the time table for the review and stated that KPMG anticipates completing its review in January.

He explained further that KPMG will review entity level controls and financial statement controls as well as Parks Conservancy activities. KPMG also has a responsibility to plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements, whether caused by error or fraud, he stated.

Mr. Driscoll then presented new accounting matters to the Members. First, Mr. Driscoll noted that there are no new GASB statements that will significantly impact the 2009 financial statements. However, this will change in 2010, he stated. GASB 51 deals with accounting and financial reporting for intangible assets, he continued. The one area where there is additional rigor for reporting under this statement pertains to reporting internally generated computer software. The guidance as written states that if a company applies more than minimal incremental effort, then it has internally generated software, he explained. He stated that in his opinion, if the Authority does anything more than install software, it is internally generating software.

Mr. Urstadt inquired into whether the Authority should evaluate the value of any air rights before selling bonds. Mr. Serpico stated that the value of potential air rights will not affect the Authority's bond rating. Mr. Branchini noted that an air rights valuation would need to be redone every year as this value would fluctuate.

Next, Mr. Driscoll addressed GASB 53 which pertains to accounting and financial reporting for derivative instruments. Anything that meets the definition of a derivative instrument will be on the financial statements at fair value for the first time under GASB 53, he stated. Mr. Serpico noted that the Authority plans to take out its swaps in 2010, so this may not be an issue.

Next, Mr. Driscoll addressed GASB 54, fund balance reporting and governmental fund type definitions. This will not affect the Authority because it does not report fund balances; it reports net assets, he stated. He also explained GASB 55, the hierarchy of generally accepted accounting principles for state and local governments and GASB 56, codification of accounting and financial reporting guidance contained in the AICPA statements on auditing standards. Of particular note, he added, the Authority may want to keep an eye on a possible re-examination of pension accounting, on which GASB does not yet have a statement.

In response to an inquiry by Mr. Branchini, Mr. Kennedy explained that KPMG does not participate in planning the Authority's audit plan.

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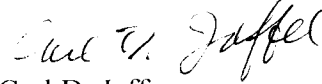
The next item on the agenda, presented by Ms. Miller, was a presentation of the proposed audit plan for fiscal year 2010. With regard to the Authority's audit plan, the Authority looks at two leases, two contracts with high dollar amounts, two follow-up audits to ensure that recommendations made in previous audits have been implemented and two compliance audits to determine whether or not the Authority is compliant with various state regulations, she explained. The two leases in the proposed plan concern Site 1 and the World Financial Center's retail rents. The contracts to be reviewed are those with H3 Hardy Collaboration Architecture and Unisys Electric Inc., she stated. The two follow-up audits will be of the Authority's Procurement Practices and the Conservancy's Travel & Entertainment expenses. The two compliance audits will be of Retirement Information and Affirmative Action reporting, she said.

In response to inquiry from Mr. Mueller, Ms. Miller stated that to the extent there is leftover business from the previous year that business will be addressed in the following year's audit.

Mr. Branchini stated that he would like the Authority to audit its compliance with personnel policies, such as signatures and materials submitted for expense approvals. Mr. Cavanaugh noted that the Authority has made some significant enhancements over the course of last year in this area, and therefore it is now a good time to perform such an audit.

There being no further business, the meeting thereupon adjourned at 11:10 a.m.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Carl D. Jaffee". The signature is written in a cursive, flowing style.

Carl D. Jaffee
Corporate Secretary