DRAFT - SUBJECT TO COMMITTEE APPROVAL

HUGH L. CAREY BATTERY PARK CITY AUTHORITY
AUDIT COMMITTEE MEETING
One World Financial Center – 24th Floor
New York, NY 10281
March 29, 2010

Members Present
Frank J. Branchini, Chairman
Robert J. Mueller, Member

Authority Staff in Attendance:
William C. Thompson, Jr., Member
Evelyn K. Rollins, Member
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
Antigona Hajdaraj, Special Assistant to the President
Carl D. Jaffee, Senior Development Counsel and Corporate Secretary
Wilson Kimball, Senior Vice President, Operations
Karl Koenig, Controller
Lisa Miller, Vice President, Internal Audit and Compliance
Robert M. Serpico, Senior Vice President, Finance and Treasurer/Chief Financial Officer
Roy Villafane, Director, Internal Audit

Others in Attendance:
Vince McGowan, Assistant Executive Director, Battery Park City Parks Conservancy
Randolph Tancer, Human Resources Manager, Battery Park City Parks Conservancy
Terese Loeb Kreuzer, Battery Park City Broadsheet
David Collins, Columbia University Graduate School of Journalism
Julie Shapiro, Downtown Express
Brian Krapf, George Arzt Communications, Inc.
Greg Driscoll, KPMG, LLP
Brendan Kennedy, KPMG, LLP

The meeting, called on public notice in accordance with the New York State Open Meetings Law, convened at 9:05 a.m.

The first item on the agenda was approval of the minutes of the October 15, 2009 meeting.

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

APPROVAL OF MINUTES OF THE OCTOBER 15, 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 October 15, 2009 are hereby approved.

* * *

The next item on the agenda was an overview of Fiscal Year 2009's financial statements.

At Mr. Mueller's request, Mr. Cavanaugh explained that the issuance of the Authority's financial statements was delayed due to a year-long investigation of the Authority by the Inspector General's office. The Inspector General issued a draft report in January, he explained, but a final report has not yet been issued. Mr. Driscoll explained that KPMG, as the Authority's auditor, wanted to discuss the draft report with the Inspector General before issuing its report on the Authority's financial statements. He explained that KPMG would normally review reports issued by internal audit or oversight agencies during the course of its audit and this instance was unusual only because the report was still in draft form.

Mr. Mueller stated that he appreciates everyone's efforts in getting the financial statements out.

Mr. Serpico then gave a brief summary of the Authority's financial statements. 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 ("GASB")'s pronouncements, he explained. He also noted that both the Conservancy's and the Authority's financial activities are included in the financial statements.

The fiscal year, which ended October 31, 2009, yielded a total of $224 million in operating revenues, representing an increase of approximately $12.4 million or 5.9% over the prior fiscal year, Mr. Serpico explained. Total operating expenses increased $9.3 million to $48.7 million for the fiscal year ended October 31, 2009 which is the result of a one-time extraordinary $8.1 million payment, he noted. As of October 31, 2009, there was $267 million in the joint purpose fund, he said.

A $90.5 million provision was recorded for the fiscal year ended October 31, 2009 representing fiscal 2009 excess revenues to be transferred to the City of New York, he continued. Additionally, he said, a $13.4 million provision was recorded for the transfer of funds held in the Authority's Special Fund. As of October 31, 2009, he stated, the Authority was responsible for debt service on $1.043 billion of 2003 Revenue Bonds issued in October 2003. The Authority's senior lien is rated AAA, uninsured revenue bonds, he stated. The Authority has $635 million of junior lien debt obligations. In December, he explained, the Authority issued new debt, raising $85 million in infrastructure monies to carry the Authority through the next 3 years, $30 million of which will go to fund the community center on Sites 23 and 24..

*　　*　　*

The next item on the agenda was a presentation by KPMG, external auditors, on the Authority's financial statements for fiscal year 2009. 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 cash and investments, compliance with state laws and regulations, payroll and program disbursements, revenues from ground leases, post-employment benefits, and a review of Conservancy activities. He noted that KPMG did not identify any significant deficiencies or material weaknesses regarding those potential audit risks. KPMG identified some control enhancement observations and other matters for management's consideration, he noted. KPMG has issued an unqualified audit opinion on the Authority's financial statements.

Mr. Kennedy then reported KPMG's responsibilities under Generally Accepted Auditing Standards. He noted that the purpose of KPMG's audit is not to express an opinion on internal control. KPMG considers internal control for the purposes of designing its substantive audit procedures to report on the financial statements as a whole, he explained. KPMG also evaluated the Authority's process and controls regarding prevention and detection of financial statement fraud and did not identify anything, Mr. Kennedy noted.

In response to inquiry by Mr. Mueller, Mr. Serpico explained that with regard to a large up-front lease payment, such as the recent payment received from Goldman Sachs , the Authority will recognize the payment pro rata over the term of the lease on a straight-line basis.

Then Mr. Driscoll 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, he stated.

In response to inquiry by Mr. Thompson, Mr. Cavanaugh explained that the new Public Authority's legislation did not have any impact on the conduct of this audit. Mr. Driscoll agreed.

Mr. Driscoll stated that KPMG's audit opinion does not extend beyond the financial information in the financial statements. The other information included within the financial statements is unaudited, but KPMG has read it to ensure that any assertions were consistent with the financial statements. KPMG is independent from the Authority as is required under government auditing standards. He also stated that KPMG has issued consent and comfort letters with regard to the Authority's December 2009 bond issuance.

Mr. Driscoll then presented emerging auditing standards to the Members. He noted that the new GASB No. 49, which deals with pollution remediation obligations, will not impact on the Authority. He noted that other minor statements which were implemented this year include Statement No's. 55 and 56. They refer to the hierarchy of generally accepted accounting principles and AICPA statements on auditing standards, respectively, which do not affect the Authority's financial statements, he explained.

Next, Mr. Driscoll introduced future pronouncements including GASB 54, which deals with fund balance reporting and GASB 58 which covers Chapter 9 bankruptcies. Mr. Kennedy stated that the Authority will not be impacted by these statements.

Mr. Kennedy continued by describing two pronouncements which will impact the Authority: first, GASB No. 51, which deals with intangible assets, like computer software particularly to the extent that it is internally generated or modifications to software are done in-house and second, GASB No. 53, 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, the Authority will have to display the fair value of its interest rate swaps on the face of its financial statements.

Mr. Kennedy then noted that there was a new auditing standard issued during the period, SAS 117, with regard to compliance audits with regard to the receipt of federal funds.

In response to inquiry by Mr. Branchini, Ms. Miller stated that the New York State Comptroller's Office is required to audit the Authority at a minimum of every five years. Mr. Thompson noted that the Comptroller's audits are typically limited in scope. Mr. Cavanaugh stated that the office rarely performs a global audit.

Mr. Driscoll then noted the key deliverables including the audit opinion on the Authority's financial statements and a report on internal control and compliance at the financial statement level, in which no material weaknesses or significant deficiencies are noted. He stated that KPMG will also supply an independent accounting report on investment compliance the results of which disclosed no instances of noncompliance or other matters that are required to be reported under government auditing standards, he explained.

In KPMG's opinion, Mr. Driscoll stated, the Authority complied, in all material respects, with the investment requirements of the New York Code of Rules and Regulations during the year ended October 31, 2009. The results of KPMG's tests disclosed no matters that are required to be reported under government auditing standards. In response to inquiry by Mr. Branchini, Mr. Kennedy explained that KPMG bases its opinion directly on the laws. In response to inquiry by Mr. Thompson and Mr. Branchini, Mr. Serpico said he would look into whether investment advisors regularly supply letters to public authorities regarding their investment compliance. Mr. Cavanaugh then suggested that Mr. Serpico circulate the most recent investment committee report to the Authority's Members so they can get a sense of what the quarterly reports are like.

Next, Mr. Driscoll presented to the Members a required letter of communications to the Members.

Then, Mr. Branchini inquired whether KPMG examines the Authority's internal audit plan to determine high-risk items. Mr. Driscoll stated that KPMG's focus is on the Authority's financial statements. He explained that to appreciate the overall control structure, KPMG gains an understanding of internal audit functions and helps to provide helpful performance observations. KPMG is not in a position to point out all the risk areas that may be of interest to Authority management because its purview is limited to how those aspects of the Authority impact the financial statements, he said. In response to inquiry by Mr. Branchini, Mr. Driscoll explained that KPMG only informally comments on the Authority's internal audit plan.

At this point Ms. Altman and Ms. Rollins entered the meeting.

Next, Mr. Mueller inquired into the Members' ability to meet with the external auditors outside the presence of the Authority's management. Mr. Thompson stated that there should be opportunities for the Audit Committee to have conversations with the auditors but without management, to which Mr. Mueller agreed. Mr. Branchini recommended the Members enter executive session to have such a meeting. Mr. Driscoll stated that if the Authority's counsel would like time to review the Public Authorities Law to determine the appropriateness of an executive session, that he and Mr. Kennedy will make themselves available to the Members at another time. Mr. Thompson then requested a summary of the rules regarding the propriety of entering executive session.

.Ms. Altman said that the Authority would confer with other authorities to ascertain their practices regarding executive sessions of audit committee meetings.

Upon a motion made by Mr. Branchini and seconded by Mr. Mueller, the Audit Committee unanimously approved the Financial Statements for the fiscal year ended October 31, 2009 and authorized the filing of the Financial Statements for the fiscal year ending October 31, 2009, substantially in the form presented, with the required government entities, the trustees under the Authority's various bond resolutions, the Authority's website and the Public Authorities Report Information Systems.

*   *   *

The next item on the agenda, presented by Ms. Miller, was a status update of internal audit reports. Ms. Miller explained that the Authority's audit plan was approved in October, 2009. She reminded the Members that they recently received a report on H3 Hardy, the architect on the Pier A project. There were a couple of recommendations made as a result of that report, she explained. An invoice mark-up was discovered in H3 Hardy's bills. Thereafter, she continued, Mr. Cavanaugh and the Planning & Design department reviewed all H3 Hardy bills to ensure there were no other mark-ups.

In addition, as a result of that report, Management has decided to request copies of all H3 Hardy's agreements with subcontractors, which is a provision in all of the Authority's contracts that is not regularly exercised. They were also required to include in all future invoices the titles of the particular people performing the tasks listed to facilitate auditing of fees on the contract. Therefore, she stated, that was a very fruitful audit.

At this time, Ms. Miller continued, the Authority is in the midst of its Unisys Electric audit. It will look into the billings under the contract to ensure that payments are in accordance with the contract and the Authority's prompt payment policy and that all payments have been calculated properly.

Next, Mr. Branchini asked when the Authority will be developing its audit plan for 2010 to which Ms. Miller stated that it is generally planned at the end of the year.

She reminded the Members that every year 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. The next audit plan will be presented to the Members in October for approval for the next fiscal year, she stated.

Mr. Mueller suggested that the Audit Committee have reasonable input into the Authority's next audit plan before the plan is finalized.

There being no further business, the meeting thereupon adjourned at 10:15 a.m.

Respectfully submitted,

Carl D. Jaffee
Corporate Secretary